







## LEARNING OBJECTIVES

- *Measurement of inflation*
- *The controlling measures of inflation*
- *Examining the impact of inflation on economy*
- *Inflation: A mixed blessing*

# MEASUREMENT OF INFLATION

- INFLATION IS MEASURED BY STATISTICIANS



## HOW?

- *A number of goods that are representative of the economy are put together into what is referred to as a "market basket."*
- *The cost of this basket is then compared over time. This results in a price index, which is the cost of the market basket today as a percentage of the cost of that identical basket in the starting year.*

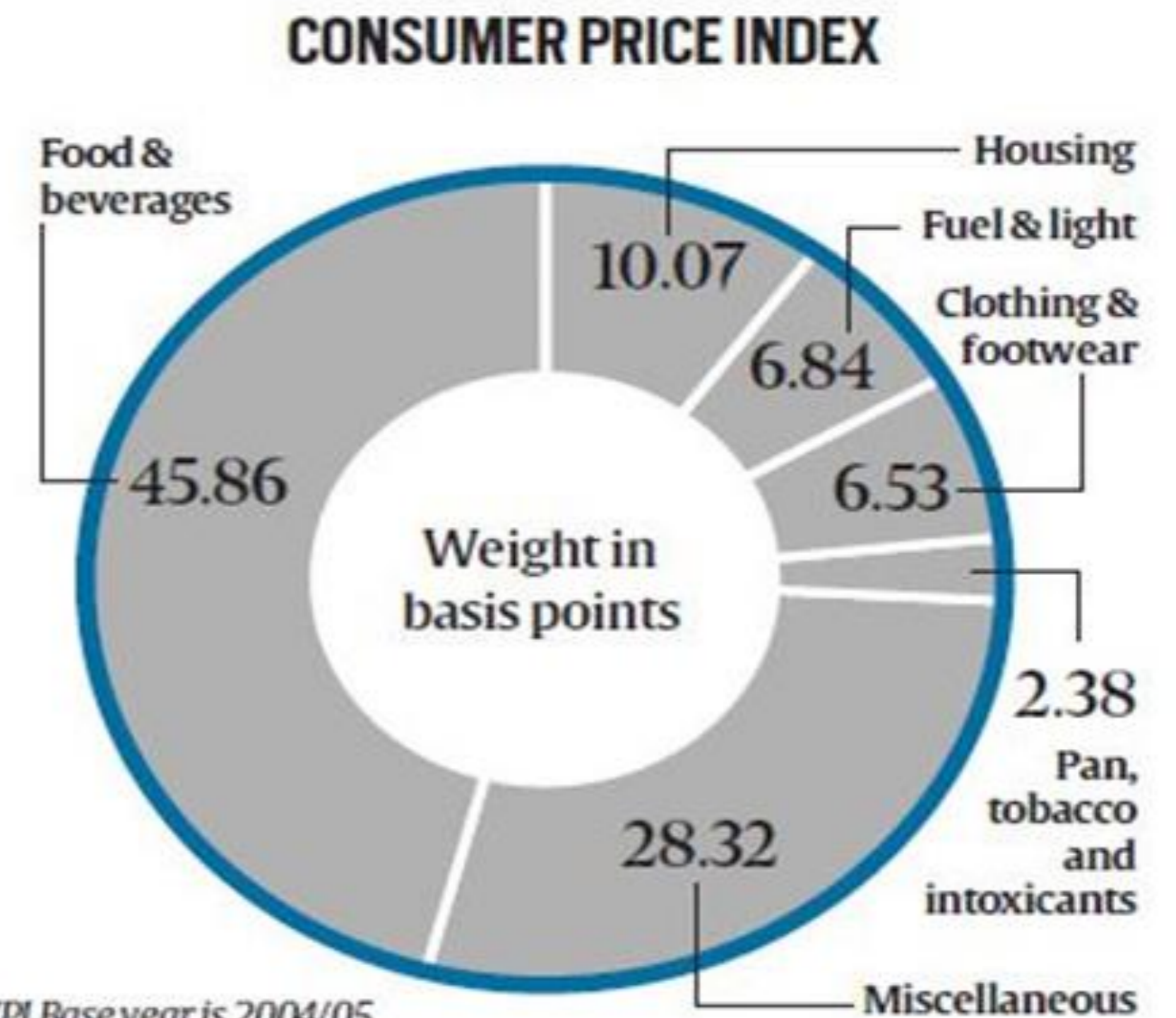


# MEASUREMENT OF INFLATION

## Consumer Price Index (CPI)

- It is one of the most important statistics for an economy and is generally based on the weighted average of the prices of commodities.
- It gives an idea of the cost of living.

