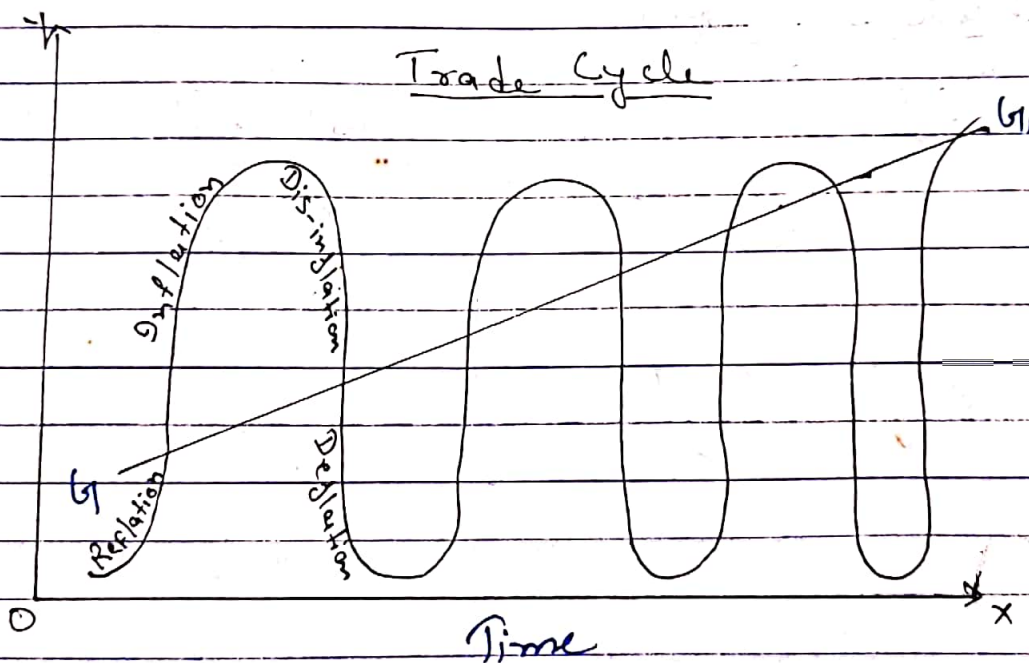


Inflation is unjust, deflation is expedient. (expedient: something that achieves a particular purpose suitable to the circumstances, appropriate.)

Effects ON	Inflation	Deflation
1. Creditor	Adverse	Good
2. Consumer	Adverse	Good
3. Farmer	Good	Adverse
4. Industrialist	Good	Adverse
5. Employment	Good	Adverse
6. Output	Good	Adverse



Price rise just after deflation is reflation. Price rise after reflation is inflation, this is good for employment and output in the economy.

Deflation :- Excess supply over demand in the commodity and factor market is called deflation. We can illustrate it below :-

