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DOSSIER

On

Guest Lecture

On

"Impact of Inflation on Indian Economy"

On

November 12, 2014


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Prof. Col. (Retd.) Mahander Singh

Director General, RDIAS

FORM A

Proposal:

- **Name of the event to be organized**: Guest Lecture on "Impact of Inflation on Indian Economy"
- **Date:** November 12, 2014
- **Time:** 11:30 am – 1:30 am
- **Venue:** Lecture Theatre, RDIAS
- **Motivation for the activity**: The motive behind holding this session was to learn different aspects of "inflation" and the consequences of inflation in an economy, such as high interest rates, increased inequality, greater uncertainty, falling purchasing power, as well as social unrest.
- **Organized by:** MBA & BBA Department
- **Resource Person**: Prof. Sanjeev Mittal, Dean, GGSIPU.

FORM B

Part 1

Aim of the event:

The aim of this guest lecture was to:

- Understand driving forces of inflation and how these have changed/will be changing the structures of businesses, economies and societies.
- Acquaint the students with the conceptual understanding of the term inflation, its types and to make them aware about its adverse impact on the Indian Economy.
- Make management students capable of interpreting the inflation related terms in all the Business & financial newspapers and understand its significance as well.

Part 2

Abstract:

Sir started the session by explaining the meaning of inflation i.e. the rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. Sir quoted some examples to explain inflation in Indian economy. He, then, explained the **types of inflation** which are as follows:

- Demand Pull Inflation- This occurs when the economy grows quickly and starts to overheat. It's simply when demand for a good or service increases so much that it outstrips supply. If sellers maintain the price, they will sell out. They soon realize now have the luxury of raising prices, creating inflation.

- Cost Push Inflation- This occurs when there is a rise in the price of raw materials, higher taxes, etc. It only occurs when there is a shortage of supply combined with enough demand to allow the producer to raise prices.

Sir, then, discussed the various **causes of Inflation** such as:

- Rising wages**-** If trades unions can present a common front then they can bargain for higher wages. Rising wages are a key cause of cost push inflation because wages are the most significant cost for many firms. (higher wages may also contribute to rising demand)

- Import prices- One third of all goods are imported in the UK. If there is a devaluation then import prices will become more expensive leading to an increase in inflation. A devaluation / depreciation means the Pound is worth less, therefore we have to pay more to buy the same imported goods.

- Raw Material Prices- The best example is the price of oil, if the oil price increase by 20% then this will have a significant impact on most goods in the economy and this will lead to cost push inflation.

- Profit Push Inflation- When firms push up prices to get higher rates of inflation. This is more likely to occur during strong economic growth.

- Declining productivity- If firms become less productive and allow costs to rise, this invariably leads to higher prices.

- Higher taxes- If the government put up taxes, such as VAT and Excise duty, this will lead to higher prices, and therefore CPI will increase. However, these tax rises are likely to be one-off increases.

- Rising house prices- Rising house prices do not directly cause inflation, but they can cause a positive wealth effect and encourage consumer led economic growth. This can indirectly cause demand pull inflation.

- Printing more money- If the Central Bank prints more money, you would expect to see a rise in inflation.

Sir then talked about **harmful effects of Inflation** such as:

- Higher Interest Rates in long run
- Lower exports, lower production and higher unemployment
- Increased consumption which discourages savings and slows down economic growth
- Encourage Mal- investments
- Inefficient government spending
- High prices leads to increase in taxes

Sir also discussed other related terms such as deflation, hyperinflation, stagflation etc. and then talked about India's present situation and the **reasons for inflation** in our economy which are as follows:

- Food Inflation
- Poor Agriculture yields
- Unsafe storage of food grains
- Fuel cost inflation
- High current account deficit
- Volatile and depreciating rupee
- Stagnating Industrial production
- Eroded business confidence

Sir also talked about the various **measures taken by the government to control inflation** in our economy such as:

- Monetary Policy- It is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability. The official goals usually include relatively stable prices and low unemployment. Monetary economics provides insight into how to craft optimal monetary policy.
- Fiscal Policy- It is the use of government revenue collection (mainly taxes) and expenditure (spending) to influence the economy. According to Keynesian economics, when the government changes the levels of taxation and government spending, it influences aggregate demand and the level of economic activity.

Fiscal policy can be used to stabilize the economy over the course of the business cycle.

He further elucidated upon the difference between the monetary policy and fiscal policy and the instruments of monetary policy and fiscal policy.

Instruments of monetary policy are as under:

- Bank rate of Interest
- Cash Reserve Ratio
- Statutory Liquidity Ratio
- Open Market operations
- Margin Requirement
- Deficit Financing

Instruments of fiscal policy are as under:

- Reduction of government expenditure
- Increase in Taxation
- Imposition of new taxes
- Wage control
- Rationing
- Public Debt
- Increase in savings

In the end, he summarized the session by quoting facts like increase in food prices reached a dizzying 16.6% in September, 2013 eating the ability of low income households to build up enough disposable income to buy high end consumer products.

Part 3

Conclusion

The session was indeed an interactive one as students raised interesting queries like how retail sector of India will be affected if government allow 100 % FDI in retail sector in India and how we see India after 10 years ahead. Prof. Sanjiv answered all the queries really well and the students were completely satisfied and cleared with the conceptual understanding of a problem i.e. INFLATION. Over all students found the lecture to be really wonderful learning experience and be looking forward to have all such experiences in near future.

Lecture Moments

Welcoming the guest lecturer Prof Sanjeev, Dean, UBMS.

Welcoming the Director General Prof Col Retd. Mahender Singh

Facilitation of Guest Speaker by Director General

Prof Sanjeev addressing the students and faculty members

Students and faculty members listening to the lecture

Students asking the query from the Prof Sanjeev

Token of momento presented to Prof Sanjeev by Dr, Anil Goyal