MBA 1 Sem
Mgr. Eco
Date 22/4/2021

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TOPIC — INFLATION

Lecture by : MS FIROZ ALAM ...

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IMPACT OF INFLATION

- Continuous rise in price over time, Creates Hyperinflation

- people loose faith in money and no one holds money. it adversely affects savings

CAUSES OF INFLATION

- Demand pull inflation — when occurs there is an increased demand for products and services, and the existing production capcity could not cop up with the rising demand (so, demand > supply price will rise)

- Cost push inflation : When occurs the supply is restricted, or there is an increase in production cost and demand remains the same (so demand > supply, price will rise

- Built - In Inflation — price rise expectations of the working class, seeking an increase in the current wages. This increases production cost and hence leads to inflation.

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KEY NOTES OF INFLATION

- Inflation is the rate at which the value of currency is falling and prices of goods & services is rising.

- Inflation is classified into three types Demand pull inflation, Cost push inflation and Built-in-inflation

- Most commonly used inflation indexes are CPI and WPI.
- Inflation can be be positively or negatively depending on individual point of view and rate of change
- Those with tangible assets like property or stock commodities, may like to see some inflation as the raises the value of their assets
- people holding cash may not like inflation as it erodes the value of their cash holdings
- Ideally, an optimum level of inflation is required to promote spending to a certain extent instead of saving thereby nurturing economic growth

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What are the effects of inflation.

The purchasing power of a currency unit decreases as the commodities and services get dearer. This also impacts the cost of living in a country. When inflation is high, the cost of living gets higher as well, which ultimately leads to a deceleration in economy growth. A certain level of inflation is required in the economy to ensure that expenditure is promoted and hoarding money through savings demotivated.

As money generally loses its value over time, it is important for people to invest the money. Investing ensures the economic growth of a country.

IS Inflation bad for every one.

Inflation is perceived differently by every one depending upon of assets they possess. For some one with investment in real estate or stocked commodity inflation means that the prices of their asset is set for a hike. For those who possess cash, they may be adversely affected by the inflation as the value of their cash erodes.

Get live stock prices from BSE, NSE, US Market and latest NAV, portfolio of Mutual fund.

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On the other hand, the goods or commodities sold by businesses to smaller businesses for selling further is captured by the WPI in India. Both WPI (Whole sale Price Index) and CPI (Consumer price index) are used to measure inflation.

What are the main causes of Inflation

These are the main reasons for the increase in price.

- High demand and low production or supply of multiple commodities create a demand supply gap which leads to rise in prices.

- Excess circulation of money leads to inflation as money loses its purchasing power.

- With people having more money, they also tend to spend more, which causes increased demand.

- Spurt in production prices of certain commodities also causes inflation as the price of the final product increases. This is called cost-push inflation.

- Increase in the prices of goods and services is also a factor to consider as the [illegible] expects and demands more [illegible] [illegible] cost of [illegible]

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Inflation & Deflation

Definition, Causes, Effect Basics

Inflation happens when the price of goods and service increase.
While deflation take place when the price of the goods & services decrease in Country.
Inflation and deflation are the opposite side of the same coin.
Maintaining the balance between these two economic conditions ie inflation and deflation is essential as the economy can quickly swing from one condition to the other as a result of these two conditions.
The Reserve bank of india keep an eye on the levels of price change and control deflation or inflation by conducting monetary policy, such as setting interest in india

Inflation - Inflation is the rate at which the prices for goods and services increase. Inflation often affects the buying capacity of consumers.
Most central banks try to limit inflation in order to keep their respective economies function efficiently.
There are certain advantages as well as disadvantages to inflation.
Inflation refers to increases in prices

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TYPES OF INDEXES

Consumer price index (CPI)
measure the change in the price of Consumer goods & Services over some time

Producer price Index - measure average change in price of domestically produced goods over time.

Employment Cost Index - is the measurement of the changes happen-ing in the labour Costs.

GDP Deflator is a measure of price movement of goods and services included in GDP.

9 How is inflation measured
SUN In india, inflation is primarly measured by two main indices WPI (whole sale price index) and CPI (Consumer price index) which measure whole sale and retail level price changes, respectively. the CPI calculates the difference in price of commodities and services such as food, medical care, education, electronic etc which indian Consumers buy for use.

Modern methods of money valuation are determined by the amount of currency that is in circulation which is then followed by the public perception of the value of that currency.

National debt: There are a number of factors that influence national debt, which include the nation borrowing and spending. In a situation where a country debt increases the respective country is left with two options.

- Taxes can be raised internally.
- Additional money can be printed to pay off the debt.

Demand pull effect – The demand-pull effect states that in a growing economy as wages increase within an economy. people have more money to spend on good and services.

The increase in demand for goods and service result in companies raise prices that the consumers will bear order to balance supply and demand.

Cost push Effect – This theory states that when companies face increased input cost on raw materials and wages for manufacturing consumer goods, they will preserve their profitability by passing the increased production cost to the end consumer in the form of increased price.

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How is inflation Measured]

Inflation is an increase in the level of prices of the goods and services that household buy. It is measured as the rate of change of those prices. Typically, prices rise over time, but prices can also fall (a situation called deflation)

The most well known indicator of inflation is the Consumer price index (CPI) which measures the percentage change in the price of a basket of goods and services consumed by households.

