IJRAR.ORG E-ISSN: 2348-1269, P-ISSN: 2349-5138

INTERNATIONAL JOURNAL OF RESEARCH AND ANALYTICAL REVIEWS (IJRAR) | IJRAR.ORG

An International Open Access, Peer-reviewed, Refereed Journal

Conceptual Framework and Trends of Inflation Rate in India: Causes and Solutions

***Dr Sarita Yadav**

Former Guest Faculty University of Allahabad

Abstract: Inflation is characterized as the progressive increment the common level of merchandise and administrations inside a particular period of time. It influences the obtaining control and living guidelines of people and families. In India, the affect of inflation isn't uniform over states.

Factors such as state-specific financial arrangements, mechanical composition, statistic characteristics, and the degree of urbanization contribute to territorial varieties in inflationary weights. This paper concludes by underscoring the significance of persistent observing and examination of inflationary patterns and their impacts on obtaining control and living measures.

In summary, this hypothetical term paper highlights the complex and varied impacts of inflation on purchasing power and living benchmarks over different states in India. This makes financial challenges that vary incredibly over different districts particularly a different and financially stratified nation like India.

***Index Terms* --Inflation rate, CPI, Purchasing Power**

1. Overview

Inflation is defined as the ongoing increase in the general level of goods and services within a specific period of time. It affects the purchasing power and living standards of individuals and households. This creates economic challenges that differ greatly across various regions especially in a diverse and economically stratified country like India. The complex nature of inflation's effect can be analyzed through its immediate impact on purchasing power where the real value of money diminishes, thereby limiting consumer's ability to purchase goods and services. Additionally it has broader implications for living standards which include factors such as health, education, housing and overall quality of life. In India the differences in economic development among states exacerbate these effects resulting in significant regional disparities. The diverse economic landscape of India marked by varying levels of industrialization, agricultural reliance, income distribution and urbanization offers a unique context for examine the effects of inflation.

2. Literature Review

Manjumdar (2016) stated that regional variations in price fluctuations significantly influence living standards, raising questions about the treatment of large, diverse nations like India as singular entities in purchasing power parity assessments. In summary, these studies collectively emphasize that inflation exerts a complex and substantial influence on purchasing power and living standards across various states in India, necessitating targeted policy interventions to manage inflation and mitigate its adverse effects on the economy and society. According to Moriyama (2008) expansion of money supply and the nominal exchange rate influenced inflation with an 18-24 month time lag in Sudan. Additionally, structural auto-regression employed to forecast inflation in Sierra Leone indicated that the domestic inflation rate was primarily driven by rising oil prices, money supply, and depreciation of the nominal exchange rate. Mallick (2008) examined the long-term relationship between inflation and economic growth, discovering that elevated inflation rates adversely affect economic growth, which underscores the necessity of maintaining price stability to foster economic development.

Abbas and Husain (2006) investigated the causal relationship between money and income, as well as between money and prices in Pakistan. Their co-integration analysis suggests the presence of a long-term relationship among money, income, and prices. The causal relationship identified between money and prices demonstrates a bi-directional causality, indicating that an increase in money supply raises the price level, while inflation subsequently leads to an increase in the money supply in Pakistan.

Oberai and Sharma (2018) highlighted that inflation is a pervasive issue impacting both developed and developing nations, with a critical effect on the cost of living, thereby requiring comprehensive strategies to alleviate its negative consequences. Tang (2008) asserted that, according to monetarists, inflation is an increase in aggregate prices within an economy is a result of excessive money supply expansion. According to him "inflation is purely a monetary phenomenon" and excessive money supply is a consequence rather than a cause of inflation, particularly in developing nations, suggesting that causality runs from inflation to money supply. Furthermore Bhattacharjee (2017) pointed out the repercussions of inflation on education, demonstrating that increasing prices diminish consumers' purchasing power, thereby impacting their capacity to cover educational costs and ultimately obstructing economic growth.

Yesikar et al. (2015) performed a study in Indore to evaluate the influence of price inflation on daily activities and basic necessities, concluding that inflation considerably limits public consumption patterns, which in turn affects essential services such as public transportation, dining, and healthcare expenses.

3. Calculation of Inflation rate in India

Inflation rate is calculated in India by the two different methods.

