

₹ 5

₹ 6

150

120

₹

Oct 2023

Index
value

400 (₹80)

Oct. 2022

Index
value

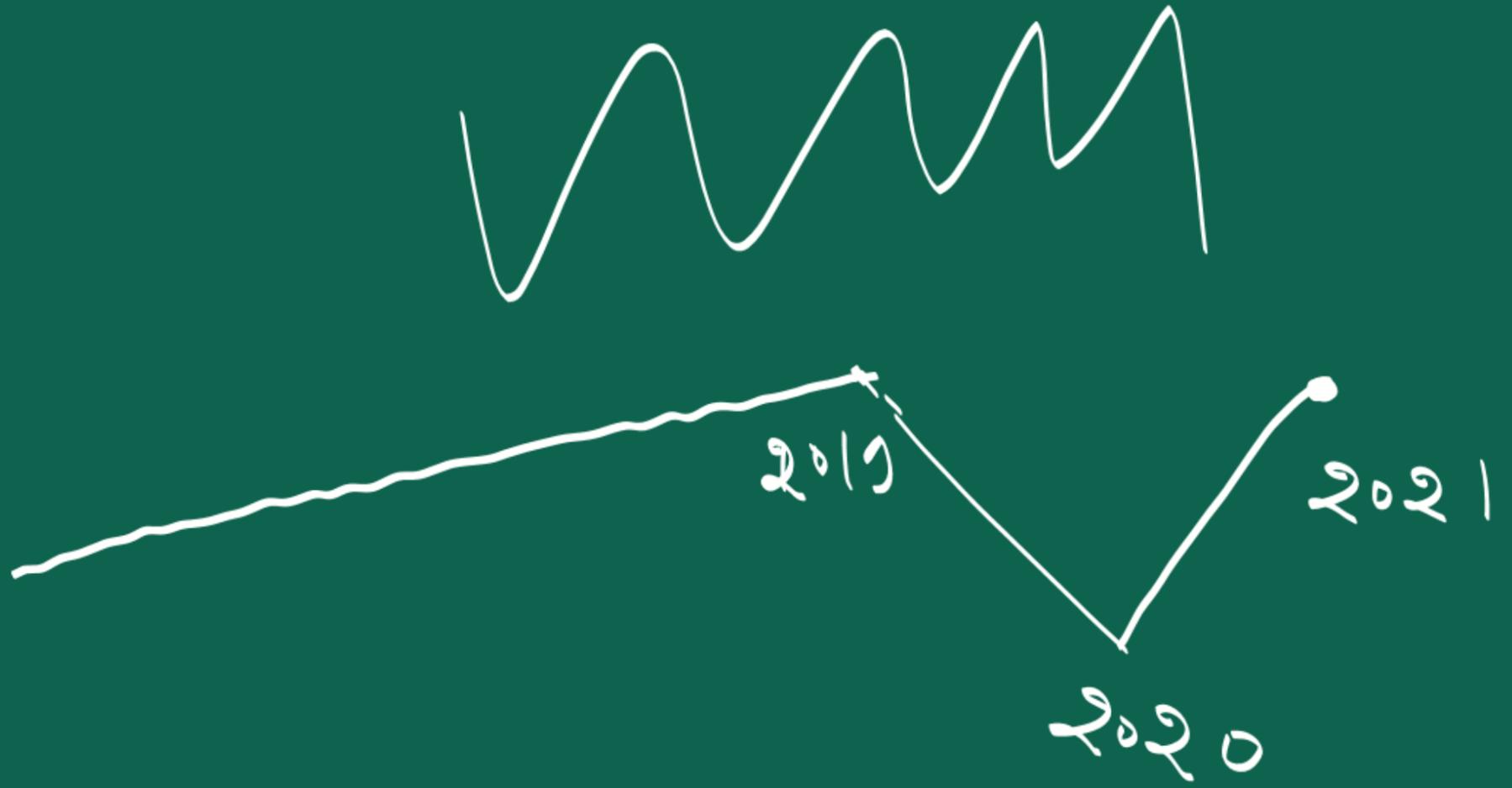
400 (₹80)

2012 = 100

$$\frac{₹20}{₹20} \times 100$$

$$= 100$$

110



Base Effect

—
—
—

The base effect is generated by those commodities whose prices fluctuate.

