PREFACE

Inflation has always been a highly debated phenomenon in economics. Many economists, businessmen, and politicians believe that a low level of inflation level keeps businesses profitable. But, some others argue that inflation is a net drag on the economy, because rising prices make savings harder, driving individuals to engage in riskier investment strategies to increase or even maintain their wealth. Inflation is again a function of a host of macroeconomic factors that determines the inflation rate in the long-run.

Many earlier studies have sought to find out the causes of inflation in India along with a comparative assessment of the inflation indicators in India. Thus, the main purpose of this research study is to analyze the present inflation indicators, namely, the Wholesale Price Index (WPI) and the Consumer Price Indices (CPIs), as well as to identify the gap between them. Besides the inflation indicators, another vital area that this research work seeks to analyze is the major macroeconomic determinants that have bidirectional/unidirectional relationship with the inflation measures in India. The study basically concentrates on the impact of ten macroeconomic variables, namely, the Gross Domestic Product (GDP), Index of Industrial Production (IIP), Narrow Money (M1), Broad Money (M3), Exports (EXP), Imports (IMP), Oil Exports (Oil EXP), Oil Imports (Oil IMP), Gross Fiscal Deficit (GFD) and Foreign Exchange Reserves (Forex), on the inflation measure of India. Another important objective of this research work is to find the importance of the concept of Core Inflation in India compared to the Headline Inflation. The significance of the core inflation measure has been tested based on three criteria: predictability, volatility and causality. Based on the previous literature, the study has employed nine exclusion-based measures, namely,
the WPI Excluding Food, WPI Excluding Fuel, WPI Excluding Food and Fuel, CPI (Rural) Excluding Food, CPI (Rural) Excluding Food and Fuel, CPI (Urban) Excluding Food, CPI (Urban) Excluding Food and Fuel, CPI (Combined) Excluding Food and Fuel, in order to determine the best measure of core inflation India. It is expected that core measures contain more information about the future trend of inflation than the headline inflation. Finally, an attempt has also been made to find out the extent to which the commodity basket (food component only) of our major inflation indicators (WPI and CPIs) reflect the actual purchase behavior of the common masses, and comparing its efficiency with that of the existing WPI/CPI (Food component).

The thesis has been divided into five parts: Introductory Perspectives (which contains a brief introduction on the identified area of research, Literature Review (which gives an outline of the reviewed papers), Conceptual Framework (which deals with the research methodology part), Research Findings (which deals with the analysis and discussion part) and Conclusion (which contains the summary of findings and scope for further research).

It is summarized that the current study will add to the existing stock of literature on inflation dynamics in India, especially on the identified areas and further help the future work of research in similar fields.

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