CHAPTER – VI

MAJORFINDINGS, CONCLUSION, POLICY IMPLICATIONS

6.1 Major Findings

Looking to the econometric techniques used and the results derived. It can be inferred based on that INFL in India is highly influenced by the growth rate of GDP along with Lagged value of inflation growth rate based on WPI.

VAR estimates that there is a weak association with the changes in money supply with the changes in WPI inflation. The exogenous factor are more responsible to raise the inflation than the endogenous one. There is a direction of relationship between variables to find out the results by using the Granger causality test. Impulse response function and error variance decomposition shows that the strength of these relations remains weak. Unidirectional causalities have been found from WPI inflation to M3, WPI inflation and Interest rate, M1 to GDP at MP, V3 to M3, and V3 to Interest rate and V1 to GDP at MP. Bi-directional causalities have been found from V1 to WPI inflation and WPI inflation to V1 as well with V3 to WPI inflation and WPI inflation to V3. Moreover bi-directional causality has also been found from V1 to V3 and V3 to V1. These results are well in accordance with the monetary theoretical foundation. The shock of GDP at MP has a positive impact and that of other has negative. The forecasts of WPI inflation steps and the comparisons of forecasted values with the other values, which provides a good framework for forecasting WPI in India. The model of VAR is appropriate to calculate and estimate the variables for forecasting the inflation in India.

6.2 Conclusion

The paper is considered that if there is any relationship between monetary components and inflation due to some reasons for modifying the current mode of policy analysis. The evidence between 1970 to 2016 shows there is no direct relationship between money supply and prices. In the consequence the marginal declines in money supply don’t specify to reduce in the inflation rate. Monetary policy has a lag effect and that there is a time lag between the policy

announcement and the economy. In the quantity theory of money predictions that there will be a long-run proportionate of the price level for the exogenous increase in the nominal money stock. The policy makers don't set the money growth rates exogenously for the quantity theory of empirical evidence. In the context of India the MV=PT and P =F (M) does not hold the theory of Friedman. The velocity of money and total output are to be constant in this theory in the short period of time for the functional relation of prices and money stock. The problem of measurement in the monetary aggregates and estimation in the procedure of policy formulation with exclude of money in the economy. Interest rate is the sole responsibility to influence the inflation but actually it is unobserved the natural interest rate in the Indian context. In the business cycle form both M and V are rise while in the recession there is fall, there is a inverse relationship between them. The theory is applicable in the full employment countries. In Indian context any increase in the money supply is appropriate for the fiscal and other policy measures, for the productivity activities, utilizing existing capacities, further expansion of resources, and the augmenting the supply side. This is the fact that, larger money supply don't cause inflation and reduce money supply don't cause inflation. As Friedman said that a counter revolution never restores the initial situation. It is the right time to go to the deep root study of the problem and solve at any point of view. It is highly required the projects management, increase the domestic productions, new generations reforms and augmenting the supply of goods and services. The inflation of India is increasing not only for money supply but also severe for the structural factors as like flood, bad monsoon, high crude oil prices, huge expenditure in defence sector, black money trade policy etc. Which are not taken in to account of this study. The revenue deficit is reduced further and further. Policies must be in the place of "crowding-in effect" of the fiscal deficit is larger than the "crowding- out" effect. Whatever is the effect to any inflation whether it is long-run and short-run is need to be re-consider.

6.3 Policy Implication

There is need a good policy to reduce the inflation through a proper committee set by the Govt. for periodically monitoring, matching the money supply of RBI at various level.

- Balance between aggregate demand and aggregate supply when the inflation situation is occurs in the economy.
- Artificial scarcity is created by the black marketeers and hoarders which has to be controlled.
- At any cost to eliminate the corruption and nepotism at various level.
- There is a direct physical controls of monetary policy.

6.4 Limitations of the study and Future study

The study is based on the inflation and money supply and inflation in India in the year from 1970 to 2016 as taken as short period, so it cannot rely the right result. Only taken the monetary components which don’t influence the inflation. So it is a big gap between this studies. We have specially wants to study the money relation to inflation is justifying or not. I will further take this matter in near future.