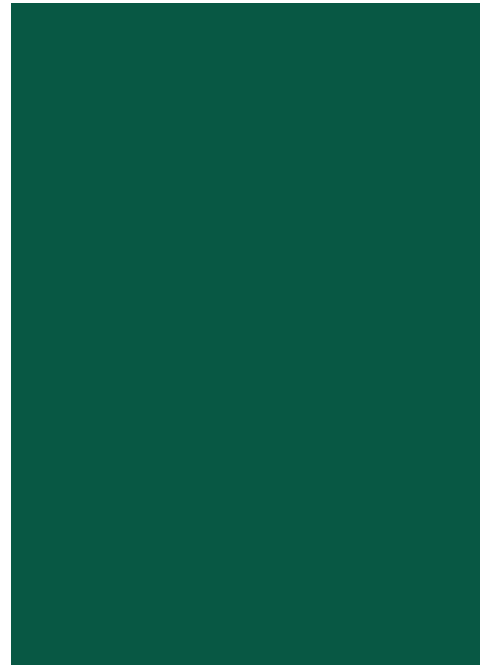




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Demand factors: It happens when the aggregate demand exceeds the aggregate supply. It is a situation where too much money chases few goods. Increased money supply due to loose monetary policy and low interest rates results in inflation. Fiscal financing by government by way of printing more money also results in inflation.

Supply factors: It happens when the aggregate supply is not able to meet the aggregate demand. It is a cause of inflation in an agrarian country like India where food is a major component of CPI. Further, because of rising wages & cost of capital also impacts the production cost of goods & services leading to rise in prices.

Domestic factors: In addition to demand & supply, the quantum of spending by government in the economy directly affects inflation. Further, higher employment levels, taxation rates, etc. also contribute to inflation. Issues like hoarding, blockages, etc. also positively impact inflation.

External factors: There are external factors like currency exchange rates, trade barriers, etc. which affect the price of imported goods. Commodity prices in international markets like crude oil, gold, etc. also has impact on domestic inflation.

How does it affect us?

Inflation affects us directly and indirectly and has both positive and negative impact on us. While we may not list every type of impact, here are a few ways in which we may get affected as investors

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Raghuram Rajan optimistic about passage of GST

Optimistic about the passage of long pending GST bill in the Parliament, Reserve Bank of India Governor Raghuram Rajan has told American investors that continued focus on fiscal consolidation and inflation will mean they will reach their targeted goal. Rajan said RBI's continued focus on fiscal consolidation and inflation will mean that they will reach their targeted goals, according to a USIBC media statement. Another priority is to clean up banks and their non-performing assets, he said. Intention is to give banks more powers to allow for greater recovery of money and give relevant stakeholders an active role in the resolution process.

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