Food and Beverages  
Housing  
Fuel and light  
Clothing and footwear  
Pan, tobacco and other  
intoxicants  
Miscellaneous



WPI Base year is 2004/05  
CPI Base year is 2012

# MEASUREMENT OF INFLATION

To calculate the CPI we use the following formula:

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$$CPI = \frac{\text{Expenditures in the Current Year}}{\text{Expenditures in the Base Year}} \times 100$$

$$CPI = \frac{\text{Cost of Basket in Current Year}}{\text{Cost of Basket in Base Year}} \times 100$$



# MEASUREMENT OF INFLATION

## Wholesale Price Index (WPI)

- It represents the price of goods at a wholesale stage i.e. goods that are sold in bulk and traded between organizations instead of consumers.
- The Office of Economic Advisor, Government of India publishes the wholesale price index.

- **Primary Articles**
- **Manufactured Products**
- **Fuel and Power**



# MEASUREMENT OF INFLATION

## Gross Domestic Product (GDP) deflator

- It is a measure of general price inflation.
- It is calculated by dividing nominal GDP by real GDP and then multiplying by 100.

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} * 100$$



# Headline and Core inflation

## HEADLINE INFLATION

**Headline inflation** is a measure of the total inflation within an economy, including commodities such as food and energy prices (e.g., oil and gas), which tend to be much more volatile and prone to **inflationary** spikes.