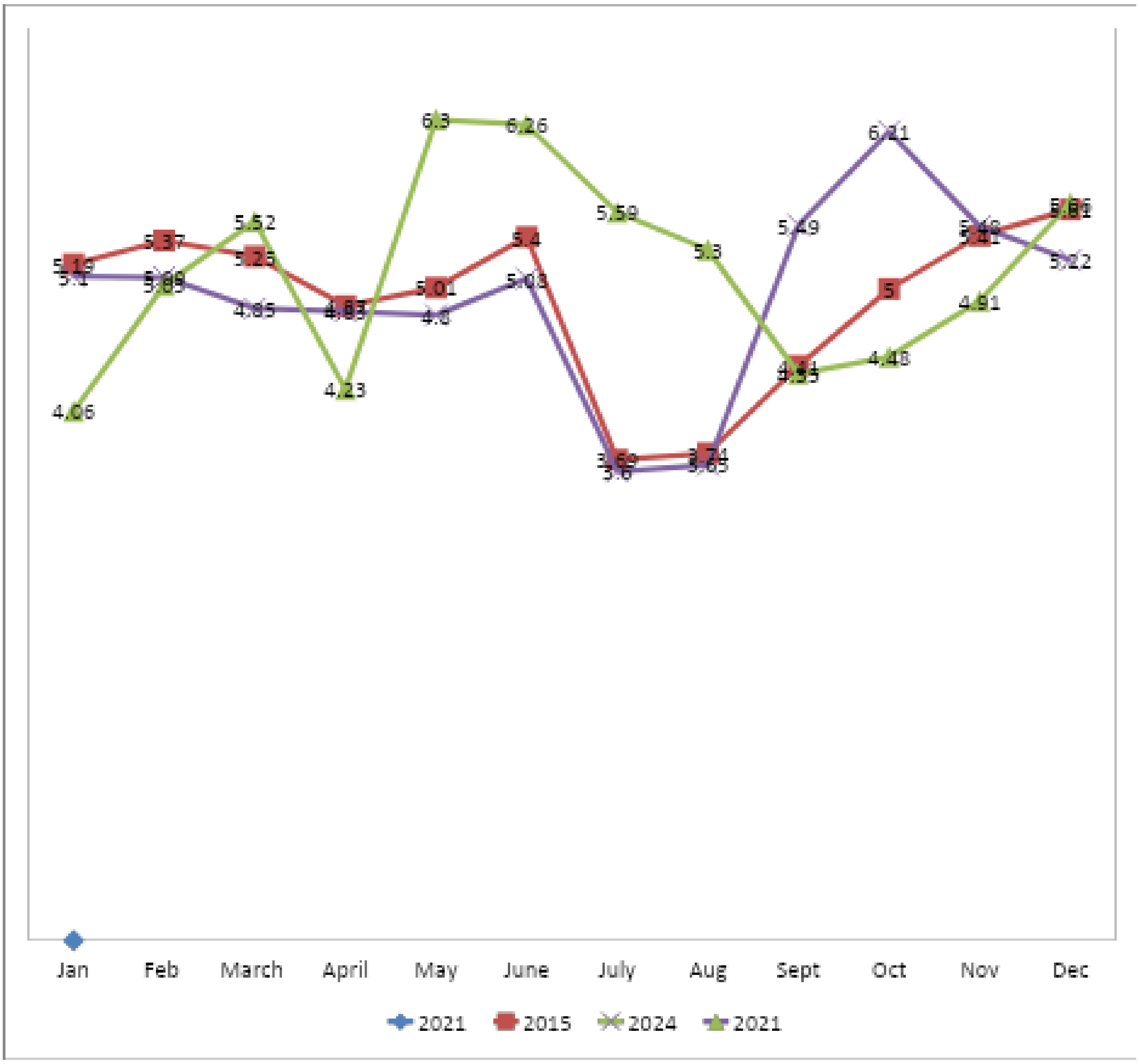
(a) CPI (Consumer Price Index)

The Consumer Price Index (CPI) serves as a crucial measure of inflation, reflecting the variations in the average retail prices that consumers pay for a collection of goods and services over a specified period. The base year for the CPI is established as 2012. The Monetary Policy Committee (MPC) utilizes CPI data to manage inflation effectively. In India, there exist various CPIs tailored to meet the needs of distinct population segments: CPI for Industrial Workers (CPI-IW), CPI for Agricultural Laborers (CPI-AL) ,CPI for Rural Laborers (CPI-RL) and CPI for Urban Non-Manual Employees (CPI-UNME)

(b) Wholesale Price Index (WPI)

It assesses the averages fluctuation in the price of goods at the wholesale level considering the viewpoint of producers and businesses. It encompasses as a wider variety of goods compared to the Consumer Price Index (CPI).In India, the wholesale price index (WPI) comprises primarily articles, fuel power as well as manufactured products. The base year for all India WPI was updated from 2004-05 to 2011-12 in 2017.

