

into the others and results in lowering demand, less production, loss of jobs and finally recession. The third category of inflation is built-in inflation which is largely the loss of belief in the people on the functioning of government machinery or financial firms. In this case people are speculating that inflationary trends are likely to continue for longer time, which is made use of by traders to increase the cost of commodities. Here also monetarism is not the apt tool to control inflationary trends. Recent examples of collapse of SVB and Credit Suisse can be linked to loss of faith in customers regarding the capacity of the management to deal with risks resulting in mass withdrawal of deposits.

If all these statements are true, why does the government machinery restrict monetarism? Monetarism is a technique adopted by financial policy makers to bring in economic stability. 4. [Osikhotsali Momoh, (2021) Investopedia]. It is with the belief that total amount of money in an economy determines its growth and its availability is the prime determinant of nominal expenditure. Thought process for this concept is that aggregate demand fluctuations can be managed by monetary policy rather than fiscal policy. The leading point here is that an increase in aggregate demand stimulates growth by job creation. Unemployment rate rises or falls based on the economic indicators and is seasonally adjusted. In monetarism the supply of money is controlled by policies keeping in mind the natural growth of economy and targeted inflation. 4. [Milton Friedman, (1963), "A Monetary History of the United States 1867–1960"]. The proposed idea is to relate money supply in economy with nominal gross domestic product. There is also a belief that changes in money demand can influence the aggregate demand and price level. Some groups believe that inflation could be based on the assumption that production is slowing down which can be due to various reasons.

II. LITERATURE REVIEW

Jordi Gali, (2008), *Monetary Policy, "Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework and Its Applications"*, this book is an analysis of monetary policy and its implications for inflation, economic fluctuations, and welfare. Various aspects of monetary policy such as optimal monetary policy, extensions of the baseline model and open economic factors are considered. Linking production levels with an overall increase or decrease of price level is also made in this book.

Thomas Laubach, Adam Posen, Frederic Mishkin, Ben S. Bernanke, (1999), *"Inflation Targeting: Lessons from the International Experience"*. The presumption in this case is a very genuine problem that; central banks often find it difficult to understand price stability and therefore the methods to achieve it. There are countries which undertake inflation targeting and others who do not? As per the author overall inflation targeting appears to be more effective than alternative monetary policies.

Timothy Jerome Kehoe and Juan Pablo Nicolini, (2022), *"Monetary and Fiscal history of Latin America"*, this book looks at inflation from fiscal side considering the case of Latin American countries where inflation is high and disruptive. As result the author recommends a joint monetary and fiscal policy to control inflation.

Thomas J. Sargent, (1999), *"The Conquest of American Inflation"*. The concept of Phillip's curve and idea that inflation brings about drop in unemployment brings out a different perspective. It is also believed that policy makers go by their beliefs. These priors are updated by empirical observations. The author supports the idea that inflation can be controlled by shift in policy making and change in policy maker's beliefs.

James Forder, (2014), *"Macroeconomics and the Phillips Curve Myth"*, OUP Oxford, this book introduces Phillips curve to the readers from macroeconomic analysis. Here the role of Phillips curve is discussed at length in the context of macroeconomic analysis during the first twenty years since the concept was brought out. Book gives a call to rethinking the central concept of modern macroeconomics. It highlights key contributions of Phillips curve in the context of inflation and unemployment.

K. D. Hoover, (2018), *"Phillips Curve"*, Econlib, Consistent inverse relationship of slow wage increase when unemployment was high and rapid wage growth when unemployment was low has been linked to tighter labour market in this book. When unemployment rate was low an average relationship existed between these two variables over a business cycle. The fact that economics in developed countries relate general inflation to unemployment rather than wage inflation is highlighted in this book. The consideration that real wages would adjust to make supply and demand of labour equal has also been considered.