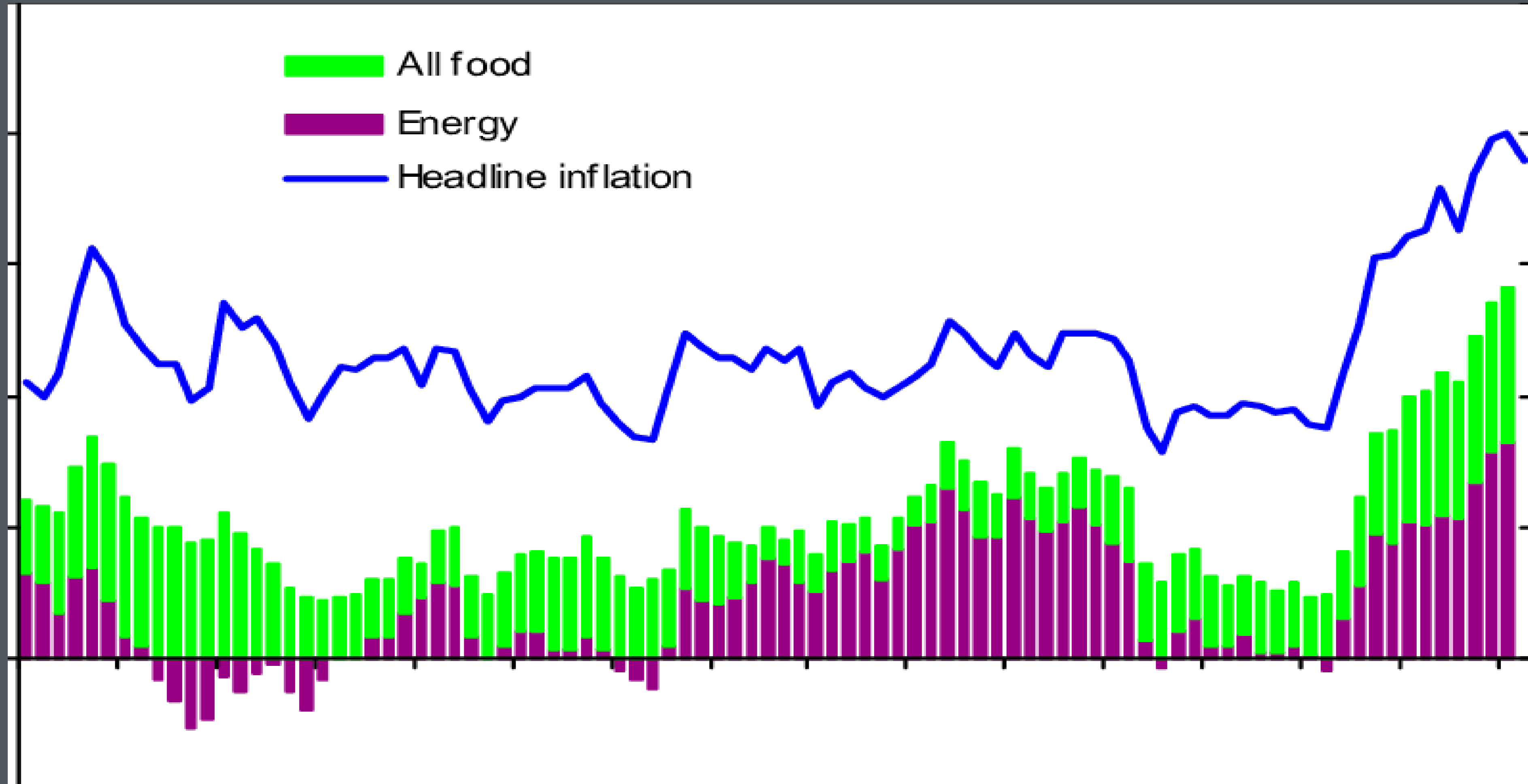
## CORE INFLATION

**Core inflation** considers the prices of all goods and services except commodity prices (like prices of vegetables, fruits etc) and oil prices.

