A Study On Perception Towards Inflation And Measures To Control It

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INTRODUCTION

Inflation is a global phenomenon and every country is facing an upsurge in inflation. Today, it is considered as an economic destructive weapon as it has hit most of the countries in the world. Worldwide, people are talking about Inflation as an economic concept as well as an economic indicator. At its most basic level, inflation is simply a rise in prices. It is a measure of price increases within a set of goods and services over a period of time. In other words, over time, as the cost of goods and services increases, the value of a currency is going to go down because you won't be able to purchase as much with that currency as you had purchased in the past i.e. last week, last month or pervious year. It is important to note that some amount of inflation is actually desirable in the economy because of its relationship with employment and economic growth. But too much inflation is not good for the economy. Rising inflation, an economic disease has disturbed the minds of governments, economists and public as they are feeling the punch of the inflation due to rise in price of all commodities. The rise in prices has made life miserable in India and other developing and poor countries. It is a heavy tax on people at large. The industries have been hit by inflation due to rising input cost which is putting pressure on their bottom-line. The government is also losing crores of rupees due to various fiscal measures adopted by it. Inflation is also affecting the economic growth process.

INFLATION RATE

It refers to annual change in Wholesale Price Index or Consumer Price Index.

OBJECTIVES

The present study was undertaken with the following objectives:

1) To find out the perception of people towards inflation.
2) To find out the reasons for inflation.
3) To study measures taken by the government to control inflation and to determine the effectiveness of these measures.
4) To find out the correlation between inflation and other economic indicators.
5) To find whether India has adopted precise method to calculate inflation.
6) To recommend suitable measures to control the inflation.

PERIOD OF THE STUDY

The period of the study was confined to January to October 2008.

METHODOLOGY

The information for the study had been collected from both primary and secondary sources. A primary research was conducted to collect information on all aspects of inflation by administering a questionnaire to people who were well versed with economics and inflation related issues. Data was also collected through emails and mailers. The researcher also interviewed businessmen, bankers and tax consultants to have first hand information about their

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perception towards inflation and problems faced by them due to inflation. The sampling method used in this case was random sampling method. The sample consisted of 150 respondents from Dharwad, Hubli, Gadag and Belguam. The study was descriptive and causal in nature. Data collected was analyzed by using data analysis tools such as Z test , correlation and percentage method.

ANALYSIS

Table 1: What Do You Think Is The Most Important Economic Problem India Is Facing Today?

Theme	No. of Respondents	% to Total
Inflation	89	59.4
Rupee Appreciation	02	1.4
Poverty	16	10.1
Unemployment	24	16
Oil Price Rise	02	1.4
Others (Corruption, etc)	17	11.6

The table-1 indicates that majority of the respondents felt that the most important economic problem this country is facing today is inflation , hence, we need appropriate measures to bring down inflation.

Table 2 : Awareness About Current Inflation Rate

Level of Inflation	No. of Respondents	% to Total
7.06 -7.15	9	6
7.16-7.25	4	2.7
7.26-7.35	7	4.7
7.36-7.45	2	1.3
7.46-7.55	13	8.7
7.55-7.65	13	8.7
7.66-7.75	4	2.7
7.76-7.85	87	58
7.86-7.95	11	7.3

The table -2 indicates the awareness level about the current inflation rate was high among respondents as the inflation rate was in the range of 7.76 to 7.85 during the study period.

Table 3 : Does Real Inflation Rate Differ From Reported Inflation Rate

Response	No. of Respondents	% to Total
Yes	128	89.51
No	2	1.4
Cannot say	13	9.1
Not available	7	

The table -3 suggests that most of the respondents believed that the method adopted by the government of India to calculate inflation is not scientific (as it is evident from the analysis).There is feeling among the respondents that real inflation is different from the reported inflation.

The table -4 indicates that 93% of the respondents were of the opinion that inflation is a threat to the Indian economy as low income people will be the most affected ones ,and it leads to rise in poverty. Whereas, less than 2% of the respondents were of the view that it is not a threat to the economy.

Table 4 : High Inflation Is A Threat To The Indian Economy

Response	No. of Respondents	% to Total
Yes	126	93.33
No	2	1.48
Cannot say	7	5.18
Not available	15	

Table 5: Dislike Inflation

Response	No. of Respondents	% to Total
Yes	87	68
No	24	18.75
Cannot say	17	13.28
Not available	22	

The table -5 indicates that 68% of the people disliked inflation as it lowered the consumer's purchasing power.

