Inflation Effect on the Economical Aspect

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Abstract: ***Economic growth, even on the basis of the prevailing economic situation, is necessary for every world; the country has divided itself into the developed, developing and underdeveloped nation. Inflation and deflation are also a metric for understanding the pattern of growth and the economic development of any particular country. Inflation is an inevitable phenomenon and often occurs in various forms in every region. It is very difficult for the economist to forecast the inflation event, but they may take steps to mitigate the inflation effect. The present have discussed the types of the inflation and common causes to inflation in an economy because it is very important to address the cause of the inflation to control properly for the growth and development of the nation. The long presence of the inflation can reduce the rate of the growth; even it can cause the economy of the nation.***

Keywords: ***India, Inflation, Open economy, Fiscal deficit, Output growth, Financial Stability, Governance.***

INTRODUCTION

Any nation's global presence depends on numerous factors, such as overall growth, industrial development and economic stability. The reliance of these variables relates to the manner in which the resources of the nation are used with the feedback of good governance. The steady growth rate means that the resources available within the region are fully utilised. One aspect is often considered and held in the centre of strategy, i.e. inflation, when framing future steps for any country's economy. The inflation neither be a positive word nor a negative word, rather it is a relative word with the status or inclination of the economy. The inflation is the important part of the economical policy framed by the government [1]. The low inflation is considered as add-on in the economy as it is increase the activities and growth of the economy.

Reasonable inflation rather than high inflation is unwillingly appropriate, requiring minute assessment of all monetary variables as well as prevailing circumstances as it blows profitability in addition to monetary entities' liquidity in order to directly impact their operating resources. The effect of its movement on money's increased buying power. It is an occurrence that occurs in various types of inflation, defilation, hyperinflation or stagflation in any financial system. In current global financial surroundings most of the economy have framed and adopt procedures to curtail the blow of inflation if rate of the inflation is not properly control. The economist have a common view that the rate of the inflation between the 2 to 3 percentage is quite normal for the economy and does not have too adverse effect on the economy , in fact this much inflation is necessary to keep a control over the economy [2].

Inflation is an economic aspect and has a role that is important and respectful. Without inflation, no economic policy can be planned. It has a constant presence and exit in economies in different ways, depending on economic performance. India maintains the saving distinction, and high inflation is also extremely intolerant. Policy makers in India generally follow policies that recognise savings as a backbone in order to respond to possible financial uncertainties [3]. The past of inflation worldwide has been found to be enigmatic and unpredictable. India's economic history shows that India has undergone some extreme inflation, but not really a disease called hyperinflation, which can cause the economic model of the nation to break down.

Global economic heritage reveals evidence that selfish politics led to a rise in World War II to make the nation subservient, but that as a result of this greed, almost the entire world faced an economic crisis and that most nations were victims of inflation, recession and hyperinflation. Each nation needs to regulate the price, whether they are active participants in war or victims of war [4]; it is essential for their survival, political stability and governance. The modern history of wars shows the fact that India participated actively in both world wars and the combined effect of the time forced the price that became uncontrollable and transformed into inflation during the period it also went through struggle for independence.

The prudent policy of curbing inflation and saving the habits of Indians effectively regulated inflation, in comparison to other countries. The economic history of India shows that India, like Japan, China, Pakistan, Malaysia and Indonesia, has performed much better than its rivals and neighboring Asian countries. It is found that every seventh year in which price spiralled, India faced inflation but inflation remained below 20%. Holding inflation below 20% demonstrates the improved economic efficiency, good governance strength of India and its ability to manage inflation that distinguishes it from other nations. Figure 1 has been showing the causes of the inflation.

The Indian economy also had faced the same problem in this year of 1958, 1969 and 1972 but with the better policy frame work , the Indian economist not only successfully control the inflation but also handle the foreign defaults properly . The economies on the world level have been categorized in to three parts as the developed economies, developing countries and under developed countries and all the rigorously involve in to the task of making their individual economy enough robust in order to produce the strength to face the inflation to have a economical growth without any hurdle [5].

TYPES OF THE INFLATION

In economic terms, inflation is characterised as the concept in which the price level rises over time, resulting in a decrease in the purchasing power of individuals. A sudden rise in the level of prices has seen a decrease in the value of the currency and a decrease in the quantity of the goods purchased in each currency unit [6]. The opposite inflation scenario is known as deflation, where the value of the currency for each unit appears to increase and increase the amount of the commodity to be bought in a single unit of the money. The inflation is measured as the inflation rate that is calculated as the percentage of the general price index or consumer price index.

