What is Inflation? and WPI and CPI

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❖ MEANING OF INFLATION

- Inflation refers to a rise in general prices level
- a corresponding fall in the value of money over a period of time.
- In which, value of money refers to its purchasing power which depends on price level.
- Value of money and price level are inversely related.

❖ DEFINITIONS

- According to **Crowther,**

  "Inflation is a state in which the value of money is falling i.e. prices are rising."

- According to **Samuelson,**

  "Inflation occures when general level of prices and cost is rising."

- According to **Ackley,**

  "inflation is a persistent and appreciable rise in the general level or average prices."

WHAT IS WPI? IN INDIA

- Wholesale Price Index (WPI) measures the average change in the prices of commodities for bulk sale at the level of early stage of transactions

- The index basket of the WPI covers commodities falling under the three major groups namely

1. Primary Articles
2. Fuel and Power and
3. Manufactured products.

- (The index basket of the present 2011-12 series has a total of **697** items including **117** items for Primary Articles, **16** items for Fuel & Power and **564** items for Manufactured Products.)

What is WPI? In India

- The prices tracked are ex- factory price for manufactured products, mandi price for agricultural commodities and ex-mines prices for minerals.
- Weights given to each commodity covered in the WPI basket is based on the value of production adjusted for net imports.
- WPI basket does not cover services.

CALCULATION OF INFLATION RATE

$$P(t) = \frac{\Delta P(t)}{P(1-t)} \qquad \text{or rate of inflation} = \frac{WPI_T - WPI_{T-1}}{WPI_{T-1}}$$

where, t = current period

$(1-t)$ = base rate of year

p = price rate

CALCULATION OF INFLATION RATE

- **WPI**- wholesale price index

- Eg:- WPI=257 in 1990-91
  & 281 in 1991-92

- Inflation rate in 1991-92

$$\frac{281-257}{257} \times 100$$

$$= \frac{2400}{257}$$

$$= 9.3\%$$

CPI - Consumer Price Index

- CPI as it is commonly called is an index measuring retail inflation in the economy
- Calculated by collecting the change in prices of most common goods and services used by consumers, called market basket,
- CPI is calculated for a fixed list of items including food, housing, apparel, transportation, electronics, medical care, education, etc.

- The Consumer Price Index (CPI) is designed to measure the changes over time in general level of retail prices of selected goods and services that households purchase for the purpose of consumption.

- The base year of the new CPI series is 2024=100.

CPI 2024 series covers

- 1,465 rural markets

- 1,395 urban markets across 434 towns.

- In addition, 12 online markets are covered across 12 towns having a population of more than 25 lakh

CPI - Consumer Price Index

- The price data is collected periodically,
- the CPI is used to calculate the inflation levels in an economy.
- This can be further used to compute the cost of living.
- This also provides insights as to how much a consumer can spend to be on par with the price change.

HOW DOES CONSUMER PRICE INDEX HELP?

- The Reserve Bank of India and other statistical agencies study
- CPI so as to understand the price change of various commodities and keep a tab on inflation.
- CPI is also a helpful pointer in understanding the real value of wages, salaries and pensions
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- To understand the purchasing power of a country's currency; and regulating prices.

HOW DOES CONSUMER PRICE INDEX HELP

- In India, there are four consumer price index numbers, which are calculated

- CPI for Industrial Workers (IW)

- CPI for Agricultural Labourers (AL)

- CPI for Rural Labourers (RL) and

- CPI for Urban Non-Manual Employees (UNME).

- The CPI is calculated with reference to a base year, which is used as a benchmark. The price change pertains to that year
- CPI = (Cost of basket divided by Cost of basket in the base year) multiplied by 100

- $$\text{CPI} = \frac{\text{cost of market basket in given year}}{\text{cost of market basket in base year}} \times 100$$

https://www.youtube.com/watch?v=jYp2txEz8Kc