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PRICE STABILITY AND ECONOMIC VOLATILITIES – INFLATION & RECESSION

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ABSTRACT
Now a day's inflation is associated with everybody's life. People are totally confused as how to spend money, where to spend money, how to buy various commodities in order to maintain a self-respected lifestyle. Therefore, it can be said that a consistent increase in price level is known as inflation. Therefore, price stability is one of the topmost objectives of government to maintain a stable economy where all categories of people will be able to maintain minimum standard of living. Price instability leads to economic volatilities in which all sorts of economic activities are getting disrupted, businessmen, service people, producers are not at all ease to do economic activities and therefore their economic status are badly affected. Money is used as measuring rod to measure value of commodities and value of money and price level of commodities are inversely related to each other. Money can be indicated as a measuring instrument should be stable in its value of goods and services but unfortunately it is fluctuating in nature, therefore poses many problems to common man. Recession means slowing down of economic activities resulting into decline of people's aggregate demand due to low income, price declines and there is a controlled inflation. The objectives of increasing economic activities and controlling inflation should strike a proper balance to maintain steady economic growth. Inflation can be analysed through Consumer Price Index (CPF), Wholesale Price Index (WPI), Demand Pull and Cost Push Inflation. In this aspect – RBI's effective monetary policy should be implemented with a higher interest rates proximity of recession increases resulting into layoffs, less lose money available in the hands of people, therefore consumer's and corporates spending decline proceeding towards recession. Therefore, inflation affects consumer's spending and well faire of people.

Keywords: CPI,WPI,Demand -pull inflation, Cost-push inflation

INTRODUCTION
Inflation has increased a considerably high and therefore affecting working families, families living in economic distress and poverty, there is economic immobility and economic inequality prevails among human beings. Inflation has increased in relation to food, automobiles, rents. The people who are economically vulnerable do not have easily access to basic necessities in life and thereby living below poverty line. There is total absence of facility and thereby make people homeless. Increasing internal rates by RBI would restrict the affordability of purchasing cars, homes, education by middle income people, if government adopt a crash-landing recession, it can increase job creation, rising wages, development in job markets will provide some relief to people. Policy should be developed in such a way that it must accrue to keep the needs of low-income people on a higher level. Most people realize the effects of increasing daily cost of living and rising prices hit middle class badly, lower paid people harder. No money available for effective saving and investment.

OBJECTIVES:
i) To analyse the nature of inflation in India.

ii) To realize the impact of inflation on consumer's life.

RESEARCH METHODOLOGY:
For writing this paper, various secondary data have been used which are collected from magazines, journals. Historical data as well as National statistics office data have been used to analyse inflation data.

According to RBI's estimation current retail inflation eases to 4.837 percent in April 2024, setting at 2 to 6 percent. Due to high price increase in food, electricity, crude, petroleum and natural gas the wholesale price index rate for April 2024 is 1.26 percent.

India Inflation Rate (CPI) Historical Data

Year	Average Inflation Rate	Annual change
2024	4.83 (April)	- 0.26%
2024	5.09 (February)	- 0.4%
2023	5.49	- 1.21%
2022	6.7%	1.57%
2021	5.13%	- 1.49%
2020	6.62%	1.57%

India Inflation Data (WPI)

Month (FY 24)	Wholesale purchase index rate
May 2024	1.26%
April 2024	0.53%
March 2024	0.20%
February	0.27%
January 2024	0.73%

The above CPI data says that changes in prices over time can be measured through CPI including prices of household goods and services purchased by households across country.CPI is also known as monthly index value which measures household consumption explaining how expenditure is getting fluctuated with price volatility.

WPI Data-The above data depicts that WPI is on higher level due to high prices for food, manufactured food products, crude oil, natural gas, mineral oil.

Inflation Data:

In fact, inflation data is based on Consumer Price Index (CPI), and it is 4.75% for May 2024. In rural area it is 5.28% and in urban area it is 4.15%.

Inflation as measured by (CPI) reflects the annual percentage change in cost to the average consumer of acquiring a basket of goods that may fixed or changed at specified intervals such as yearly.

Years	Percentage	Percentage	Change
2022	6.70%	1.57	
2021	5.13%	1.49	
2020	6.62%	2.89	Decline from 2020
2019	3.73%	0.21	Increase from 2019
2018	3.94%	0.61	Decline from 2018
2017	3.33%	-1.62	Annual change
2016	4.95%	0.04	Annual change
2015	4.91%	-1.76	Annual change
2014	6.67%	-3.35	Annual change
2013	10.02%	0.54	Annual change
2012	9.48%	0.57	Annual change

Years	Percentage	Percentage	Change
2011	8.91%	-3.08	Annual change
2010	11.99%	1.11	Annual change
2009	10.88%	2.53	Annual change
2008	8.35%	1.98	Annual change
2007	6.37%	0.58	Annual change
2006	5.80%	1.55	Annual change
2005	4.25%	0.48	Annual change
2004	3.77%	-0.04	Annual change
2003	3.81%	-0.49	Annual change
2002	4.30%	0.52	Annual change
2001	3.78%	-0.23	Annual change
2000	4.01%	-0.66	Annual change

In January 2024, CPI ganged Indian inflation as 5.10% and it declined from 5.69% in December 2023 and this data is released by Ministry of statistics and programme implementation.

Contributing factor towards inflation: There is a high demand of wages from labourers or workers without simultaneous expansion in productivity capacity thereby leading into increase in production cost means increase in the price of raw materials leading into cost push inflation.