In this respect, the following two types of commodities can be mentioned—

(i) Agricultural & food items like fruits, vegetables, pulses, grains etc.

(ii) Energy items like crude oil etc.

Core Inflation v/s Headline Inflation

For the removal of the base effect,

Food items & energy items are removed from the calculation of inflation rate. This is called the core inflation.

In case of the headline inflation, these items are not removed.

Demand-pull Inflation vs Cost-Push Inflation

If increase in the inflation-rate is due to the increase in the AD, then, this is called, the demand-pull inflation.

Reasons



(i) $\uparrow C$

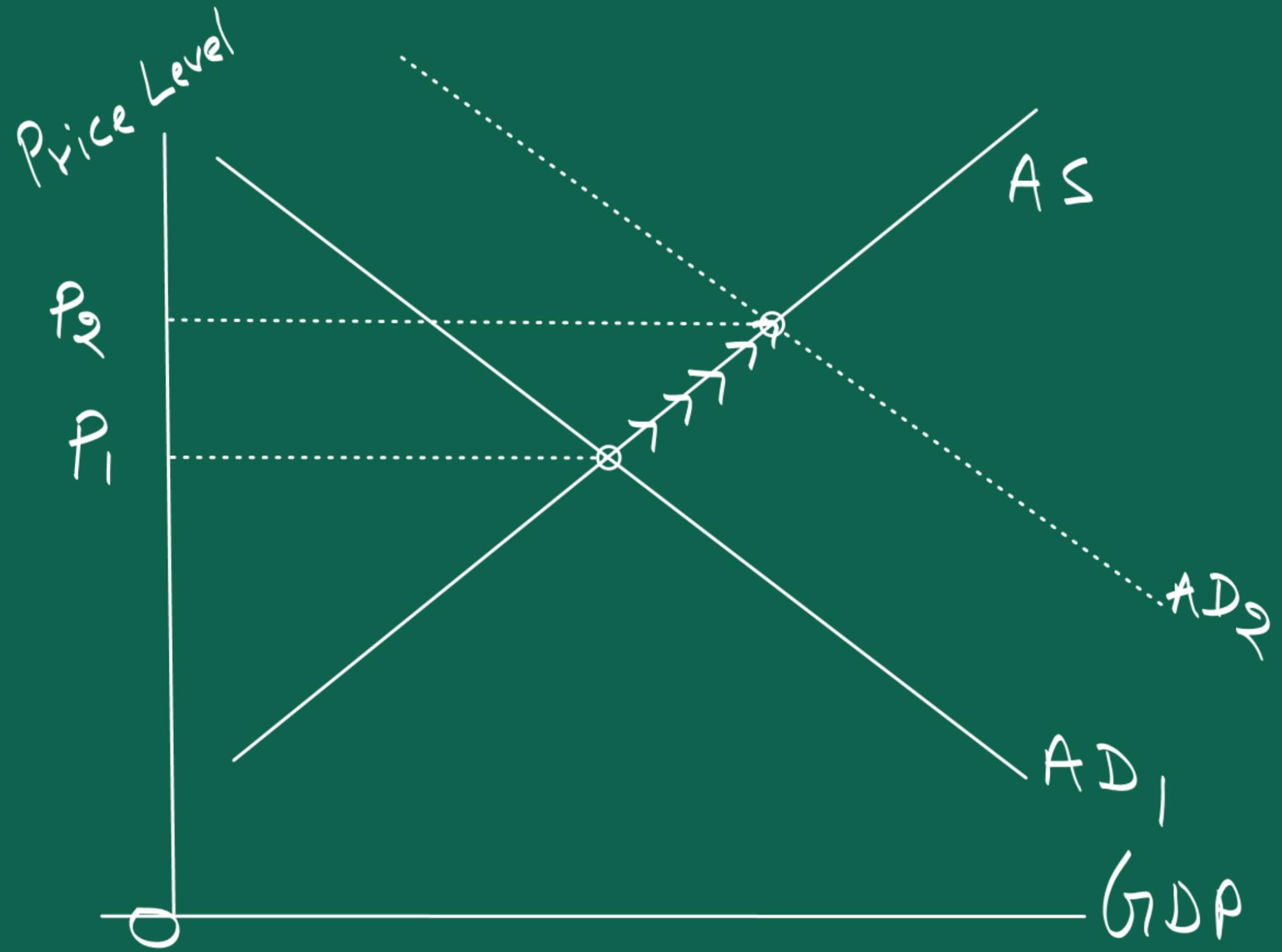
(ii) $\uparrow G$

(iii) $\uparrow X$

(iv) $\uparrow L$

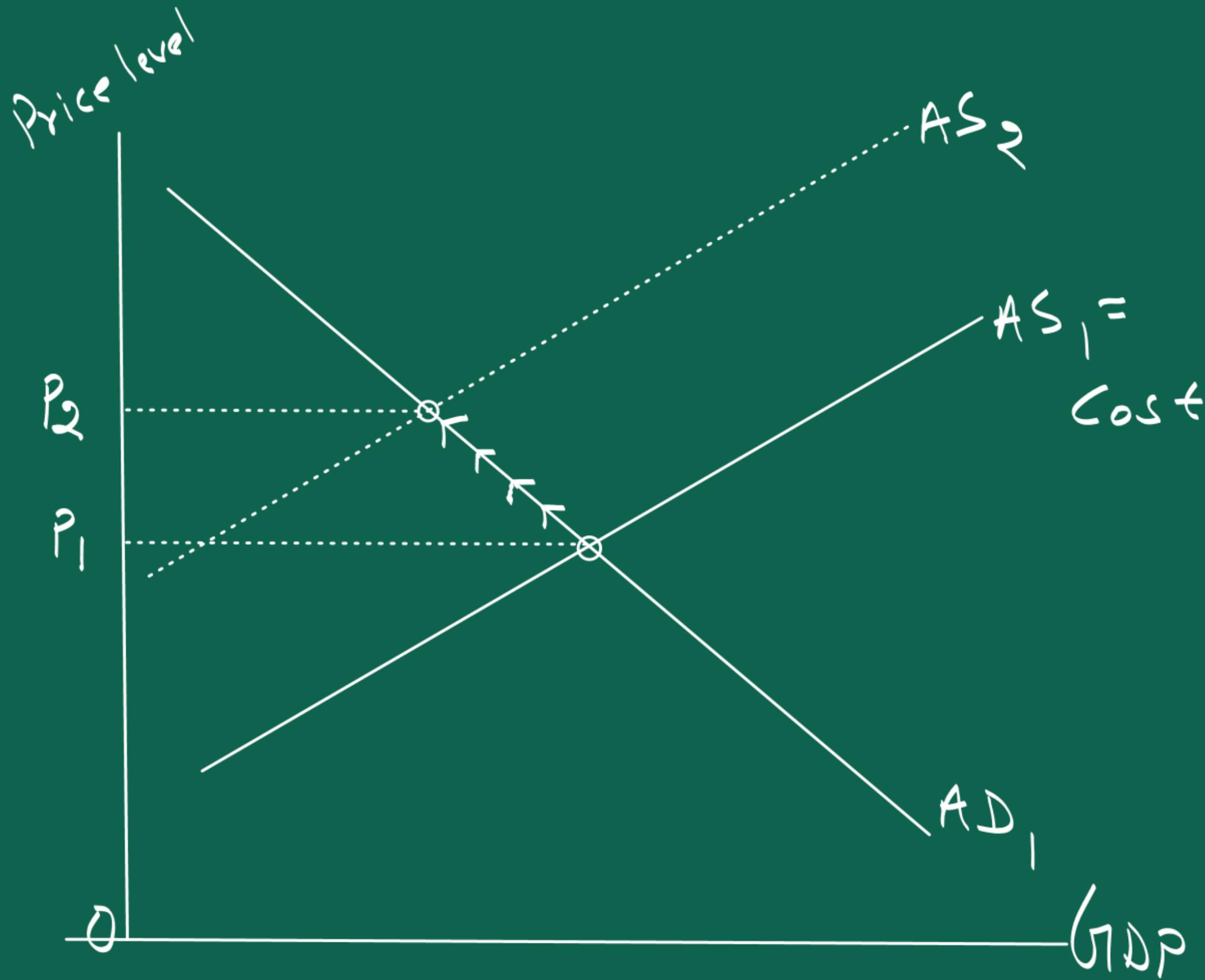
(v) $\downarrow \dot{r}$

Diagram \rightarrow



If ^{the} increase in the inflation rate is due to increase in the cost of production, supply bottlenecks, supply inelasticity etc., then, this is called the cost-push inflation.

↓
Diagram



GDP, Emp. & Inflation: Phillips Curve



(i) There is positive association between GDP & Inflation.



