STUDY MMATARIALS FOR BA (HONS) ECONOMICS

PART – 1

PAPER – 2

TOPIC – METHOD FOR CONTROL INFLATION

## INTRODUCTION

For any economy, inflation is a complex phenomena. While moderate inflation is usually good for an economy, if it goes beyond it, then it can cause a disastrous situation for the economy. In this article, we will look at the fiscal policy and monetary measures to control inflation that the Government undertakes.

Some of the important measures to control inflation are as follows: 1. Monetary Measures 2. Fiscal Measures 3. Other Measures.

1- **Monetary Measures:-** Monetary measures aim at reducing money incomes.

   A- Credit Control:- One of the important monetary measures is monetary policy. The central bank of the country adopts a number of methods to control the quantity and quality of credit. For this purpose, it raises the bank rates, sells securities in the open market, raises the reserve ratio, and adopts a number of selective credit control measures, such as raising margin requirements and regulating consumer credit. Monetary policy may not be effective in controlling inflation, if inflation is due to cost-push factors. Monetary policy can only be helpful in controlling inflation due to demand-pull factors.

   B- Demonetization of Money: - one of the monetary measures is to demonetise currency of higher denominations. Such a measures is usually adopted when there is abundance of black money in the country.

   C- Issue of New Currency:-The most extreme monetary measure is the issue of new currency in place of the old currency. Under this system, one new note is exchanged for a number of notes of the old currency. The value of bank deposits is also fixed accordingly. Such a measure is adopted when there is an excessive issue of notes and there is hyperinflation in the country. It is a very effective measure. But is inequitable for its hurts the small depositors the most.

2- **Fiscal Policy: -** Monetary policy alone is incapable of controlling inflation. It should, therefore, be supplemented by fiscal measures. Fiscal measures are highly effective for controlling government expenditure, personal consumption expenditure, and private and public investment.

   A- Reduction in Unnecessary Expenditure: -The government should reduce unnecessary expenditure on non-development activities in order to curb inflation. This will also put a check on private expenditure which is dependent upon government demand for goods and services. But it is not easy to cut government expenditure. Though this measure is always welcome but it becomes difficult to distinguish between essential and non-essential expenditure. Therefore, this measure should be supplemented by taxation.

   B- Increases in Tax: - To cut personal consumption expenditure, the rates of personal, corporate and commodity taxes should be raised and even new taxes should be levied, but the rates of taxes should not be so high as to discourage saving, investment and production. Rather, the tax system should provide larger incentives to those who save, invest and produce more.

   C- Increase in saving: - Another measure is to increase savings on the part of the people. This will tend to reduce disposable income with the people, and hence personal consumption expenditure. But due to the rising cost of living, people are not in a position to save much voluntarily.

   D- Surplus Budget: - An important measure is to adopt anti-inflationary budgetary policy. For this purpose, the government should give up deficit financing and instead have surplus budgets. It means collecting more in revenues and spending less.

   E- Public Debt: - At the same time, it should stop repayment of public debt and postpone it to some future date till inflationary pressures are controlled within the economy. Instead, the government should borrow more to reduce money supply with the public.

## Other measures

1- Increase production
2- Rational wage

3- Price control
4- Rationing