Goswami Mohitgiri, (2015), *"Descriptive Research"*, LAP Lambert Academic Publishing. The author considers descriptive method of research methodology an ideal tool to be employed when the research problem is based on the current situation. Characteristics of descriptive research have been considered in detail in order to help in application.

Robert K Yin, (2002), *"Case Study Research"*, the author has covered all features of case study method and goes on to highlight its importance to a wide range of disciplines. All aspects of case study method from definition of a problem to reporting have been covered in this book.

Grace Shawn, (2023), *"The Collapse of Silicon Valley Bank"*, Amazon. When SVB was established the banking sector woke up to a new concept. This was attractive during the early stage of business. As startups do not generate income all of a sudden, risk was considered as a part of business strategy. The author further goes on to the intervention of US Federal Government and brings out the case of Signature Bank.

III. METHODOLOGY

Descriptive Research has been used considering the various facets of micro and macroeconomic issues in the context of global economy. In this research work the general trend in the past to link inflation with monetarism, types of inflation and causative reasons have been highlighted taking historical examples. Here the characteristics of economic policy fundamentals are identified and analyzed from the point of view of Phillips curve. Recession as a result of wrong monetary policies has also been considered. In descriptive research the process does not answer questions about how/why/when the characteristics occurred but describe the features of the system under analysis. It aims at deliberating information to understand a phenomenon. Here not much is known about the causative effect of monetarism in relation to inflation and much publicized economic policy in all types of inflation, hence a descriptive research design highlights how, where and when a problem occurs. It provides a detailed and correct understanding of the problem considered. All the variables in this case are dependent variables.

IV. ANALYSIS OF THE STUDY

Collapse of SVB and Credit Suisse banks may be considered either as tip of the ice berg in a chain of events to follow as a result of tackling inflation with monetarism or a typical case of cyclical event which occurs when policy makers are largely driven by feelings and beliefs based on strong reflections of past or a mistaken identity of targeting inflation. As it happens in a recurring manner there is a need to apply correction to macro and micro economic issues. End of SVB was considered by many as a result of holding large amount of uninsured deposits and hold-to-maturity deposits. Its collapse is a case of panic driven action when depositors simultaneously withdrew money due to fears of the bank's solvency. Similar is the case with Credit Suisse where the unsubstantiated rumour of failure of bank initiated customers fleeing. There is a link to mismanaging inflation by monetarism where targeting inflation resulted in increase of interest rate. Recently there has been substantial increase in the US treasury rates and in the past financial assistance during covid 19 to its citizens by countries around the world. Have these factors influenced the collapse of these big banks? Lower unemployment resulted in more money in circulation, which caused demand for labour and increase in wages. Restrictions during covid spiraled growth of IT sector and unstructured hiring resulted in layoffs after lifting of lockdown. Net result is a cyclical movement of financial strengths of individuals and States. It was bound to cause inflation which could have been adjusted by a combination of fiscal and economic policies rather than economic policies alone.

The purchasing power of an individual can vary depending upon circumstances. These include value of currency, availability of goods, availability of labour, bargaining gap etc. Most commonly when the value of currency goes down