Table 6:

Response	No. of Respondents	% to Total
A: Demand Push	50	34.96
B: Cost Push	37	25.87
C: Import Push	20	13.99
D: Other	2	1.4
A,B	17	11.89
A,B,C	4	2.8
A,B,C,D	7	4.9
B,C	4	2.8
A,D	2	1.4
Not Available	7	-

The table -6 indicates that 35% of the respondents were of the view that inflation in India is demand push where as 26% were of the opinion that it is cost push.

Table 7: Investment During Inflationary Pressure

Response	No. of Respondents	% to Total
Real estate investment	22	32.84
Gold	8	11.94
Equities	22	32.84
Government securities	4	5.97
Bank deposit	5	7.46
MF	6	8.95
Not Available	83	-

The table -7 indicates that equal number (32.8%) of people would like to invest in Equities and Real estate during the time when the inflationary pressure is high.

As per the table 8,71% of the respondents were of the view that Inflationary shocks are incorporated in Pay Scale Revision in the range of 1-10%.

Table 8 : Inflationary Shocks Are Incorporated In Pay Scale Revision

Salary Adjustment to Inflation (%)	No. of Respondents	% to Total
1-5	52	43.33
6-10	33	27.5
More than 10	15	12.5
No Adjustment	20	16.67
Not Available	30	-

Table 9 : Government Does Not Have Magic Wand To Tackle Inflation

Response	No. of Respondents	% to Total
Yes	113	83.7
No	22	16.3
Cannot say	-	-
Not Available	15	-

The table -9 indicates that more than 80% of the respondents felt that the government doesn't have any short cut measures to control inflation. Substantially, a small chunk of respondents believed that the government could control inflation by adopting short cut measures.

Table 10 : Current Inflation Controlling Measures Are Adequate To Control Inflation

Response	No. of Respondents	% to Total
Yes	63	46.67
No	63	46.67
Cannot say	9	6.67
Not Available	15	

The table -10 exhibits that there is divided opinion among respondents with regard to measures undertaken by the government to control inflation. 47% of respondents believed that the measures adopted by the government are not adequate to control the skyrocketing inflation.

Table 11: Conventional Tools Of RBI Have Lost Their Efficacy To Control Inflation In The Economy

Respondents	No. of Respondents	% to Total
Yes	46	46
No	52	52
Cannot say	2	2
Not Available	50	

The table -11 revealed that 52% of the respondents believed that the measures adopted by the RBI are adequate to control inflation. 46% of the respondents are of the opinion that the measures adopted by the RBI are not adequate to control inflation. The table -12 indicates that the majority of the respondents (61%) were not aware of how inflation is being measured in India. Of the respondents who are aware of how inflation is being measured, most of them answered correctly. The table -13 reveals the respondents' perception with respect to change in inflation rate : 33.6% felt that the price would increase at a slower rate whereas 27% felt that the price would increase at the same rate and 23% felt that the price would increase more rapidly.

Table 12 : Awareness About Inflation Measurement Tool

Measurement Tool	No. of Respondents	% to Total
WPI	48	32
CPI	-	-
WPI & CPI	9	6
Others	2	1.33
Not Aware	91	60.67

Table 13 :What Is Your Opinion On Price Change In Coming Year?

Opinion on Price Change	No. of Respondents	% to Total
Price Will Increase More Rapidly	32	23.36
Price Will Increase At The Same Rate	37	27
Price Will Increase At Slower Rate	46	33.58
Price Will Stay About The Same	-	0
Price Will Fall	-	0
I Don't Know	22	16.06
Not Available	13	

