In recent years, most of the countries have been facing the problem of inflation with all its implications. Even affluent societies have been suffering from the onslaughts of inflation. The developing societies have suffered the most as most of the people in these countries are poor. India is no exception. The Indian economy has been experiencing the strange phenomenon of steep rise in prices in certain sectors of the economy coupled with stagnation in certain sectors of the economy. This paradoxical situation has been rightly called as 'stagflation'.

During the First Five Year Plan period (1951-56), there was, as a matter of fact, a moderate decline in the general price level. The Second Five Year Plan, mainly on account of radical change in the strategy of developmental planning; witnessed a rise of 35% in the general price level. However, the rise in price level recorded upto the end of the Second Plan period was moderate and this was more or less in conformity with the commonly-held view that in a developing economy prices tend to rise and a mild price rise is the index of the good health of the economy. During the Third Five Year Plan period, the position on the price front started causing concern as the rise was obnoxious at the
end of the plan, although the Third Plan period (1961-66) again registered a rise of 35%, in the general price level.

After the Third Five Year Plan period, India could not frame nor implement a regular Five Year Plan. There was more or less plan holiday for about three years. The three annual plans following the Third Five Year Plan were eyewash in the name of planning. The tempo of investment slackened. This coupled with consecutive draughts for two years and decline in agricultural and industrial production created an alarming situation on the price front.

During the Fourth Five Year Plan period (1969-74) the rise in prices went on unabated. The general price level during this period increased by 45%. Thus, during a period of about 24 years the general price level in India went up by 170%. The problem of inflation has attracted the attention of academicians and the policy-makers alike.

Various factors have been attributed to this phenomenal rise in prices, the most important among such factors have been variously mentioned by different economists as stagnant agricultural and industrial production, rapid increase in the money supply, inflationary means of financing the developmental plans, rise in non-developmental expenditure, and inclusion of
a large number of capital-intensive projects having long-gestation period etc. We may go on adding the list of factors. International factors, such as repeated and frequent upward revision of prices of crude oil by the major oil-producing countries and the rise in the general price level all over the world, have also been the causative factors of inflation. All these factors combined have started process of snow-balling on the price-front.

No systematic study has been carried out in recent years on the problem of inflation in India. The present study is an humble attempt in this direction. The author of the present study believes, that in India, inflation is mainly the consequence of rapid increase in money supply.

This study establishes that money supply and prices move in unison. The calculation of coefficient of correlation gave a very high degree of positive correlation between the two (.84). It has also been found that with the increase in money supply by 100 units, prices change by 96.35 units, presuming other things to be constant.

An attempt has also been made to calculate the partial correlation between money supply, price indices and production in the economy. This shows astonishing results. The analysis of partial correlation has further compelled us to believe that production is not significant in the case of India. With the increase in money supply, production should increase but the correlation between the two has been found to be negative.
The hypothesis of the present work has been that there is a perfect and positive correlation between increase in money supply and increase in prices in India.

Recently, monetary policy has been used extensively to control inflation in various parts of the world with a good deal of success. Ever since, the failure of the Keynesian economics, and the revival of the monetary policy, with emphasis on the quantity of money and overall liquidity, monetary policy has become a necessary part of any effective policy to curb inflation. The important feature of such a monetary policy has been the emphasis on the quantity of money and not the rate of interest. Radcliffe Committee Report (1959) gave further impetus to this type of thinking and recent researches in the field of role of monetary policy have also been emphasising the liquidity aspect of monetary policy instead of other controls over the volume of credit.

In India, the Government has all along been emphasising that the prevailing inflationary conditions are nothing but an off-spring of world inflation and the consequence of planned economic growth. We never realise that inflation may be the result of other factors also, which can be controlled through appropriate measures. The gap between rate of growth and the rate of inflation has ever been widening. The Reserve Bank of India has been trying to contain inflationary pressures by exercising mild controls over credit creation. Monetary policy, by and large has not
been used fully and as a measure to control the phenomenal rise in prices. While the Indian economists have always been suggesting monetary remedies for inflation, the Government has been trying to increase production by deficit financing and expansion of money.

The present study brings forth some important conclusions regarding the anti-inflationary capabilities of monetary policy. Monetary measures have been found to be more suitable in a developing country like India, to contain inflation.

This study may be divided into three parts. Part first deals with monetary policy and its role in theory and practice. The second part is concerned with the problem of inflation. In the third part, a combined study of monetary policy and inflation has been made.

The present work is divided into seven chapters, two chapters each to the three main parts of the work and one chapter devoted to the summary, findings and conclusions.

Chapter I deals with the theoretical framework of monetary policy wherein different aspects of monetary policy and their application to developing countries has been studied. Chapter II is concerned with the tools of monetary policy and their application in India since 1951.

Chapter III is an attempt to study different aspects of inflation. Inflation in India has been studied in comparison to the inflationary situation in the world during recent years. Chapter IV deals with the anatomy
of inflation. Various factors which have caused or contributed to the inflationary pressures in India have been discussed.

Chapter V throws light on the monetary causes of inflation. In this chapter, the relationship between money supply and inflation has been studied theoretically. Chapter VI is an application of the findings of chapter V to the Indian economy. On the basis of the relationship between money supply and inflation, their association has been studied in the context of Indian economy. The relationship between money supply and inflation has been found to be positive and high.

The concluding chapter VII presents the summary of this work, and the conclusions drawn thereof. A sub-part of this chapter has been devoted to the suggestions with regard to appropriate monetary policy and an optimum combination of monetary and fiscal policies for India.

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