Q87

With reference to inflation in India, which of the following statements is correct? (a) Controlling the inflation in India is the responsibility of the Government of India only (b) The Reserve Bank of India has no role in controlling the inflation (c) Decreased money circulation helps in controlling the inflation (d) Increased money circulation helps in controlling the inflation Official key: C.

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Explanation

(a)

Inflation control in India is not the Government's job alone; the Reserve Bank's monetary policy is central, especially for demand-side inflation. This option is not the key.

(b)

The claim that RBI has no role is false; liquidity, policy rates and expectations are RBI tools against inflation. This option is therefore wrong.

(c) Official key

Other things equal, reducing money circulation (tighter monetary conditions) damps demand and helps control inflation. That quantity-theory logic is what the question endorses. This option is the official key.

(d)

Increased money circulation, if not matched by output, raises prices. It does not control inflation. This option is not the key.

Summary

Official key is (c) Decreased money circulation helps in controlling the inflation. Tight money reduces spending power and inflationary pressure. The Government is not the sole controller, and RBI is not a bystander. Expanding money supply is the opposite of disinflation. Only (c) is the correct statement.

Related possible facts

These can be asked in a future Prelims paper.

Quantity theory

MV = PY; excess money growth associated with inflation

Inflation targeting
India later adopted 4% CPI target with RBI MPC

CRR / SLR / repo
Instruments that can reduce effective money and credit

Fiscal impulse
Government spending and deficits also affect inflation

Cost-push
Supply shocks need more than money-supply tightening alone

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