The scholars of the economics believe that increment rate of the inflation and hyper inflation is not good for the economy as it depreciate the value of the money for each unit. The effect of the inflation have seen in term of the supply of the goods and services as the value of each unit of money increased that will affect the demand of the people and people become less interested to purchase the goods and services as they have to give more money [7]. The effects of the inflation make an article costlier to an individual. It also seen that the long period of the inflation results in faster supply of the money but rate of economic growth reduced substantially.

IMPACT ON THE ECONOMY

Inflation’s decline has a positive effect as it improves the saving of the nation's common people and also supports lenders and the banking industry. As inflation in general drop, commodity prices imitate it at an equal rate in all segments. The inflation-free market means that the national economy is saturating and would have a more effect and influence on other macroeconomic factors [8]. As inflation rises, it functions as a secret tax and savings are decreased. Via its connection with the corporate income tax code, through the tax deductible depreciation allowance for machinery and construction, it impacts strategic decisions. Since depreciation is not inflation-adjusted, a rise in the inflation rate favors investment in inventories including short-lived equipment.

Many capital-intensive companies have depended disproportionately on and sustained losses from long-lived plants and equipment. Inflation distortions also exist in the taxation of capital gains. When unemployment is low, taxes account for a higher share of the total value of assets. Under such conditions, even the corresponding asset is sold without any deep appreciation of its value, however the owner has to pay due taxes since higher taxes on capital gains have to be charged on the actual worth of the properties. The tax structure does not adjust after inflation policy in general, and citizens face extra tax burden along with secret tax 'inflation' consecutively. As the fall in inflation expenditure rises, the consumption of FDI inflow decreases, demand decreases, buying power decreases.

If it has persisted for a long period of time, then at the appropriate level, unemployment begins to increase. Irrespective of inflation, the intrinsic value of all goods and services remains the same. Its 1.0 percent rise depreciates the currency by 10 percent in terms of goods and services we import [9]. The currency is being destabilized by increased inflation. It affects the profitability and liquidity of firms and directly impacts their working capital. Its deterioration is good for the economy to the extent where it is bad for the economy again if it deteriorates and becomes negative.

Inflation has an effect on businesses that have surplus funds. It affects shareholders, especially investors, who have fixed income investments and live on fixed-generated returns. Investors that have invested in inventories have to wait a long time to recover their investment in the returns of profitability are found to be overstated. Businesses appear to be prospering despite the high inflation period, although inflation is seen to be the main reason behind their rising. This affects the nominal rate of interest and the actual interest rate. Treasury bonds are influenced by inflation, since these fixed income securities pay the same dividend every year. If inflation rises faster than the returns on these properties, they would be less expensive [10].

The asset manager will rush to sell these reciprocally, so there will be another drop in asset value. When this condition happens, the government is compelled to sell them at all by offering higher treasury returns. Monthly mortgage rates are rising in this way. The value of assets is decreased by inflation. It also raises the expense of servicing the debt to the state by rising the interest payments per year. It is important to compensate for this increased budget expenditure by cutting the discretionary budget or rising taxation and budget deficits [11]. Both of these remedial steps are inconsistent with monetary policy and inevitably slow down economic development, turning it into a semi-standard of living. It destroys public confidence in opposition parties' reliability.

This affects savings and facilitates consumption. It affects spiritual virtues, a dominant work ethic, and delayed gratification prevails. Consumer spending rises because of inflation, which heats up an economy which later turns into spiraling inflation and lowers the standard of living. It also physiologically impacts mass, as individuals begin to anticipate inflation they start spending instantly rather than later. This affects financial assets such as CDs, insurance plans, stocks and bonds and makes measuring them more difficult. When inflation has become part of economic behavior, it is difficult to eradicate its influence and consequences.

CONCLUSION

When demand side factors dominate price inflation, policy makers must establish effective mechanisms for generating policy response, which eventually lead to the risk of spilling into a broader inflationary cycle. Lawmakers must therefore create systemic supply constraints in order to ease inflation control, to ensure that inflationary pressures do not become binding constraints in the longer term and render the task of inflation planning more complex. Government should restrict its wasteful spending and expenses in order to control inflation, it must regulate tax evasion. Government should discourage the borrowing of the fund other than which is utilize in only for production activities.

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