3.1 Graph No.1-Trends of inflation rate (%) based on general CPI (base 2012-100) in India



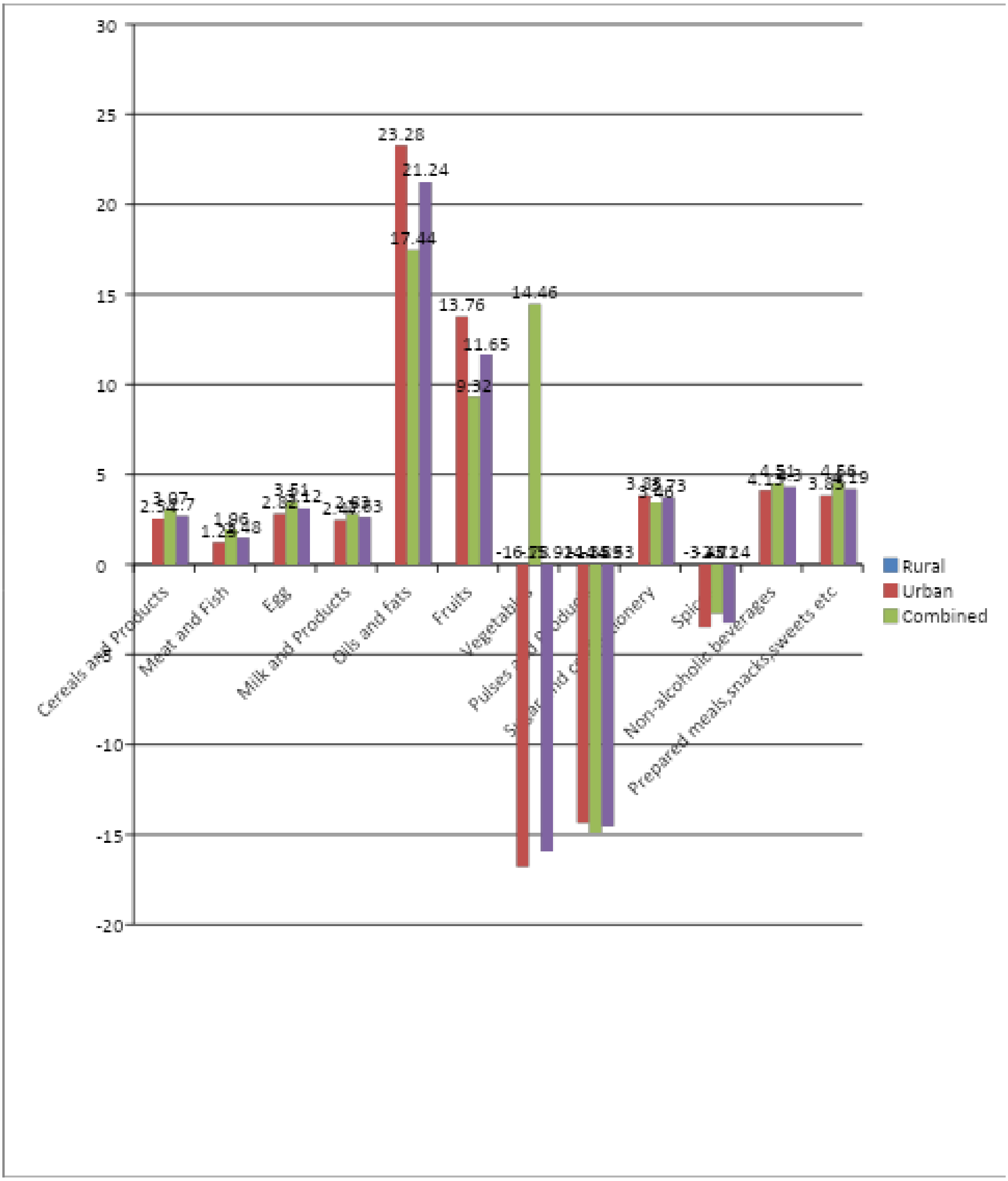
Source: - The data is available on the website of Mospi

This graph shows the more fluctuations of inflation rate (%) in the year of 2021.It starts from very least inflation rate as 4.06%. In Jan it reached at highest as 6.3% and 6.26% in the month of May & June. It declines as 5.61% in Dec.