In Australia, the CPI is calculated by the Australian Bureau of Statistics (ABS) and published once a quarter. To calculate the CPI, the ABS collects prices for thousand of items, which are grouped into 87 categories (or expenditure classes) and 11 groups.

Every quarter, the ABS calculate the price changes of each item from the previous quarter and aggregates them to work out the inflation rate for the entire CPI basket.

Calculating Inflation — Example

To better understand how inflation is calculated we can use an example. In this example we calculate inflation for a basket that has two items in it — books and coffee.

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The formula for calculating inflation for a singel item is below —

$$\text{Inflation} = \frac{\text{Price}_{\text{year }2} - \text{Price}_{\text{year }1}}{\text{Price}_{\text{year }1}} \times 100$$

The price of a book was $20 in 2016 (yr I) and the price increased to 20.50 in 2017 (year 2). The price of an hour of childcare was $30 in 2016 and this increased $31.41 in 2017

items	2016	2017	Inflation
	$20	$20.50	2.5%
	$30	$31.41	4.7%

Using the formula, inflation for each of the individual item can be calculated

- For book annual inflation for ~~each~~ was 2.5 percent
- For child care annual inflation was 4.7 percent

To calculate inflation for a basket that contains books and childcare we need to use [illegible] weights that are based on [illegible] spend on these items. Because [illegible] spend more on [illegible] than on books, childcare has a [illegible] weight in the basket.

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INFLATION

[illegible] long term Investments —

[illegible] comes to long term investments [illegible] money now for investments [illegible] allow you to benefit from inflation [illegible] the future

[illegible] more — Retirements requires more money than one might imagine [illegible] the ways to meet retirement goals [illegible] save more or invest aggressively

[illegible] balanced investments —

[illegible] investing in bonds alone feel safer [illegible] invest in multiple portfolios Do not put [illegible] your eggs in one basket to out pace [illegible] inflation.

Measure of Inflation —

Inflation is an increase in the level [illegible] prices of the goods and services that [illegible] house hold buy.

The most well known indicator of inflation [illegible] Consumer price index (CPI), which [illegible] measures the percentage change in the [illegible] of a basket of goods and services [illegible] consumed by house hold.

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Exchange Rates –
An economy with exposure to foreign markets mostly functions on the bases of the dollar value. In a trading global economy exchange rates play an important role factor in determining the rate of inflation.

Effects of inflation – When there is inflation in the Country. The purchasing power of the people decreases as the prices of commodities and services are high. The value of of currency unit decreases which impacts the cost of living in the Country. When the rate of inflation is high, the cost of living also increases which leads to a deceleration in economic growth.
However, a healthy inflation rate (2-3%) is considered positive because it directly results in increasing wages and corporates profitability and maintain capital flowing in a growing economy.

Steps to offset inflation and its effect on your Retirement – Factoring for inflation is an essential process for financial planning. The question is how much will you actually need when you retire? Here are few ways you can retire financially sound keeping inflation in mind.

In this example, child care accounts for 73 percent of the basket and books account for the remaining 27 percent. Using these weights, and the change in price of the items, annual ~~weight~~ inflation for this basket was 4.1 percent - calculated as (0.73 x 4.7) + (0.27 x 2.5

How are prices collected? -

The ABS collects prices from a wide range of source such as retailers, supermarkets, department stores and websites where household shop. It also collects prices from government authorities, energy providers and real estate agents. For some items, the ABS has access to data that allows it to record prices frequently.

For example, scanner data from supermarkets give information about the price and number of items a consumer buys in one transaction. For other items the ABS records prices either monthly, quarterly, or annually. In total, the ABS collects around 100 000 prices each quarter.

Underlying Inflation -

While Australia's inflation target is expressed in terms of CPI inflation known as headline inflation, large price changes can often be due to temporary factors. For example - [illegible] because of [illegible] [illegible] changes in tax regulation of the goods and services of daily use such as food, housing, clothing, transport recreation, consumer staples etc

Inflation is measured by taking into consideration the average price change in a basket of commodities and services over a period of time

Inflation is calculated in index by the ministry of Statistics and programme implementation

Example: suppose a kg of apple cost Rs 100 in 2019 and its cost Rs 110 in 2020 then there would be a 10% increase cost of a kg of apple. In the same way many commodities and services whose price have raised over time are put in a group and the percentage is calculated by keeping a year as the base year. The percentage of increase in prices of the group of commodities is the rate of inflation

Money supply — CAUSES OF INFLATION

Excess currency (money) supply in an economy is one of the primary cause of inflation. This happens when the money supply / circulation in a nation grows above the economic growth, therefore reducing the value of ~~money~~ currency

In the modern era countries have shifted from the traditional methods of valuing money with the amount of gold they possessed

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MD FIROZ ALAM

INFLATION

What is inflation?

Inflation is a rise in general level of prices of goods & service in an economy over a period of time.

Definition. Crowther - define inflation a state in which the value of money falling & prices are rising

- ... Samuelson defines inflation as "too much of money chasing too few goods".

- Inflation is the drop in value or purchasing power of the currency. Increases in the prices of goods & services leads to inflation. It also increases the cost of living. The calculation and presentation of inflation happens in percentage terms.
- The inflation percentage tells us how prices rise within given period.

- ... example - if inflation rate of gasoline ... then price of gasoline may ... next year. So if the gasoline ... then next year it will be