Table 14: Per Capita Income And Inflation

Year	Per capita Income (Rs) X	Inflation Rate (%) Y	D x=X -x-	dx**2	dy=Y -y-	dy**2	dx*dy
2001 -02	12774	3.6	-10643.43	113282602.2	-1.52857	2.3365306	16269.243
2002 -03	19040	3.4	-4377.43	19161893.4	-1.72857	2.9879592	7566.70043
2003 -04	20989	5.5	-2428.43	5897272.265	0.371429	0.1379592	-901.988285
2004 -05	23222	6.5	-195.43	38192.8849	1.371429	1.8808163	-268.018286
2005 -06	25956	4.4	2538.57	6444337.645	-0.72857	0.5308163	-1849.52957
2006 -07	29642	5.4	6224.57	38745271.68	0.271429	0.0736735	1689.52614
2007 -08	32299	7.1	8881.57	78882285.66	1.971429	3.8865306	17509.38085
Summation	**163922**	**35.9**	**-0.01**	**262451855.7**	**-3E -09**	**11.8 34286**	**40015.31429**
Mean	**23417.42857**	**5.128571429**	**-0.00142857**	**37493122.24**	**-4.3E -10**	**1.6906122**	
		Sigma x	**6123.162765**				
		Sigma y	**1.300235457**				
		r=	**0.718009819**				

From the above table-14, it can be seen that per capita Income and Inflation have very strong positive co-relationship. In other words, they are directly proportional- with increase in per capita income, there is also increase in rate of inflation.

Table 15: GDP Growth Rate and Inflation

Year	GDP Growth Rate X	Inflation Rate (%) Y	dx=X-x-	dx**2	dy=Y-y-	Dy**2	dx*dy
2001-02	5.4	3.6	-1.35142857	1.82635918	-1.528571	2.336531	2.065755
2002-03	3.84	3.4	-2.91142857	8.476416318	-1.728571	2.987959	5.032612
2003-04	8.52	5.5	1.76857143	3.127844903	0.3714286	0.137959	0.656898
2004-05	7.45	6.5	0.69857143	0.488002043	1.3714286	1.880816	0.958041
2005-06	9.4	4.4	2.64857143	7.01493062	-0.728571	0.530816	-1.92967
2006-07	9.02	5.4	2.26857143	5.146416333	0.2714286	0.073673	0.615755
2007-08	9.03	7.1	2.27857143	5.191887762	1.9714286	3.886531	4.492041
Summation	**47.26**	**35.9**	**5.40000001**	**31.27185716**	**2E-07**	**11.83429**	**11.89143**
Mean	**6.751428571**	**5.12857143**	**0.771428573**	**4.467408165**	**2.857E-08**	**1.690612**	
			Sigma x	**1.967817604**			
			Sigma y	**1.300235457**			
			r =	**0.663940475**			

The table -15 indicates that GDP growth and Inflation have a positive co-relationship. In other words, they are directly proportional- with increase in GDP growth, there is also increase in rate of inflation.

Table - 16 : Crude Oil Prices And Inflation

Year	Crude Oil Prices($) X	Inflation Rate (%) Y	dx=X-x-	dx**2	dy=Y-y-	dy**2	dx*dy
2001-02	23.31	3.6	-20.9928571	440.7	-1.52857143	2.336531	32.08908
2002-03	26.66	3.4	-17.6428571	311.2704	-1.72857143	2.987959	30.49694
2003-04	27.96	5.5	-16.3428571	267.089	0.37142857	0.137959	-6.0702
2004-05	39.22	6.5	-5.0828571	25.83544	1.37142857	1.880816	-6.97078
2005-06	55.36	4.4	11.0571429	122.2604	-0.72857143	0.530816	-8.05592
2006-07	62.46	5.4	18.1571429	329.6818	0.27142857	0.073673	4.928367
2007-08	98.46	7.1	54.1571429	2932.996	1.97142857	3.886531	106.7669
Summation	**310.12**	**35.9**	**23.3100003**	**4429.833**	**-1E-08**	**11.83429**	**153.1844**
mean	**44.30285714**	**5.128571429**	**3.330000043**	**632.8333**	**-1.42857E-09**	**1.690612**	
		Sigmax	**24.9348034**				
		Sigmay	**1.300235457**				
		r=	**0.674976461**				

The table -16 indicates that crude oil prices and Inflation have a positive co-relationship. In other words, they are directly proportional- with increase in crude oil prices, there is also an increase in rate of inflation. This relationship was found to be moderate.

From the table-17, it can be seen that oil Import Dependence and Inflation has a very strong positive co-relationship. In other words, they are directly proportional - with increase in oil Import, there is also increase in rate of inflation.

Ho: There is no difference of perception that the price rise will decrease consumption demand among non-academicians and academicians.. (p1=p2) (Table 18)

H: There is difference of perception that the price rise will decreases consumption demand among non-academicians and academicians. (Table 18)

At 95% confidence level, null hypothesis is accepted. i.e. there is no difference of perception that the price rise will decrease consumption demand among non-academicians and academicians.

