SOCIAL COST OF INFLATION:

Inflaton not only reduces purchasing power but also imposes some costs on the soceity.These costs of Inflation can be divided into two groups--a.Costs of anticipated inflation and B.Costs of unanticipated inflaton.

COSTS OF ANTICIPATED INFLATON----If an economy has been suffering from 6% inflaton rate , people assume that this rate will remain constant in future

So, annual increase in wage rate , interest rate will be fixed at 6% so that increase in 6% Interest rate may be compensated. If the anticipated Inflation rate and wage rate is same,there will be no costs except the following.

During inflaton, the costs of keeping currency notes snd coins go on increasing with inflaton rate.Because, this amount of money brings no interest rate.If this amount is kept in bank,it will bring Interest.Interest rate incrrases on bank deposits during inflaton.So,if greater amount of money is kept in hand for transaction purposes , depositors will lose interest.In order to mitigate the loss, people will go on withdrawing very small amount of money at a time.As people have to go to bank frequently to withdraw money,they have to spend time, labour and money unduely.

(Write 1.Shoe leather cost as point before During inflaton......)

2.Menu Cost-----This cost is related to the preparation of new menu.The restaurants have to change their menu due to high prices.So they have to bear printing costs of new menu.

3.Inconvenience of living----Inflation makes inconvenience of living for the people.Money measures the value of transaction.So, difficulty arises in measuring the real value When transactions are done again and again.Inflation

also makes difficult to take decisions regarding savings and investments and in adopting long term financial planning.

3.Inefficiency in resource allocation-----

The restaurents don't want to change frequently the menu prices as it is related to costs.Higher the rate of inflation, higher will be the discrepancy in relative prices.. When relative prices of goods in a restaurant changes in comparison to general price level, production will be affected and inefficiency arises in resource allocation.

COST OF UNANTICIPATED INFLATON----

The costs of unanticipated inflaton is higher than the costs of anticipated inflation.Unanticipated inflaton creates redistribution of wealth among the people.The value of wealth are fixed in terms of money. When price level increases value of wealth comes down.For example, an individual purchases Govt. security of Rs.1000

at 8% rate of interest.If the economy suffers from Inflation after 10 years at the. maturity time of the security purchased, the purchaser

gets back less than Rs.1000.Moreover,the pensioner,fixed income earners , labourers and lenders also suffer from Inflation..So, Inflation distributes wealth in favour of the rich.