The inflation rate in India: According to NSO (National Statistics Office) retail inflation of India dropped to 5.09% in 2024, February. As per RBI, retail inflation declined to 0.01 percent in one month, reflecting 5.10% in January 2024.

Detail Explanation:
Due to increase in money supply or excess money supply creates more availability of goods and services, additional demand is created causing increase in price. Due to non-availability of funds government goes for borrowing funds or creation of new money resulting into inflation; out of tax evasion black money, black marketing and other illegal activities are created; these black money falls in the hands of smugglers encourages lavish spending initiates excess demand and rise in prices. 120 crore population creates demand pressure for expanding goods and services resulting into high price rise. After repayment of debt people will have more money at their disposal demanding more goods and services. Due to increase in exports earning of exporters demand increases for their goods and services causing price to rise and also it can be said that increasing exports reduces domestic supply of commodities resulting into price rise.

Economic and social effects of Inflation:
Since inflation is having negative consequences, it poses economic and social problems and hearts welfare of people. A country having high inflation and fixed exchange rate will become less competitive result into low growth rate and high unemployment. Any company may find it difficult to decide whether increase in price of a specific commodity is due to higher demand for these goods or to a general increase in price level; leading into taking wrong decision in production and investment. Therefore, price volatility will create unstable financial market, will hamper availability of credit, distracting financing of long-term investments. If we consider inflation's effects on production, then it can be observed that inflation reduces purchasing power, increases transportation costs, increases speculation and as a result economic growth slows down. There are some adverse effects of inflation on production e.g. resources get misallocated in the sense producers divert resources from daily used commodities to profitable commodity, producers bring changes in the transaction system whereby they hold a smaller stock of real money holdings, against unexpected expenses. Sometimes producers get involved into converting money into inventories, other financial or real assets meaning thereby the producers waste time in producing wasteful things. During inflation there is rising cost of inputs and it brings down production and producers produces low quality of goods and services, unable to satisfy consumers; producers have tendency to

earn extra profits from rising prices and therefore they hoard stock of commodities therefore an artificial scarcity is created and they sell goods, and service at a higher price creating trouble for poor people. Inflow of foreign capital is getting disrupted due to rising cost of material thereby making foreign investment less profitable with intention of earning high profit through speculative activities, they get indulge in speculation of raw material, thereby hampering productive activities.

Unevenly rising prices will buy a lower quantity of goods; it means in the beginning of year people will have money but through that people will get lesser goods and services at the end of year. An overall rise in prices reduces purchasing power of buyers because people's fixed amount of money will afford less consumption. Consumers loose purchasing power, no matter, what the inflation rate is. High inflation erodes purchasing power, making it difficult for individuals, especially those in lower-income groups, to afford essential goods and services. This exacerbates economic inequality and affects the overall standard of living. The document highlights that inflation rates in rural areas (5.28%) are higher than in urban areas (4.15%), indicating that inflationary pressures disproportionately affect rural populations.

General recommendations:

General recommendations which consumers can do.

1) Consumers can review their budget if they do not have budget, they can create.
2) Consumers should diversify their income to maintain a self-respected lifestyle.
3) Borrowers should pay down high interest debt.
4) Government should consider a cash back credit card.
5) People should try to open high yielding savings account.
7) Consumers should assess investment observing market volatility.

Recommendations:

Controlling inflation can be divided into four processes.

A) **Monetary Measures:**

RBI adopts monetary measures which can be mentioned as below:

i) Bank rate policy is used by RBI through increasing bank rate. Increasing bank rate makes borrowing costlier; it discourages borrowers to take loan at a high rate of interest. As a result, volume of money in circulation will be reduced, amount of spending also will be less, and inflation will be controlled.

ii) Changing Reserve Ratio – RBI will raise CRR and SLR and lending capacity of commercial bank will decline, which reduce liquidity incomes and price will be controlled.

iii) Issues of New currency – In order to control hyperinflation RBI issues new currency in the place of old currency which result into fall in price.

iv) Demonetisation of Currency – RBI resorts to demonetisation of currency to control inflation.

B) Fiscal Measures:

I) **Government Expenditure –** through reduction of government's unproductive expenditure the aggregate demand gets reduced to restricted supply of goods and services.

ii) **Taxation –** Through imposition of additional taxes on people, size of disposable income in the hands of people gets reduced, followed by decline in demand and price of commodities.

iii) **Savings –** Compulsory or forced savings will help to reduce inflation.

C) Other measures: Rationing and controlling price policy, reduction in wage policy, Anti-inflationary monetary policy should be adopted to strike a balance between inflation and recession.

CONCLUSION

The information related to inflation indicates a trend of declining inflation rates, suggesting effective monetary and fiscal policies by the RBI and the government. However, the persistent higher inflation rates in rural areas and specific commodities (like food and fuel) highlight the need for targeted measures to ensure price stability and economic welfare for all segments of the population. Government should be able to increase productivity capacity among all producers through free technical training facility, by providing knowledge. Agricultural productivity has to be increased on a larger extent by providing all facilities to farmers. Creation of jobs is the foremost objectives of government to improve the standard of living of people thereby reduction of people living below poverty line. Overall, while recent trends show a decline in inflation, continued vigilance and adaptive policies are crucial to maintaining economic stability and addressing the diverse impacts of inflation across different sectors and demographics.

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