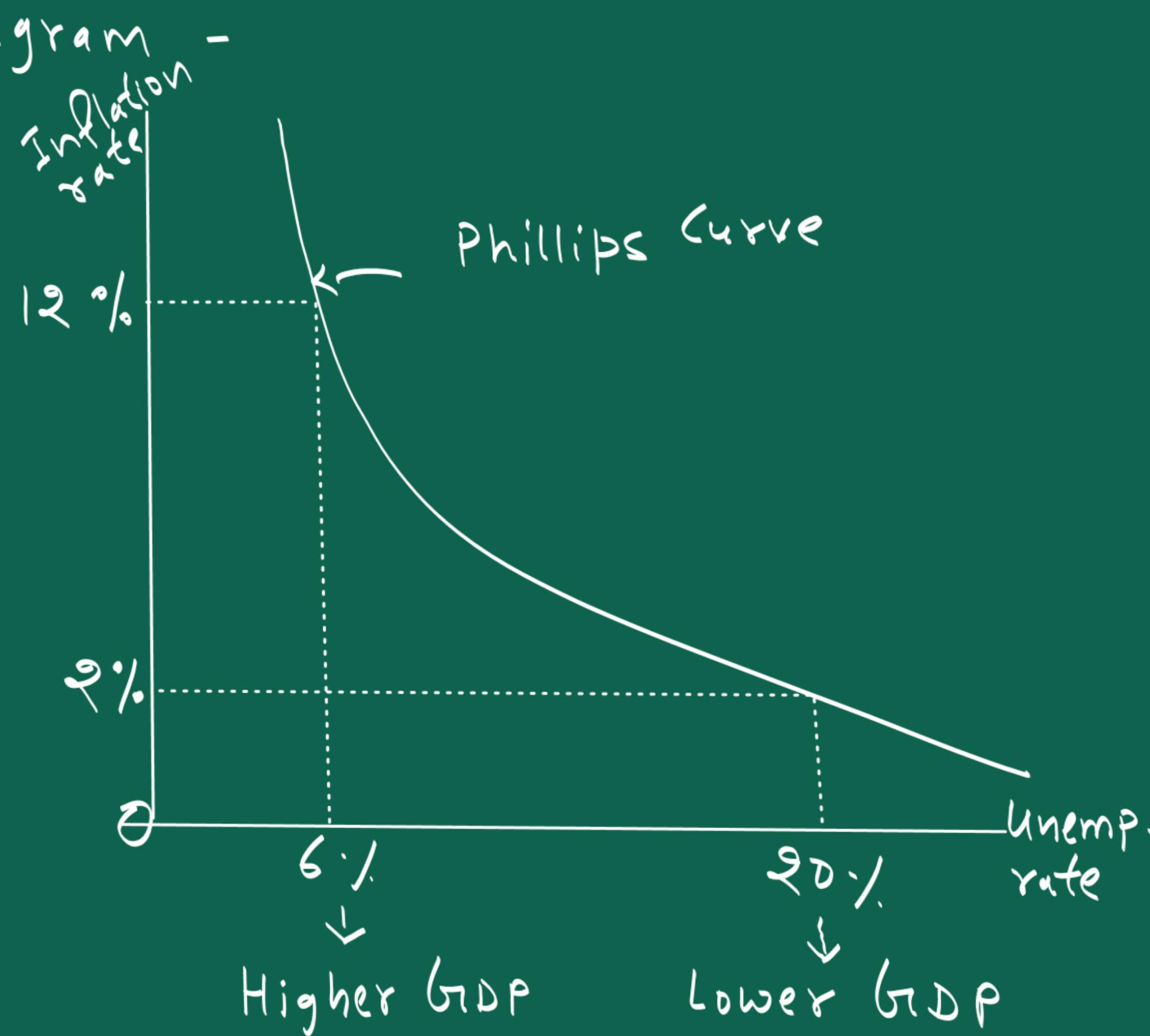
Higher GDP → Higher Inflation

(ii) Inverse relationship between unemployment & inflation.



less unemp → higher inflation

Diagram -



The Policy of IT in India

Inflation Targetting

- (i) First implemented by Newzealand
- (ii) India implemented - 2016-17.
- (iii) Two types -
 - (i) Flexible IT - Inflation-rate is maintained in a range
 - (ii) Inflexible IT - Inflation rate is maintained at a particular level.

Some Important other points

- (i) Inflation benefits the following -
- (a) Businessmen
 - (b) Employers
 - (c) Debtors
 - (d) Bond-issuers etc.

