

PRICE STABILITY AND MONETARY EXPANSION : AN EMPIRICAL STUDY

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THE objective of this paper is to explain and quantify the phenomenon of the rising price level and to indicate the rate of expansion in money supply given the rates of growth in agriculture and industrial production and the velocity of circulation of money supply such that price-stability is maintained. The analysis has been done on long-term basis so that a deeper insight may be had of the problem of rising prices.

Since the object of the study is to explain, account and estimate the changes in prices, a united measure representative of the entire gamut of output would be a realistic proxy rather than a large number of industrial commodity prices considered separately. The wholesale price index released by the Ministry of Industrial Development satisfies this criterion. The present study, therefore, uses the index of wholesale prices as a dependent variable, a proxy for the general price level.

The independent variables :

A number of independent variables have been considered in the present study on the basis of their possible or expected impact or influence on the general price level. The variables considered are :

1. *Industrial Production*

Industrial production contributes about 15 per cent to the gross national product (of which the registered sector contributes 9 per cent); almost the whole of which is monetised and marketed. The industrial goods (manufactures, machinery and transport equipment) account for approximately 37 per cent of the total weights used in constructing the general index of wholesale prices. Still more, the income elasticity of industrial goods being greater than one, as development takes place, the weightage of industrial goods will increase significantly in future. It is, therefore, logical to expect that