In 2015 it is 5.19% in Jan. In the month of Aug and Sept it has reduced as 3.69% and 3.74%.

In 2024 it starts from 5.1 % and reached as highest inflation rate as 6.21% in Oct. It is 5.22% in Dec. There is a little difference between 2015 and2024 from Jan to Aug.

3.2 Graph No.2-Inflation rate (%) August 2025(provisional) Food and beverages (CPI based2012=100) in India



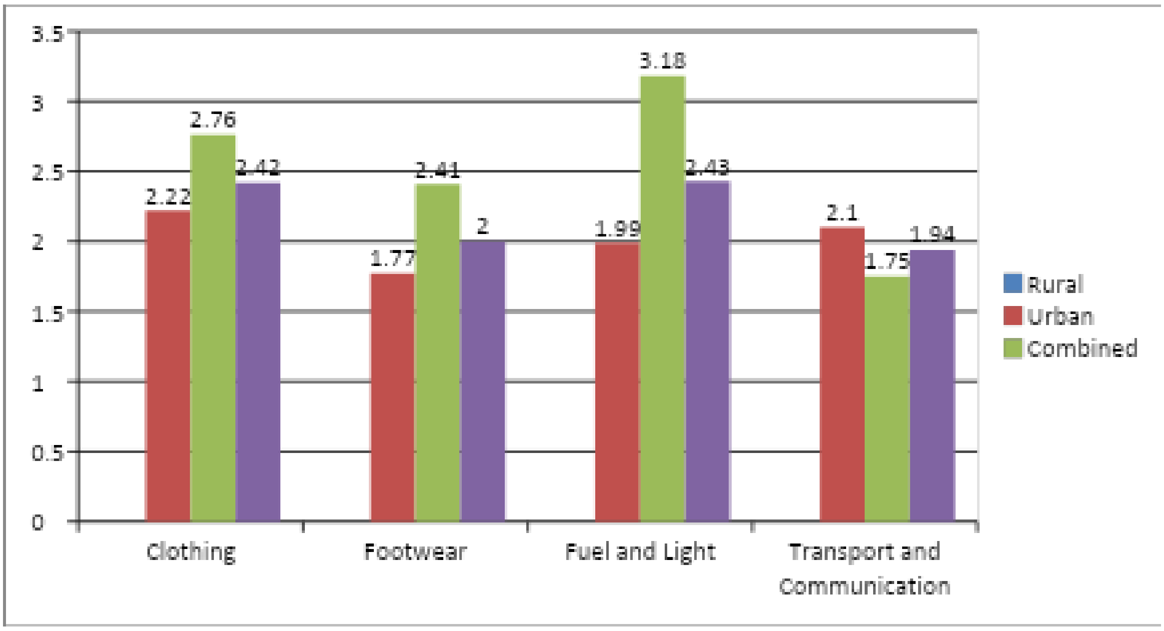
Source-The data is based on the calculation of Mospi

The inflation rate (%) is calculated by using CPI includes the Food and Beverages. This description is the basket list of Cereals and Products, Meat and Fish, Egg, Milk and Products, Oils and Fats, Fruits, Vegetables, Pulses and Products, Sugar and Confectionary, Non-alcoholic beverages, prepared milk, snacks, sweets etc.

In rural area the inflation rate of Milk and products is (2.83%), Oils and Fats (23.28%) and Fruits is (13.76%) where as in vegetables (-16.78%), and pulses and products (-14.35%). Rural areas belongs to agricultural activities so the basic needs of consumption good such as milk, vegetables, pulses etc are easily available at lowest prices as comparative to the

Urban areas the inflation rate of milk and product is (2.83%), non-alcoholic beverages (4.51%), prepared meals, snacks, sweets (4.56%) which is higher than rural areas.

3.3 Graph No.3Inflation rate (%) August2025 provisional (CPI based2012=100) in India



Source- The data is based on the calculation of Mospi

The inflation rate of clothing (2.76%), footwear (2.41%), fuel and light (3.18%) in urban areas. It is comparatively low in rural areas such as clothing (2.22%), footwear (1.77%), fuel and light (1.99%).The inflation rate of transport and communication is (1.75%) in urban areas and (2.1%) in rural areas.