(ii) Inflation impacts negatively the following -

(i) Savers

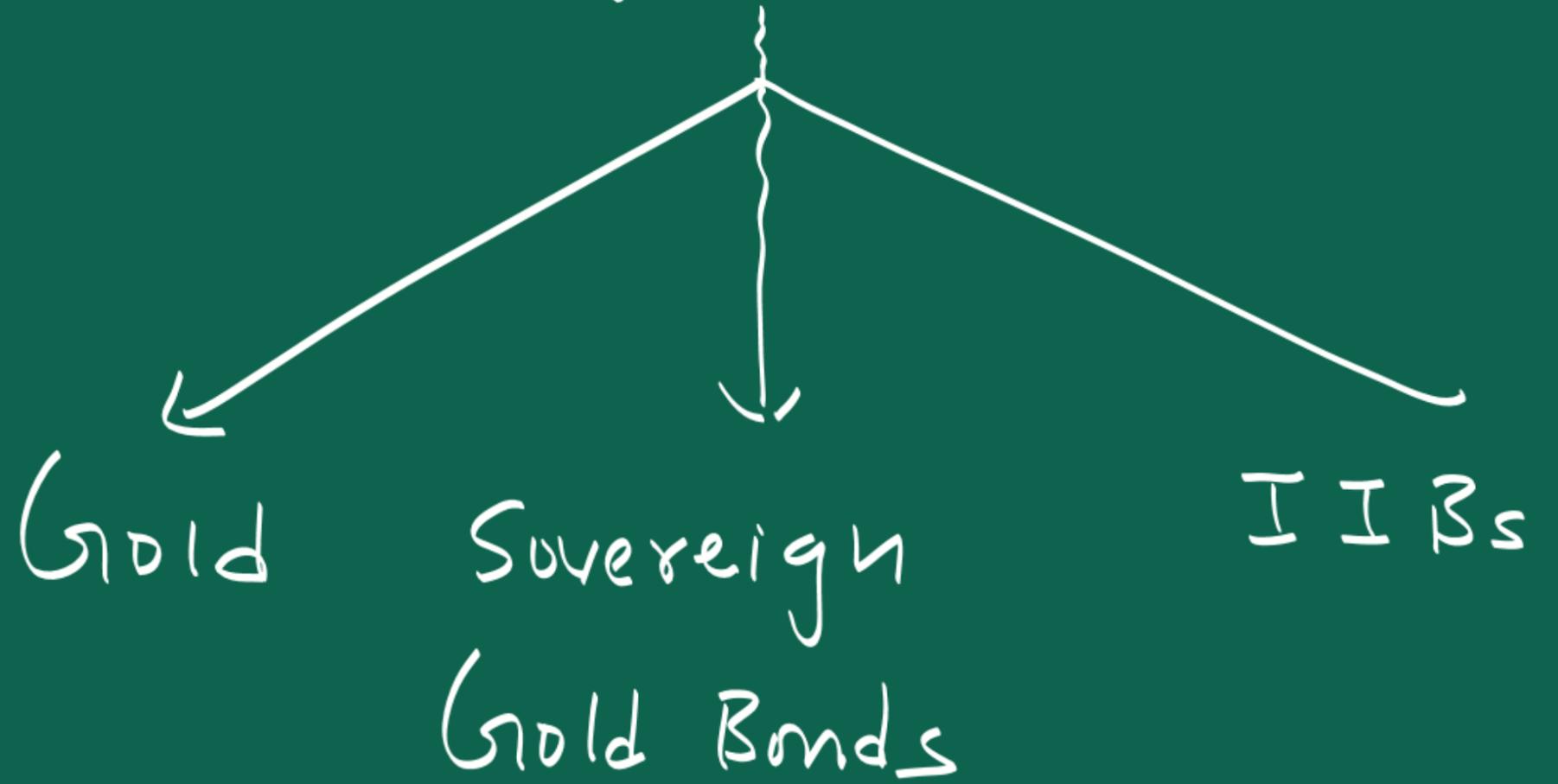
(ii) Bond-holders

(iii) Fixed-income people

(iv) Employees

(v) Creditors

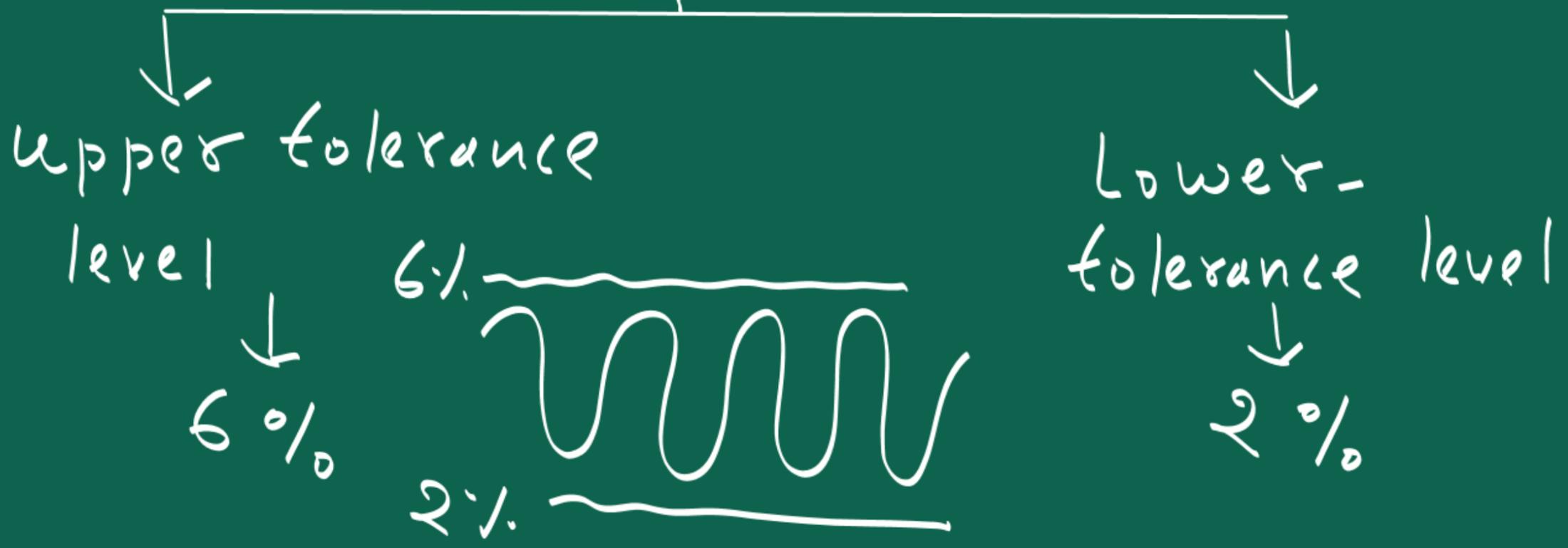
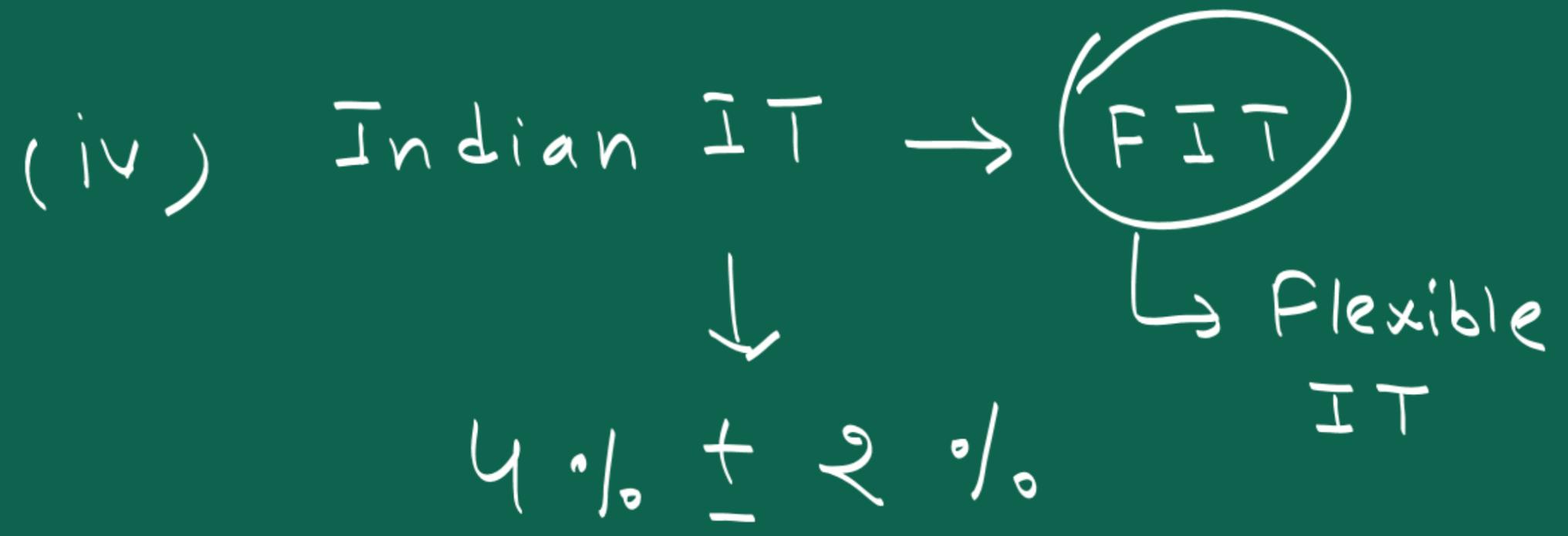
(iii) Hedging Against inflation



Some Important Terms



- (i) Deflation → decrease in the price level
- (ii) Disinflation → To bring inflation rate to a lower level
- (iii) Shrinkflation → ↓ Quantity
- (iv) Skimpflation → ↓ Quality
- (v) Stagflation → slow growth + higher inflation + higher unemp.



Monetary
Policy
Committee

(v) The MPC is responsible
for the IT.



6 Members

(GOI-3 + RBI-3)

Ex-officio chairman



The RBI Governor

Decision Criterion - Majority

(vi) The Repo rate changes by the RBI are to be executed on the recommendation of the MPC.

(vii) Nominal Anchor - CPI-C
which index is used to anchor inflation rate.