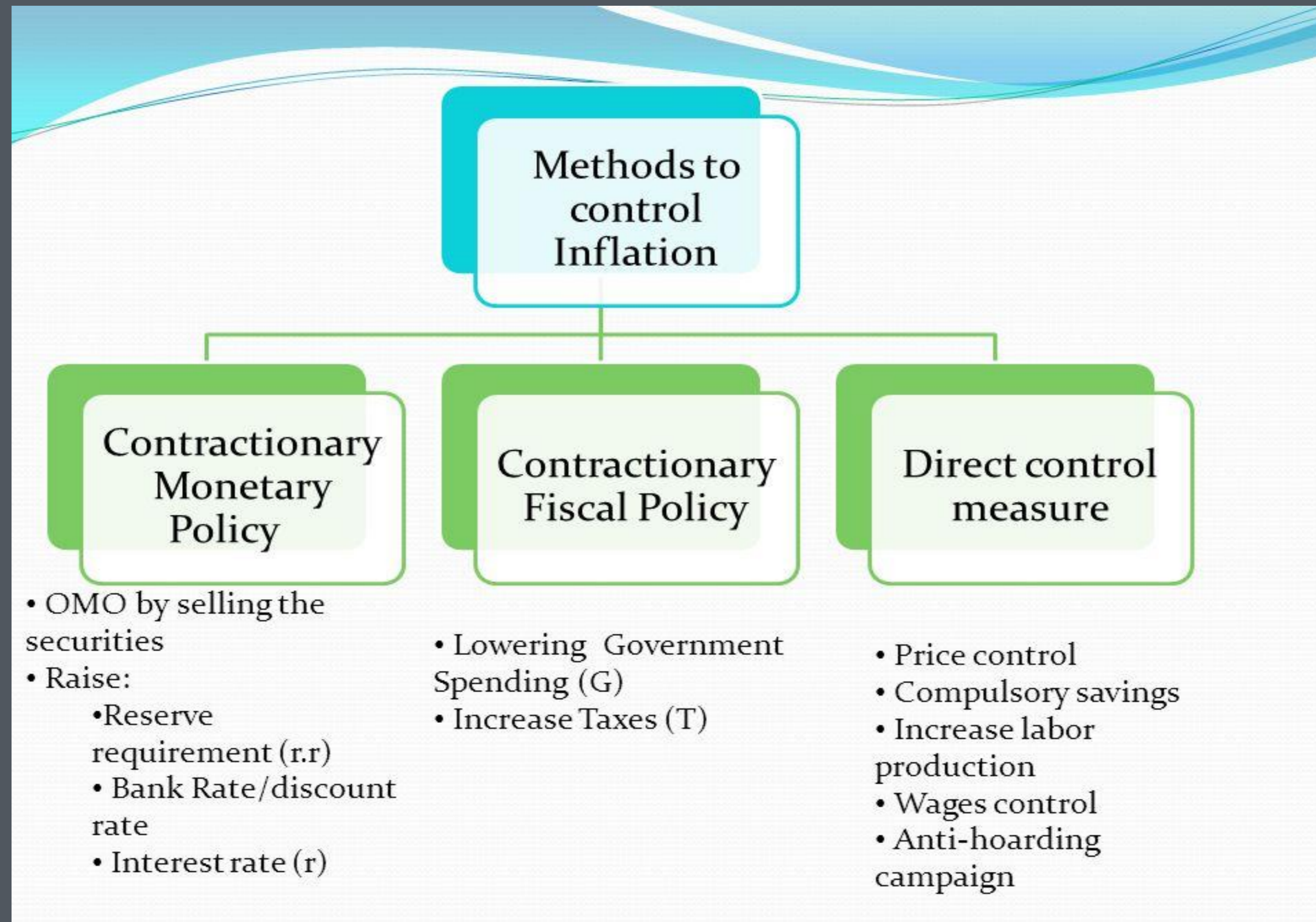




# HEADLINE INFLATION



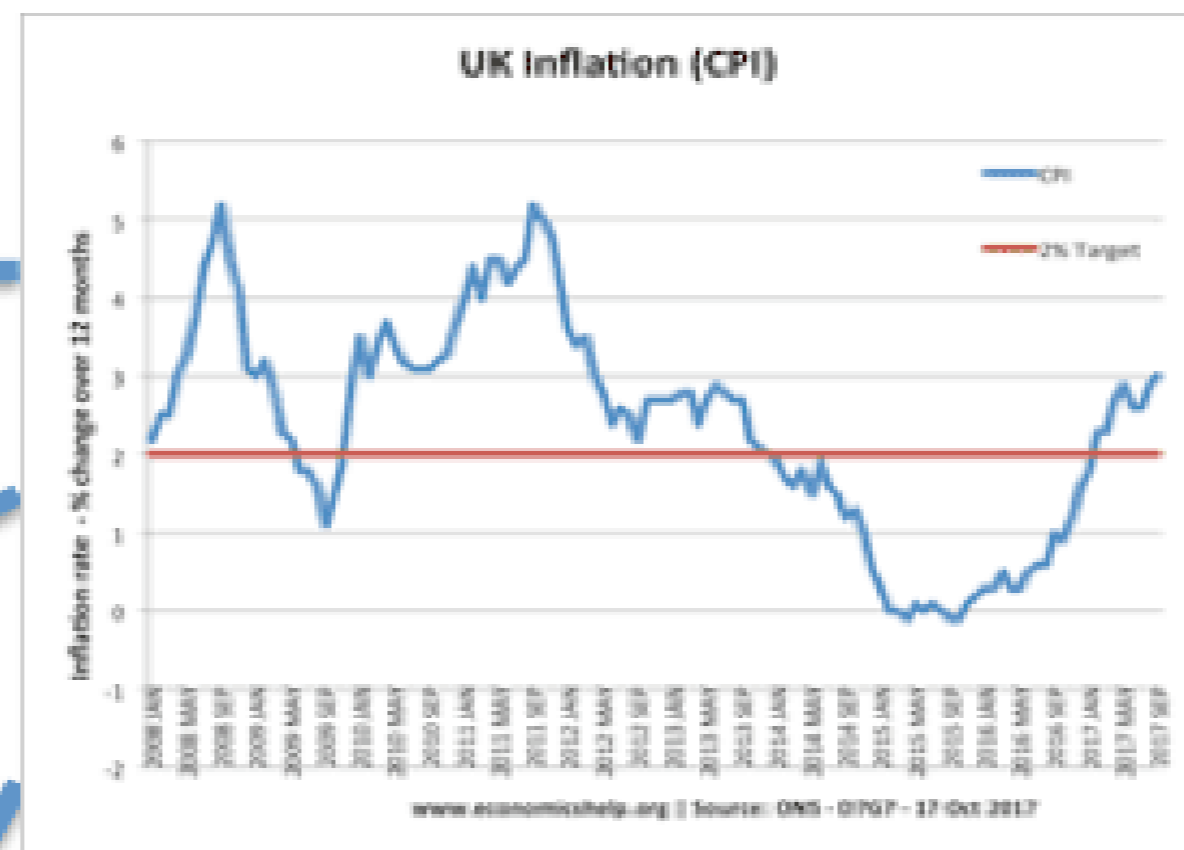
# Measures to control inflation





# IMPACT OF INFLATION

## Impact of Inflation on firms



### Menu costs

Cost of changing prices

### Wage pressure

workers demand higher wages

### Less competitive

If inflation higher than international competitors

**Real debt levels fall**  
firms with debt maybe better off

### Economic growth

Inflation could be sign of rising demand

### Cost-push inflation

Firms facing rising costs but consumers have low demand

**Less confidence to invest**

# IMPACT OF INFLATION

## Possible Winners and Losers from High Inflation

One of the effects of inflation is that it can lead to arbitrary changes in the distribution of real incomes and wealth in a country

