

### ◆ 1. Inflation

Inflation means a **persistent increase in the general price level** of goods and services.

#### Measures of Inflation

1. **Consumer Price Index (CPI):** Measures prices of goods/services bought by consumers.
2. **Producer Price Index (PPI):** Measures prices received by producers.
3. **Wholesale Price Index (WPI):** Tracks wholesale prices (used in India).
4. **Commodity Price Index:** Focuses on specific commodities like gold.
5. **GDP Deflator:** Compares current GDP to real GDP — the **broadest** inflation measure.

#### Keynesian View

- Before full employment → more money → higher output & jobs (no real inflation).
  - After full employment → more money → higher prices (true inflation).
  - True inflation = total demand > total output at full employment.
- 

### ◆ 2. Types of Inflation

#### a. Based on Government Control

- **Open Inflation:** Prices rise freely.
- **Suppressed Inflation:** Controlled through price limits and laws.

#### b. Based on Political Conditions

- **War-Time Inflation:** Due to excessive government spending.
- **Post-War Inflation:** Continues after war for reconstruction.
- **Peace-Time Inflation:** Common in developing countries during development plans.

#### c. Based on Rate of Inflation

- **Creeping:** Slow increase in prices.
- **Walking:** Moderate speed.
- **Running:** Rapid increase.
- **Hyperinflation:** Prices rise extremely fast and unpredictably.

#### d. Based on Scope

- **Sectoral:** Affects specific sectors or goods.
- **Comprehensive:** Affects the whole economy.

#### e. Based on Process

- **Wage-Induced:** Higher wages → higher production costs → higher prices.
- **Profit-Induced:** Firms raise prices to maintain profit margins.
- **Deficit-Induced:** Due to government borrowing/spending.
- **Stagflation:** Rising prices + unemployment + falling output.

### ◆ 3. Causes of Inflation

| Demand Side             | Supply Side            |
|-------------------------|------------------------|
| 1. Public expenditure ↑ | 1. Low production      |
| 2. Deficit financing    | 2. Artificial scarcity |
| 3. Easy monetary policy | 3. Heavy taxation      |

### ◆ 4. Effects of Inflation

- **Debtors gain**, creditors lose (money value falls).
- **Investors** may benefit if asset prices rise.
- **Fixed salary workers** suffer due to loss of purchasing power.

### ◆ 5. Deflation

Deflation = **continuous fall in prices** of goods/services.

#### Causes

1. **Growth Deflation:** Higher productivity.
2. **Cash-Building Deflation:** People save more, reducing spending.
3. **Bank Credit Deflation:** Less lending due to tight bank policy.
4. **Confiscatory Deflation:** Forced by government policy.

#### Impacts

- **Production decreases** because firms earn less.
- **Debtors suffer** because real value of money rises (debts become heavier).

### ◆ 6. Stagflation

A mix of **stagnation (slow growth)** and **inflation (rising prices)**.

- Causes both **high unemployment** and **high prices**.
- Reduces **economic stability** and **discourages investment**.