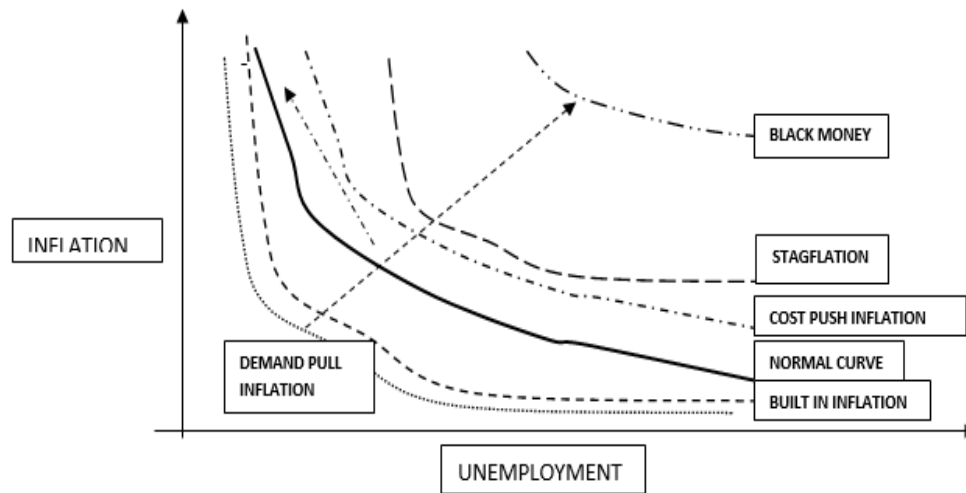
and implicated as lower purchasing power it is considered inflation. Inflation is considered as natural fallout of economic growth, reflected as increase in GDP or for that matter per-capita income, but not in all the cases. In some countries inflationary trends up to 2% is concluded as growth and anything beyond that becomes a concern for financial policy makers.

Monetarism is a common technique adopted by central banks to counter inflation or inflationary trends. A change in interest rates announced by central banks may be either due to inflation or prevent deflation. In the case the step is to increase the interest rates, the reason attributed is for dampening the aggregate demand where by the inflation is brought closer to the acceptable target. On the other hand, in case the interest rate is lowered, it may counter deflation. When there is rise in aggregate demand it may increase inflation. It is a usual practice to model wages with inflation. As the wages increase the HR department sets new wage rates. Tagging with this we find there is an increase in the cost of goods which may be real or doctored. Whichever may be the reason the fallout is lower purchasing power of individuals. When inflation is identified there is a lowering of demand during a short period term, but if the trend continues for longer duration it may not effectively result in apparent changes and the inflationary pressures increase without lowering unemployment rate. Cost spiraling is another phenomena observed in this context. There is an inverse relationship between the inflation and unemployment. In case the central bank decides to lower unemployment it would have to increase inflation, even though it is a temporary correction.

Phillip's curve is an economic concept where it is considered that inflation and unemployment maintains a stable and inverse relationship. It is assumed that with economic growth the inflation tends to rise. Such a rise is in no way detrimental because it leads to growth and thus creates more job opportunities. Exception may be the case of stagflation wherein there can be high inflation and high unemployment as observed in 1970. 14. [Federal Reserve Bank of San Francisco, (2017), Natural rate of Unemployment past 100 years, Investopedia]. A stop-go strategy was adopted in general by fiscal policy makers wherein a target rate of inflation was decided based on which fiscal and monetary policies to bring inflation to a predetermined target. The apparent belief was that fiscal boost would increase aggregate demand which in turn will lower unemployment, resulting in increasing purchasing power that would lead to scarcity unless production is accelerated, leading to increase in cost of items and modifying inflation. During stagflation, in case monetary policies are introduced it will give an indication to the consumers that inflation is likely to continue for some more time resulting in a panic reaction, which may be contrary to the expectations of the policy makers. This would therefore cause negation of the concept of Phillip's curve in the shorter term. On the contrary if the unemployment is below the market equilibrium and wages goes up, the marketing

department will increase the cost to compensate and that may result in spiraling of wages. But the general belief is that economy can have an effect on unemployment, but inflation has a transitory effect. At this time another theory which came up was that inflation can occur due to absence of a change regime. As per Thomas J Sargent it was considered that because of lack of change in policy making, inflation has occurred. Policy makers behave according to their beliefs. These beliefs can be due to some priors in the understanding of functioning of economy. Now the game based on priors is applied by the policy makers on to the

economy. After employing the policy, it is a wait and watch phenomenon where the empirical evidence after applying the priors is keenly watched and outcome is used to improve the beliefs, and cycle continues. The question is whether such a procedure or a procedure based on knowledge should be adopted. Probably the latter is more advisable but rarely happens. Inflation targeting is a concept which is followed by many economies to keep a check on inflation. How does it affect? Some of the European countries do not go in for inflation targeting, so does it give any relief to inflation? Probably not!



