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Address for correspondence:
Kumthe Furkhan Md Ismail
Research Scholar, AKI's Poona College, Pune
Email:
furkhankumthe@gmail.com

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Impact of Microfinancing on Poverty Alleviation and Women Empowerment. With Special Reference to Solapur District Inflation and Economic Slowdown

Kumthe Furkhan Md Ismail[1] Dr Mohammad Shahid Jamal Ansari [2]
[1]Research Scholar, AKI's Poona College, Pune
[2] Research Guide, AKI's Poona College, Pune

Abstract

The present research paper is an endeavor to explain how inflation brings an economy into slowdown mode. There are some economical processes by which inflation brings slowdown in economy. It begins from the excess money supply in economy that reaches to the recession or slowdown. How it comes is described in the following research paper. This research paper explores the intricate relationship between inflation and economic slowdown, particularly focusing on how an excessive money supply can initiate a chain of economic consequences. The study highlights the process through which rising income levels and currency circulation trigger increased consumption and savings, ultimately leading to higher demand and inflated prices. As inflation progresses, it diminishes the purchasing power of consumers, disrupts the production cycle, and contributes to unemployment, thereby dragging the economy into a slowdown or recession. Through a conceptual framework and analysis of income distribution and currency devaluation, the paper provides insights into the economic implications of inflation and emphasizes the critical role of central monetary policy in maintaining stability.

Keywords: *Apex institute, commodities, RBI, Trade cycle, currency circulation, dormant stage, monetary policy.*

Introduction

As we know that RBI is the central bank of country, also it is the apex monetary institution of India, and also RBI is responsible for framing the monetary policy of the economy. When we talk about the important functions of RBI. The main responsibility to control the economy is on the shoulder of the Reserve Bank. It the banker of all the bankers in India. Also, RBI is the bank of government of India and governments in India. Reserve Bank formulates the monetary policy of India for the purpose to control the inflation and deflation (Trade cycle) in country. This policy is headed by the governor of Reserve Bank and takes the main decisions in relevance with this. RBI is the monitor of currency circulation in economy, also it has the authority to issue the currency notes in India.

Literature Review

While preparing this research paper, many reference books, newspapers, magazines, websites are taken to help. Some of the management books of Philip Kotler, the newspapers like Times of India, Hitwada, Economic Times etc., magazines like RBI Bulletin, SBI magazines etc., many websites and economic articles and views are taken into consideration. These all the literature reviews have helped a lot in preparation of this research paper.

Discussion

Inflation and deflation (Trade cycle) in any country is not good for the economic health of any nation in the world. Inflation arises in country due to the excess money supply in country. There are many reasons of being excess money supply. Due to which the general price level of commodities increased and the value of money reduces. When prices for energy, food, commodities and goods and services rise, the entire economy is affected. Rising prices, known as inflation, that impacts the cost of living of the people in country. The cost of doing business, borrowing money, mortgages, corporate and government bond yields, and every other facet of the economy. Inflation reduces the purchasing power of consumer in market that reduces the demand for commodities,

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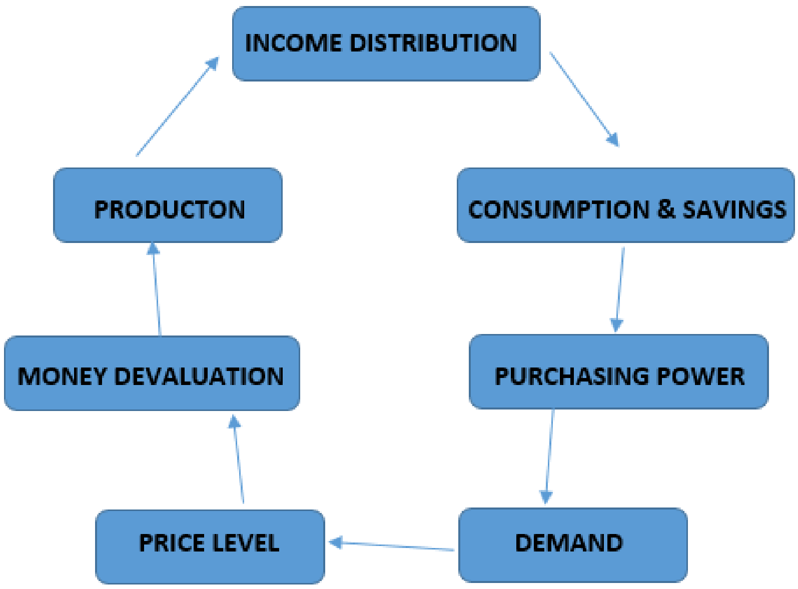
which results into the low supply of goods and services in market. In this way the market demand comes down and brings the slowdown in market. This reduces the total market supply of commodity and the production process becomes in dormant stage. In the consequence of this all the man power has to be reduced by the entrepreneurs. How inflation brings economic slowdown can be clear form the diagram below.

Diagram



NOTE: The above all factors given in the diagram are in excess form.

Description

From the diagram given above, that explains if income distribution in country increases, that increases the money supply and the circulation of currency in the country increases. Excess money supply among citizens increases consumption and savings of the economy. While public income increases the purchasing power also increases, that results into increases in demand of commodity in market. While demand in market rises the general price level in country rises that reduces the actual value of currency (money). In this way, the nominal public income increases but actual public income reduces. Because in inflation the prices of goods and services increase and money value falls down. Once price of commodities increase the demand automatically reduces that adversely affects market supply and production in country. Less amount of production leads either unemployment or underemployment. That reduces the income distribution process. When income distribution becomes lesser, the purchasing power of public reduces that results into lesser demand for commodities in market, again it adversely affects the supply and production. Reduction in production level in country leads into unemployment again that pulls down income distribution and economic slowdown appears in country. However, inflation position brings recession, the economy struggles, people lose work, and companies make fewer sales and the country's overall economic output declines. The point where the economy officially falls into a recession depends on a variety of factors. However inflation is not always bad. A little bit is actually quite healthy for an economy. If prices are falling - something known as deflation – companies may be hesitant to invest in new plants and equipment, and unemployment might rise.

Due to inflation, public income rises up that rises the consumption ration of general public. On the other hand, the savings also rises up but rising saving with devaluated money reduces the actual value of investment and capital formation. This process reduces the actual production level, on the consequence employment level reduces, that results into economic slowdown.

Conclusion

Neither inflation nor deflation (trade cycle) is good for the health of an economy. As soon as any economy turns towards inflation or deflation, is has be controlled by the central bank of country. So as the general price level won't be affected. For this purpose the central bank formulates monetary policy. The accuracy in the formulation of monetary policy determines the economic balancing point between inflation and deflation. Designing monetary policy is the responsibility of the central bank of nation. So as the the inflation and the economic slowdown due to inflation can be avoided.

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Conflicts of interest
The authors declare that there are no conflicts of interest regarding the publication of this paper.

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