4. Causes of Inflation

Several factors such as cost push and demand push expansion, over supply of money, national debt increase inflation in economy.
Cost-push inflation happens when costs rise such as crude materials, compensation and increment.The request for products remains unaltered, whereas the supply of products decline due to the higher costs of generation. As a result, the included generation costs are passed onto customers through higher costs for the wrapped up products.
Demand-pull expansion can be caused by solid customer request for satisfaction. When there's a surge in request for a wide breadth of merchandise over an economy, their costs tend to extend. Whereas typically not frequently a concern for short-term awkward nature of supply and request, maintained request can resound within the economy and raise costs for other merchandise, coming about in demand-pull expansion.
Excess cash supply in an economy is one of the essential causes of inflation. This happens when the cash circulation in a country develops over the financial development in this manner decreasing the esteem of the money.
There are a number of components that national debt which incorporate the counties borrowing and investing. In a circumstance where a country's debt increases it is cleared out by the rising the taxes and printing of additional money.

5. Suggestions

The government receives different measures to control the increment within the cost of products and administrations. In India, the Reserve Bank of India (RBI) is capable for controlling swelling.
Expansion focusing on and to keep expansion inside the set target is the obligation of RBI. In any case, the RBI through its financial approaches can as it were control request and drag swelling to a constrained degree. The RBI can only control credit stream within the economy by taking absent excess cash from the managing an account framework. Be that as it may, in this prepare financial development is influenced.
The RBI cannot control that portion of expansion which is driven by dark cash. In case the open use (consumption of the government) remains tall and the financial approaches gotten to be ineffectual. At the same time, in controlling taken a toll thrust expansion and basic swelling the part of government and state government is more vital as compared to the RBI. Subsequently, expansion can be controlled as it were through the combined endeavors of the RBI, the central government as well as state governments.Policymakers members regularly center on center expansion.
Government expansionary financial arrangement can increment discretionary income for both businesses and buyers. On the off chance that a government cuts charges, businesses may spend the cash on capital enhancements, worker emolument, or unused enlisting. Buyers may also purchase more products. The government may too fortify the economy by expanding investing on foundation ventures.
This estimation of expansion avoids the costs of nourishment and vitality since they tend to be more unstable and less intelligent of longer-term expansion patterns. People with lower salary spend a generally expansive extent of their week by week or month to month family budgets on nourishment and vitality, commodities that are difficult to substitute or go without when costs spike.
Contractionary Financial Approach can be valuable to handle tall expansion rates. Supply Management measures points to extend the competitiveness and effectiveness of the supply chain putting descending weight on long term costs. A few of the supply administration measures taken are limiting sends out of commodities and expanding their imports.

The higher MSP has been reported to incentivize generation and in this manner improve the accessibility of nourishment things which may offer assistance direct costs. It is important to settle the ceiling costs of the commodities and taking measures to control the dark promoting of those products.

REFERENCES

[1].Abbas, K.,andHussain,F.(2006),"***Money,IncomeandPriceinPakistan:Abi-variateandtri- variate causality***", South Asian Economic Journal, pp. 55–56.
[2].Bhattachrya ,R & Sen.G,(2017), ***"Drivers and Impact Inflation in India",*** Munich Personal RePEc Archive,Asian Development Bank.
[3].K .Moriyama (2008), ***Investigating inflationary dynamics in Sudan***", Working paper.
[4].Mallik,G., & Chowdhury,A(2001), ***"Inflation and Economic Growth: Evidence from four South Asian countries***",Asian Pacific Development Journal,Vol.8,pp123-35.
[5].Manjumdar,C.S (2016), ***"Inflation and its Impacts on Economic Growth of Bangladesh"*** American Journal of Marketing Research ,Vol.2,No.1,pp17-26.
[6].Oberai,S.G and Sharma,D(2021), ***" Impact of Inflation on the cost of living of India"***, International Journal of Advanced Research,pp63-68.
[7]. Tang,F(2008), ***" Is Inflation Always a Monetary Phenomenon in Malaysia?",*** University of Sains, Malyasia.
[8] www.mospi.gov.in.
[9].Yesikar.V,et al (2015), ***"A Study to Evaluate and Price Rise: Effect on Common Man",*** Journal of Evolution of Medical and Dental Sciences , Vol. 4, Issue 30,pp 5172-5178