

Inflation in India : An Analytical Survey

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I. Introduction

Inflation is a major issue in macroeconomics. It is also one of the most controversial subjects in economics. The debate between the monetarists and the non-monetarists on the control of inflation has a long history, and as of now there does not appear to be any consensus emerging on this. The basic contention of the monetarists is that inflation is essentially a monetary phenomenon : the result of excess supply of money over demand. The non-monetarists argue that price rise is a much more complex phenomenon and that it can not be controlled by a mere regulation of money supply growth rate.

This paper aims at a survey of empirical works on inflation in India in the post-independence period. It has three aims: first, to analyse the theoretical foundations of empirical works on inflation in India; second, to analyse empirical evidence on inflation in India; and finally, to draw some policy implications based on the empirical findings. To begin with, we shall review the basic theoretical issues related to inflation and the debates there on. This would provide an analytical framework to evaluate empirical literature on India. Following this, we shall analyse broad trends and characteristics of macro price behaviour in India in the post-independence period in section III. In section IV, we shall review the broad theoretical framework of empirical studies on India. The econometric properties of studies on inflation in India are analysed in section V. Broad conclusions and unexplored areas of research are discussed in section VI.

This survey is aimed as an analytical review of empirical studies on inflation in India. We shall confine to basic theoretical issues and econometric properties of empirical studies. The literature on institutional behaviour and pure policy analysis on inflation are excluded in this survey. In choosing empirical literature also we shall confine essentially on econometric studies and exclude descriptive analysis of trend and behaviour of prices. Finally, we shall also exclude descriptive analyses of monetary and fiscal policy in India.

II. Basic Theoretical Models

In traditional literature, there are two types of inflation