Table 17 : Import Dependence and Inflation

Year	Import Dependence X	Inflation Rate (%) Y	dx=X-x-	dx**2	dy=Y-y-	dy**2	dx*dy
2001-02	69.2	3.6	7.6142857	57.97734672	-1.5285714	2.3365305	-11.638979
2002-03	69.5	3.4	7.9142857	62.63591814	-1.7285714	2.9879591	-13.680408
2003-04	70.6	5.5	9.0142857	81.25734668	0.3714286	0.1379592	3.3481635
2004-05	71.4	6.5	9.8142857	96.3202038	1.3714286	1.8808164	13.459592
2005-06	72.8	4.4	11.2142857	125.7602038	-0.7285714	0.5308163	-8.1704078
2006-07	72.7	5.4	11.1142857	123.5273466	0.2714286	0.0736735	3.016735
2007-08	74.1	7.1	12.5142857	156.6073466	1.9714286	3.8865307	24.671021
Summation	**431.1**	**35.9**	**69.1999999**	**704.0857123**	**2E-07**	**11.834286**	**11.005716**
Mean	**61.58571429**	**5.12857143**	**9.885714271**	**100.5836732**	**2.8571E-08**	**1.6906122**	
		Sigma x	**1.69006702**				
		Sigma y	**1.300235457**				
		r=	**0.715474669**				

Table 18 : Perception "The Price Rise Will Decrease Consumption Demand"

No. of Respondents	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Non –Academicians - 37	14	6	0	12	5
Academicians -113	55	15	0	23	20

Table 19: Perception About "Efficacy of Current Inflation Control Measures Taken By RBI & GOI Ineffective"

No. Of respondents	Very effective	Effective	Not effective	Absolutely not effective
Non–academicians- 37	6	3	20	6
Academicians-113	12	13	61	27

Ho: There is no difference of perception that with respect to efficacy of current inflation control measures taken by RBI & GOI, the measures are ineffective among non-academicians and academicians.

H1: There is difference of perception that with respect to efficacy of current inflation control measures taken by RBI & GOI, the measures are ineffective among non-academicians and academicians.

At 95% confidence level, null hypothesis is accepted. i.e There is no difference of perception with respect to efficacy of current inflation control measures taken by RBI & GOI, the measures are ineffective among non-academicians and academicians.

CONCLUSIONS AND SUGGESTIONS

1) According to Mr. Samuel A., Chief Executive of Price Waterhouse Coopers International, a critical issue the world is now facing is controlling high inflation rate. The majority of the respondents felt that the most important economic problem India is facing today is inflation. 93% of the respondents are of the opinion that inflation is a threat to the Indian economy. A Mckinsey Global survey states that as many as 64% of the Indian executives expect the rate of inflation to rise in the coming six months. The respondents had perceptions with respect to change in inflation rate in coming days as 33.6% felt that the prices would increase at a slower rate, whereas 27% felt that the prices would increase at the same rate and 23% felt that the prices would increase more rapidly. The reasons quoted by the respondents for rise in inflation in India include the following:

a) Increase in money supply. (rose by 20.7 % above the targeted 17.5%) **b)** Increase in International oil prices.
c) Natural Disasters flood, drought, cyclone. **d)** Increase in metal prices. **e)** Increase in cement prices. **f)** Increase in

food grain prices. **g)** Faulty economic policy. **h)** Wage / salary hike (raising income). **i)** Union Budget 2008-09. **j)** Hoarding and Speculative activities. **k)** Black marketing. **l)** Leakages in public distribution system. **m)** Aggressive export promotion policy. **n)** Rupee appreciation. **o)** LPG policy adopted by GOI. **p)** Cartelization in cement & Steel industries. **q)** Commodities transaction tax. **r)** Sub prime crisis. **s)** Diversion of food grains towards bio-fuel. **t)** Population growth and **u)** Rising energy prices. According to NRI industrialist Lord Swaraj Paul, faster growth is fueling inflation in India.