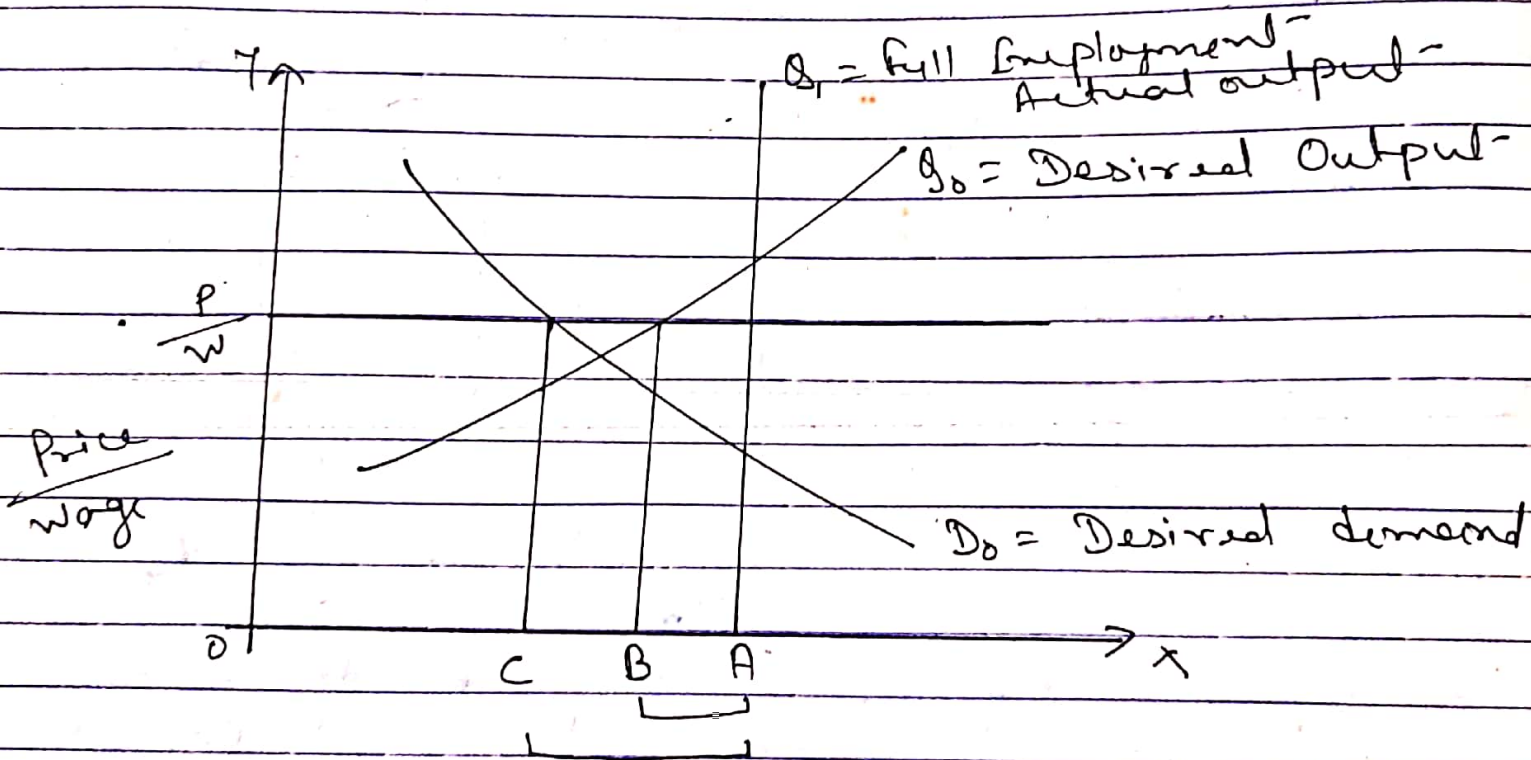
Deflation in commodity market -
 excess supply in the commodity market -

$$\sum_{i=1}^n x_i p_i < 0 \quad \left. \vphantom{\sum_{i=1}^n} \right\} D - S < 0$$

Deflation in factor market - -

$$\sum_{j=1}^m x_j p_j < 0 \quad \left. \vphantom{\sum_{j=1}^m} \right\} D - S < 0$$

Deflationary gap



$BA = Q_1 > S_0 =$ Deflationary gap in factor market.

$CA = Q_1 > D_0 =$ Deflationary gap in commodity market.

How to Control deflation -

Monetary policy measures -

- (a) Decrease in the bank rate and interest rate to induce investments.
- (b) Purchasing of bonds or securities by the RBI from commercial banks to increase liquidity.
- (c) CRR will be decreased to allow liquid in the hands of people.

Fiscal policy measures -

- (a) Tax rate will be decreased.
- (b) Public expenditure will be increased to increase employment.
- (c) Public debt will be repaid.
- (d) Deficit budget will be preferred.