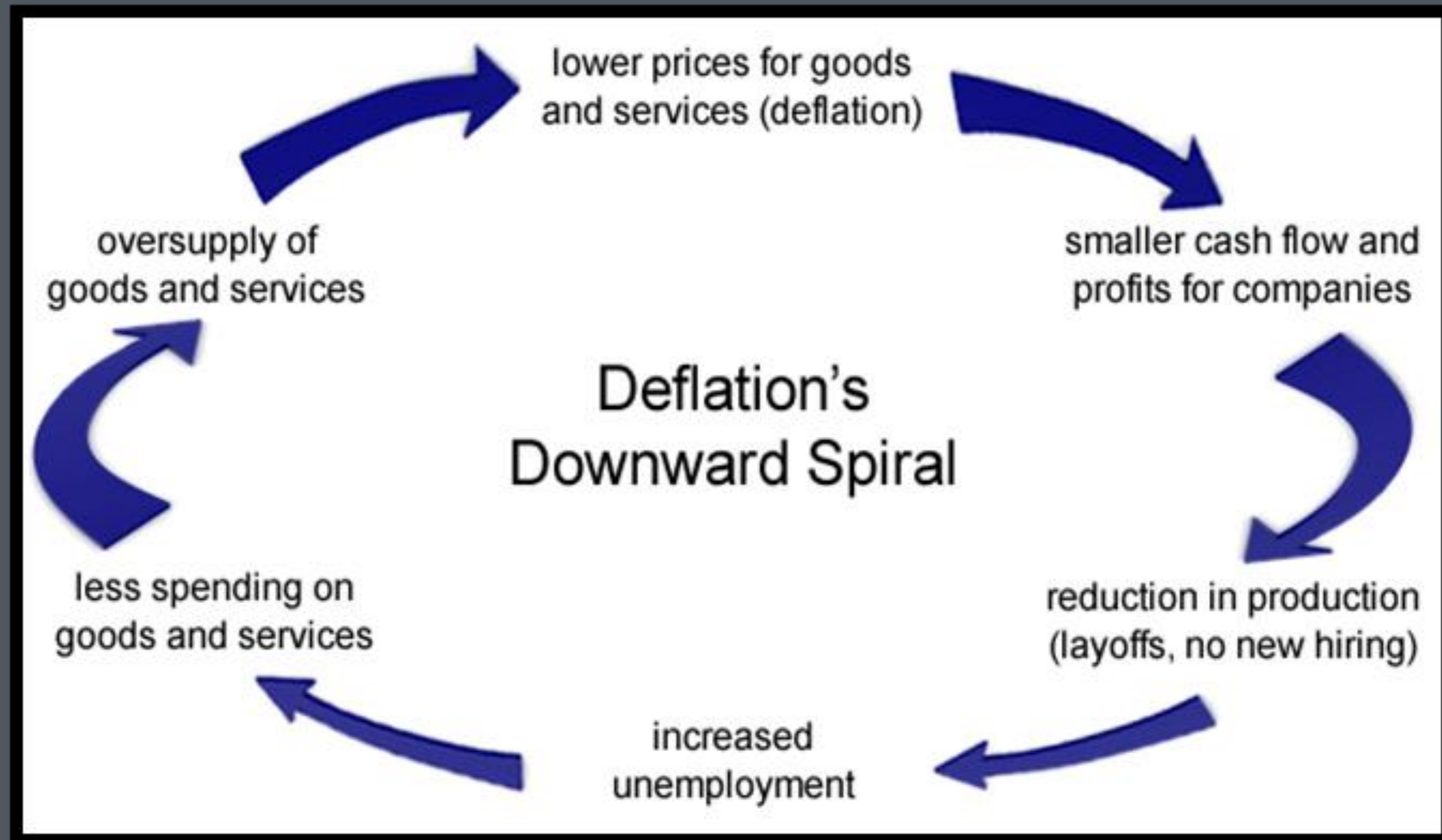
### Winners

- Workers with strong wage bargaining power
- Debtors if real interest rates are negative
- Producers if prices rise faster than costs