IN THE LIGHT OF THE ABOVE FINDINGS, THE FOLLOWING SUGGESTIONS ARE MADE WHICH MAY HELP THE GOVERNMENT TO MINIMIZE THE IMPACT OF INFLATION BUT MAY ALSO HELP IN CONTROLLING RISING INFLATION

a) The Government should think about introducing Anti hoarding Act. **b)** RBI should frame new guidelines for lending margin for food and non food industry. **c)** Finance Ministry can consider the option of Differential corporate rate structure for food & non food industry. **d)** Steel, cement, etc., should be brought under Essential Commodities Act.

e) Encourage Cement & Steel manufacturers to increase their capacities by offering fiscal incentives. **f)** Railway services can be integrated with traders of essential commodities to cut the cost.

2) Demand and supply mismatch is one of the major factors for high inflation in India. There is need to have proper demand and supply management mechanism by controlling black marketing and hoarding, which is one the major reasons for shortage of essential commodities in the market.

3) The study reveals that another root cause for inflation is mismatch between demand and supply of food grains. The low yield of food grain is one of the reasons for short supply of food grain in the market. The reasons quoted by respondents for the low yield of food grain are worth to note. Few of them are:

a) Poor agriculture infrastructure. **b)** Preference for Commercial crop cultivation. **c)** use of low quality fertilizer. **d)** Shortage of labour. **e)** Failure of agriculture crop. **f)** Natural calamities. **g)** Food grain waste. **h)** Faulty and biased agriculture policy. **i)** Converting Fertile Agriculture land into SEZs, residential or commercial assets and industrial parks. **j)** Poor attention to land preparation and testing soil, over emphasis on nitrogen, improper and inefficient use of water, non standard and indifferent quality of seeds and ineffective control of weeds and pets. **k)** Global warming.

IN THE LIGHT OF THE ABOVE FINDINGS, THE FOLLOWING SUGGESTIONS WERE MADE TO SOLVE LOW AGRICULTURE OUTPUT PROBLEM

a) The Government should take up projects on a priority basis for developing agriculture infrastructure.
b) The benefits of the organic farming should be communicated to farmers through awareness campaign programmes.
c) The government should seriously think about replacing fertilizer subsidy & support price system with interest free loan which will neutralize the impact.
d) Setting of Producers' cooperatives in the line of Amul Model should be another option for improving agriculture productivity.
e) Large scale farming and drip irrigation should be encouraged in India.
f) The need of the hour is that government should, on war footing, implement pending irrigation project and develop new irrigation project.
g) Financial Literacy and Credit Counseling Centers in rural areas proposed by the RBI should be set up at the earliest.
h) Substantial investment has to be made to build up supply chain infrastructure in terms of handling, storage and transportation.
i) Diversion of agriculture land to real estate commercial or industrial purposes should be prevented.
j) Managerial approach to agriculture value chain, mainstreaming agriculture through non exploitative networks, public private partnership, supply chain management and credit, use of biotech and InfoTech, organic practices and contract farming as the way forward.

k) Adopt system of rice intensification developed by father Henre De Laulanic, which will increase per hectare rice yield.

4) Another major reason quoted by the respondents for inflation in India is raising fuel prices. Arjun N Murti, an analyst with the Goldman Sachs Group had predicted that the prices of crude oil may shoot up to between \$150 and \$200 per barrel in the next 2 years. There is an apprehension that the introduction of Tata Nano car in the market may push up the demand for fuel in coming years. The need of the hour is find out the route cause for the price rise, which may help in mitigating the problem. Some of the route causes for crude oil price rise in international markets are: growth in world oil demand, declining production facilities, geopolitical tension, decline in value of dollar, speculation in global oil market and cartelization among the oil producing countries. In the light of the above findings, the following suggestions were made:

a) The concept of car pooling is gaining popularity in US and UK as the government is encouraging the concept and it is discouraging use of private cars during peak hours by imposing taxes.

b) Car owners in US have taken to public transport to save on petrol, airlines are even cutting down on the food and water they serve on board to lighten their planes and consequently their fuel burn. In Moscow and in other major cities of the world, people living in the suburbs use private cars and vehicles only up to the nearest metro station. This is not happening in Delhi and other Metros where metro rail facility has been developed. An efficient and reliable public transport system will entice more and more people to opt for it. Hence, the need of the hour is to improve public transport system in the country.

c) We should ramp up our waterways. Recently, Mudra Port has been developed and Maruti Udyog Ltd. Has been shipping maruti cars from Mudar port to outlets in Kerala instead of road transport. Other Coastal ports should be developed to save fuel.