Representative Diagram and not to scale
 Fig. 1 Phillips Curve Under Various Conditions

The representative diagram is an attempt to relate Phillips curve under different types of inflation. Except in the case of stagflation and inflation as a result of black money the curves follow Phillips curve with the exception that they shift to the right and up. So, the inverse relationship is generally followed in almost all contingencies.

It is advisable to keep inflation within reasonable limits but never to target inflation. The concept which is closely related is stabilizing the price level. A central bank may find it difficult to stabilize the price level. So rather than stabilizing price level or targeting inflation it would be prudent to arrest higher levels or fluctuations of price level thus inflation so that a process of disrupting economy is not reached.

Let us now try and understand the impact of black money on inflation. When people have money, but government has no record of it the status is black money. Black money results in unprecedented demand for goods which would result in inflation. In the case of black money purchasing power of few individuals increase whereas large majority of citizens find it difficult to survive. Hence their living standards decrease, and inflation becomes prominent. Another way to look at is that when the money is hoarded as black money, the money in circulation reduces. This gap is compensated by government by pumping in more money

into the market. Even though the step is legitimate, this would result in larger amount of money in circulation and inflation. It is estimated in one particular case hoarders of black money had invested 70% of the money in capital goods and used the profits to buy food materials for black marketing. There is a group of people who believe that crack down on black money can bring down inflation.

When there is shortage of supply of commodities, it increases price resulting in inflation. Similarly low unemployment will lead to surplus money leading to scarcity of goods as demand cannot be matched with supply. When the government expenditure increases it can lead to scarcity of goods creating inflation. Demand pull inflation can lead to scarcity of vital commodities which would result in rise in overall cost of living and create inflation. When the demand for goods outpaces the supply it results in shortage of goods causing inflation. When an economy is growing and people repose faith in it thus impelling increased spending taking loans, demand would out beat supply resulting in price increase. In UK from 1986 to 1991 inflation rose from 3 to 7.6% due to cost push factors (oil prices). 15. [economics.org/blog/27613/inflation/demand-pull inflation]. This was characterized by excess money chasing few goods, lower interest rates, rise in housing prices, cut in income tax rates, union's bargaining for higher wages, and devaluation. In US during

the mid-sixties inflation increased from 2 to 6% due to rapid economic growth. The general tendency of witnessing demand pull inflation has become rare, but there are small incidents of inflation in 2001 & 2008 due to cost-push factors. It is considered to be due to secular stagnation, deflation and introduction of technology. Recently Indian government permitted export of food grains but at the same time the exchange value of Rupee in foreign market came down. Both these factors resulted in the increase in cost of cereals and thus inflation. It may be also possible that when there is inflation in a developed nation, manufacturers tend to believe in *fait accompli* and increases the cost of items leading to inflation. In another scenario; take the case of low unemployment rate and low interest rate paving way for boosting real estate sector. Such an incentive would increase the cost of housing schemes because in a short time builders are not able to provide adequate number of dwelling resulting in more demand and less supply leading to demand pull inflation. In such a case when inflation is controlled by beliefs influenced by fiscal and monetary policies, the central bank resort to monetarism. The opportunity thus provided by improving economy, confidence of the people on economic growth would be nullified. The demand pull inflation would witness an increase in GDP, but aggregate demand is much above the capacity of the industry to supply. Hence monetarism has no role in demand-pull inflation, rather it should be tackled by industrial policy measures rather than monetary and fiscal policies.