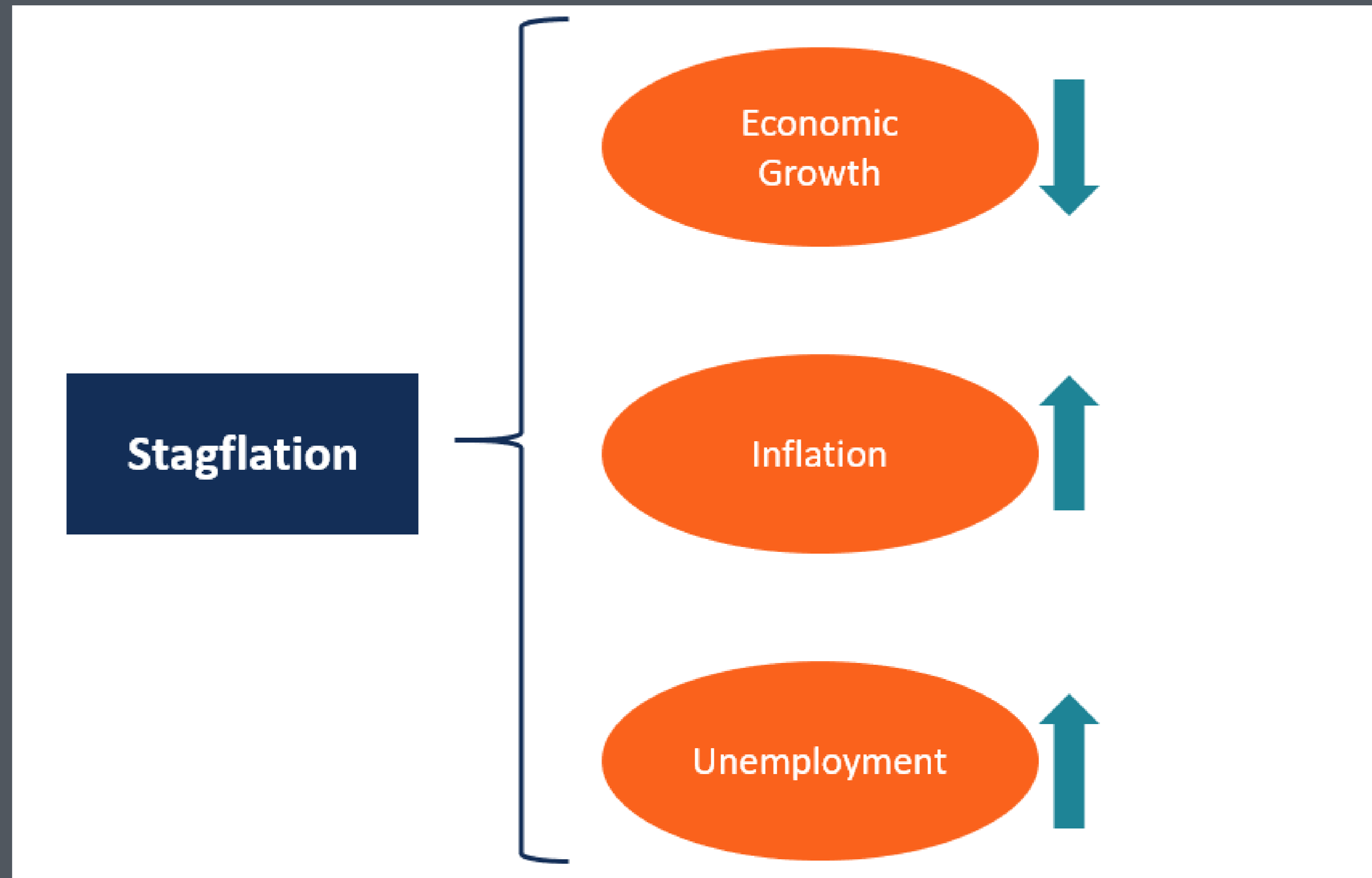
### Losers

- Retired on fixed incomes
- Lenders if real interest rates are negative
- Savers if real returns are negative
- Workers in low paid jobs





# CONCEPT OF STAGFLATION





**THANK YOU**