d) There is a need for developing renewable sources of energy including nuclear energy. Efforts should be made to replace petrol with wind energy, solar power etc. Energy conservation should also receive adequate attention. The Government should organize Public awareness programme to conserve energy. Commercial exploitation of alternative sources of energy by stepping up research in solar and wind energy from biomass and disposable waste can be a another option . Producing bio fuel through Jatropha, which is not cultivated on arable land could also be considered in India. The Government has to boost domestic oil exploration activities, poor implementation of electricity generation projects have increased the pressure on petroleum fuels. Incandescent bulbs in the 50 millions homes of India, which have electricity should be replaced by either Fluorescent or LEO lamps.

e) Crude oil prices are soaring. It is necessary that windfall gains be recovered from private oil producers like Carins,Reliance, Essar etc, extracting oil and gas in India by putting tax on windfall gains. The investigation carried by US Senate Panel revealed that speculative trading in the oil future market was the principle reason why spot oil prices were shooting up. The speculative trading in future and forward market may also be the reason for inflation in India. Researchers are of the view that the ban imposed by government of India on future trading in rice, wheat, etc., is correct.

5) Government has implemented the sixth pay commission report. In this regard it is suggested that the government should pay its employees in a phased manner and deposit part of the estimated arrears of ₹18000 crores in their provident fund to minimize the impact on inflation.

6) The rising middle class population in the country is stated to be one of the reasons for inflation. In this regard, it is suggested that the RBI should instruct commercial banks to increase lending rates on personal and housing loan, which will help in containing consumption expenditure and also investment expenditure thereby helping in reducing inflation.

7) In a country where prices are still being influenced by the government policies, there is a greater need to consider an index that deflects price movement at retail level. WPI essentially measures price changes from the traders' side, and not from the consumption side. Further, price changes in the service sector are not duly captured in WPI which forms as essential part of the consumption of everyone in the country (Health, transport, telecommunication, education, etc.). Few of the commodities included in the WPI are not significant but continue to be considered while measuring inflation eg. Coarse grain used for making livestock feed. CPI captures retail prices which includes retail margin, taxation and VAT. In this regard, it is suggested that the government should use CPI for measuring inflation which is widely used by most of the developed countries.

8) There is divided opinion among respondents with regard to measures undertaken by the government to control inflation. 47% of the respondents believe that the measures adopted by the government are not adequate to control skyrocketing inflation. 52% of the respondent do believes that the measures adopted by the RBI are adequate to control inflation. 46% of the respondents believes that the measures adopted by the RBI are not adequate to control inflation. It clearly suggested that conventional tools available with RBI have lost their efficacy. Inflation targeting says that whenever price growth exceeds a target level, interest rate should be raised. Today, inflation targeting has failed to give results. Raising interest rate doesn't have much impact on the international price of fuel or grain. The analysis of the various measures undertaken by the government and RBI to control inflation has suggested that the hike in CRR by 25 basis points has absorbed ₹ 9000 crores from the monetary system. The various duty cuts announced by government of India has not helped in controlling inflation but has resulted into an estimated loss of ₹ 22600 crores to the exchequer. The ban on future trading in chana, soya oil, rubber, potato, etc., has not prevented rise in prices of these commodities but in turn, Commodity Exchanges are losing ₹ 600 crores a day on account of this ban. The various measures announced by the government of India to control inflation does not prevent the Indian stock market from the collapse as the benchmark index - Sensex has fallen a number times in recent times. The price holding mechanism adopted by cement and steel companies on account of intervention of government is going to hit bottom line of these industries. The problem may become worse due to recent hike in fuel prices by the government. Price control measures may send negative signals. In China, these measures proved damaging to the economic growth. Price control may lead to hoarding and deteriorating quality, to check it, new and additional mechanism has to be developed. The various measures relating to export business such as export ban, increase in custom and import duty, withdrawal of export duty benefits etc has made exporters to suffer losses. Price control measures may sent negative signals. In China, these measures proved damaging to economic growth. Price control leads to hoarding and deteriorating quality. To check it, new and additional mechanisms have to be developed. This is what is presently happening in India. The Railway ministry is planning to prevent private traders from using railway racks. The traders have to fall back on road transport, which is both expensive and polluting. Higher transportation cost will push up open market prices higher and hurt consumers.

To conclude, higher rate of inflation can be very damaging for the economic system of any country. Hence, there should be a proper mechanism to measure and control it.

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