**Inflation:**

Inflation is a situation when too much money is chasing too few goods and services in an economy. Hence, an imbalance exists between the GDP and the total money supply.

According to Keynes, inflation is an imbalance between the aggregate demand and aggregate supply of goods and services. If the aggregate demand is more than the aggregate supply, prices rise, leading to inflation.

**Causes of inflation:**

If the demand for a commodity exceeds its supply, then the excess demand increases the price of the commodity. Also, if the price of the factors of production increases, the price of the commodity increases too. The common causes that led to inflation are:

### Primary Causes

In an economy, when the demand for a commodity exceeds its supply, then the excess demand pushes the price up. On the other hand, when the factor prices increase, the cost of production rises too. This leads to an increase in the price level as well.

### Increase in Public Expenditure

In any modern economy, public expenditure is an important element of the total spending. It is also an important determinant of aggregate demand. Usually, in lesser developed economies, the Govt. spending increases which invariably creates inflationary pressure on the economy.

### (c)Deficit Financing of Government Spending:

### There are times when the spending of Government increases beyond what taxation can finance. Therefore, in order to incur the extra expenditure, the Government resorts to deficit financing. Such financing increase the total volume of money supply in the economy and thereby inflation.

### (d)Increase in money supply:

### An increase in the money supply leads to an increase in money income. The increase in money income raises the monetary demand for goods and services and exceed the aggregate supply of the economy. As a result, inflation prevails in the economy.

### (e) Population Growth:

### Population growth is also another cause of inflation. As the population grows; it increases the total demand in the market. Further, excessive demand creates inflation.

### (f)Hoarding:

### Hoarders are people who stockpile commodities and do not release them to the market. Therefore, there is an artificially created demand excess in the economy. This also leads to inflation.

### (g)Genuine Shortage:

### It is possible that at certain times, the factors of production are short in supply. This affects production. Therefore, supply is less than the demand, leading to an increase in prices and inflation.

### (h)Exports:

### In an economy, the total production must fulfill the domestic as well as foreign demand. If it fails to meet these demands, then exports create inflation in the domestic economy.

### (I)Trade Unions:

### Trade union works in favor of the employees. As the prices increase, these unions demand an increase in wages for workers. This invariably increases the cost of production and leads to a further increase in prices.

### (j) Tax Reduction:

### Sometimes, Governments reduce taxes to gain popularity among people. The people are happy because they have more money in their hands. However, if the rate of production does not increase with a corresponding rate, then the excess cash in hand leads to inflation.

### (k) Non-economic Reasons:

### There are several non-economic factors which can cause inflation and raise the prices of the commodities.

### For example, if there is a flood, then crops are destroyed. This reduces the supply of agricultural products leading to an increase in the price level of the agricultural products.

Investment in Gold, Real estate, stocks, mutual funds, and other assets are some of the ways to deal with Inflation.

**Control of Inflation:**

The measures against inflation can be divided into:

(a) Monetary Policy

(b) Fiscal policy

(c) Direct Policy

(d) Other measures.

1. Monetary policy: Monetary policy is adopted by the monetary authority or the central bank of a country to influence the supply of money. Various monetary measures to control inflation are: Increasing Bank Rate, Sale of Government Securities,Higher Reserve Ratio and Selective Credit Control,which include Consumer Credit Control and Higher Margin Requirement.
2. Fiscal Policy: Fiscal Policy is the budgetary policy of the government relating to taxes, public expenditure and public borrowing and deficit financing. The major anti-inflationary fiscal measures include: increase the existing Tax Rate to take away the buying power from the consumer goods market, Reduction in Public Expenditure to control the total supply of money, through Public Borrowing the government takes away from public the excess purchasing power, and follow the minimum deficit financing system to reduce the total money supply of circulation.
3. Direct Control: Direct controls refer to the regulatory measures undertaken with an objective of converting an open inflation into a suppressed one. Direct control on prices and rationing of scarce goods are the two important regulatory measures.
4. Other Measures: Some of other measures also suggested adopting to control Inflation. Expansion of output to increase the aggregate supply of commodities, formulation of proper wage policy, Encouragement to saving to reduce the purchasing power of people, Population control to reduce the total demand for commodities. All these measures are anti- inflationary measures.