

- ❑ For example, food prices rose steadily during the last months of 2009 and the early months of 2010 in India, even though the prices of non-food items continued to be relatively stable.

Inflationary Gap

- ❑ It is a macroeconomic concept that describes the difference between the current level of real GDP and the anticipated GDP that would be experienced when an economy is at full employment, also referred to as the potential GDP.
- ❑ It is a type of the output gap (GDP gap).
- ❑ The main cause of the gap is considered to be expansionary monetary policies carried out by the government.
- ❑ An inflationary gap is a signal that the economy is in the boom part of the trade-cycle, government action in the form of fiscal and monetary policies is must to close the gap.

Deflationary Gap

- ❑ It is also known as recessionary gap. It is also a negative output gap. In other words, a recessionary gap occurs when the aggregate demand is not sufficient to create conditions of full employment.
- ❑ The deflationary gap thus is the difference of the amount by which aggregate expenditure falls short of the level needed to generate equilibrium national income at full employment without inflation.

Inflationary Spiral

- ❑ A self-sustaining upward trend in general price levels fuelled by the reinforcing feedback of a vicious circle.
- ❑ Such situations continue until radical measures (such as income policy) are instituted to break the cycle, otherwise the currency is rendered almost worthless as a medium of exchange (as it happened in Germany in the 1920s, in Brazil in the 1980s, and in Argentina in the 1990s) and has to be replaced with new monetary units (currency).
- ❑ The wage price spiral is a typical example of an inflationary spiral.

Wage-Price Spiral

- ❑ The wage-price spiral suggests that rising wages increases disposable income, thus raising the demand for goods and causing prices to rise.

- ❑ Rising prices cause demand for higher wages, which leads to higher production costs and further upward pressure on prices, creating a conceptual spiral.



Inflation Tax

- ❑ It is not a legal tax, rather it is the degree of decrease in the value of cash and is termed as the inflation tax for the way it punishes people who hold assets in cash, which tend to be lower-and middle-class wage earners.
- ❑ To quote Milton Friedman, “inflation is taxation without legislation”.

Inflation Premium

It is the part of prevailing interest rates that result from lenders compensating for expected inflation by pushing nominal interest rates to higher levels.

Inflation and Unemployment: Phillips Curve

- ❑ The Phillips curve shows the inverse relationship between unemployment and inflation in an economy.
- ❑ The curve suggests that changes in the level of unemployment have a direct and predictable effect on the level of price inflation.
- ❑ A W Phillips claimed that economic growth comes with inflation, which in turn should lead to more jobs and less unemployment. So, higher inflation is associated with lower unemployment and vice versa.

History of Planning in India

- ❑ Planning is a method of achieving economic prosperity of the nation by the optimum utilization of the resources.
- ❑ Soviet Union, for the first time put forward the idea of economic planning in 1928, to transform the country into an industrial superpower.
- ❑ The idea of economic planning got further strength and support during the period of great depression in the 1930s, during which other parts of the world were performing badly but the Russian economy progressed in the same period.
- ❑ M. Visvesvaraya in his book “Planned Economy for India” suggested a ten-year plan for India.
- ❑ Under the Plan, he proposed to double the income of the country within ten years. He also described how industries will not make satisfactory progress if left to private enterprises.
- ❑ Since 1934, India had gone through multiple planned phases such as the Bombay Plan, The Gandhian Plan, The People’s Plan, etc.
- ❑ Later in the 1950’s, India adopted the Soviet Model of economic planning as an instrument of socio-economic development.

The Federation of Indian Chambers of Commerce and Industry (FICCI) Proposal

- ❑ It is a non-government, not-for-profit organisation, established in 1927.
- ❑ It is the largest and oldest apex business organisation in India.
- ❑ In 1934, it recommended the need of national planning for economic development.
- ❑ N. R. Sarkar, the then president of FICCI, called for a high powered ‘National Planning Commission’ to coordinate the whole process of planning, so that the country could achieve its full economic potential.

The Bombay Plan, 1944

- ❑ It was formulated by eight leading Indian industrialists with the basic aim of economic development under considerable amount of government intervention and regulations.
- ❑ The title of the plan was “A Plan for Economic Development of India”.
- ❑ The signatories of the Plan were Jamshedji Ratanji Dadabhoy Tata, Ghanshyam Das Birla, Ardeshir Dalal, Sri Ram, Kasturbhai Lalbhai, Ardeshir Darabshaw Shroff, Sir Purshottamdas Thakurdas and John Mathai.
- ❑ The basic objectives were doubling of the output of the agricultural produce and rapid industrialization with emphasis on the development of capital goods and core industries and also doubling the per capita income within a period of 15 years from the time the plan goes into operation.
- ❑ Some of the important agreements of the Bombay Plan are:
 - Agrarian restructuring by abolition of intermediaries, minimum wages, fair prices for agricultural produce, cooperative and credit supports to farmers, etc.
 - Rapid industrialization
 - Development of the essential consumer goods industries
 - Promotion of medium and small-scale industries, setting up of cottage industries with a focus to generate more employment.
 - The plan advocated active role of the state in the economy through planning, controlling and overseeing the different areas of the economy.
 - Large -scale measures for social welfare.

The Gandhian Plan

- ❑ It was introduced by Shriram Narayan Aggarwal (Ex. Governor of Gujarat) in 1944.
- ❑ It was based upon Gandhian philosophies.