When money is transferred from one sector to another it results in cost pull inflation. As the cost of labour, raw materials increases it forces the manufacturer to increase the cost of products for breaking even. In 1973 when the OPEC reduced its output or during the ban of Russian oil in 2023, the prices of petroleum products increased which lead to inflation. Cost pull inflation reduces the purchasing power of the consumers. To control it would be necessary to come to terms with drivers of inflation. Cost push inflation can weaken in case government interferes with transparent marketing policies such as; price cap on monopolies, reducing the power of trade unions and reducing transport bottlenecks. Hence to control cost push inflation, the supply side requires attention. In case government adopts deflationary monetary policies it will result in recession. As regards supply side the time lag is a constraint. Hence in case of cost push inflation monetarism would not be ideal but industrial policy to push up the supply side to even out the demand- supply gap. In the current scenario, the rising cost of fuel due to short supply as a result of Ukraine war and inability of Ukraine farmers to export wheat has created an uneven demand-supply relationship. In India the increased dependency of the country on Chinese goods resulted in an adverse position of balance of payment to the tune of \$80 billion or so. This culminated in the lowering of the value of Indian Rupee. Here even though the whole world is facing the brunt of fuel cost deflationary monetary policies advocated by certain central banks lead to recession. In such a stage

reduction in interest rate or leaving it as such may be better than increasing the interest rate. In 1973 OPEC restricted its production, because of which the prices moved up by 400% increasing the input costs for petroleum related industries. The massive earth quake in Japan in 2011 disrupted the supply of auto parts causing cost-push inflation. Similar was the effect of Hurricane Katrina. Depletion of natural resources is another reason for cost-push inflation, for example due to over fishing, the price of fish increases or for that matter coal or other minerals. Inelastic demand may also be a cause for cost-push inflation. In such a scenario irrespective of increase in cost of item people continue to purchase.

Built-in inflation has carried over from the past. A supply shock or a persistent demand-pull can lead to built-in inflation. It is a tendency of the employees and the employers to believe in a state of inflation or expecting that inflation can push up the costs. We found a similar case in the recent SVB and Credit Suisse collapse. Here price increases encourages inflation to exist by chain events including subjective and objective elements. So, the commonly used methods of monetary policies can lead to recession. The price war between employers and workers in a non-accommodative stance lead to such a situation; may be like the case in Britain now. In such cases rather than responding with monetarism, balancing wages and prices would be more appropriate. Apparently this is a self-made inflation with employees staking claim for increase in wages but increase in wages can increase the cost of the goods thus causing further inflation. When some of the business undertakes this measure it tends to have an effect on others bringing in overall increase in the cost of goods. In a capitalistic system it is more difficult to adjust the demand and supply in a short time span hence the effect persists for a longer time.

We have analyzed that unaccounted money (black money) can cause increased purchasing power to a section of population resulting in increase of prices leading to inflation. Similarly, if the rate of supply of money is faster than the rate of production it can lead to inflation. Devaluation of local currency against foreign currencies would result in goods of the country becoming less expensive. This opportunity is utilized by other countries to go in for cheaper imports. Subsidies also cause the increase in demand for goods whose prices have been lowered resulting in inflation. Probably monetarism is ideal when there is hyper-inflation. Some of the countries have apparently been suspected of oversupply of paper currency which could lead to hyper-inflation; probably a fallout during covid 19.

Boom and bust economic cycles occur when there is a rapid economic growth and inflation followed by falling GDP and rise in unemployment. First and foremost reason is unrestricting monetary policy which means that real interest rates are too low compared to actual, resulting in more disposable income. Such a condition would lead to

rise in consumer spending causing rise in aggregate demand and economic growth above the long term trend. In UK 1980 saw a boom and by 1990 it was bust. When the economic growth is above the long trend it will result in rise in inflation and wage inflation. To reduce inflation central agencies would resort to monetarism which will result in economic down turn. It can also be caused by policy such as; excessive government borrowings and incorrect fiscal policy. Boom and bust in asset prices and credit swaps are other reasons to this phenomenon as was noticed in UK price inflation from 1980 to 2013. There are also evidence linking bust and boom to multiplier effect.

V. FINDINGS OF THE STUDY

Inflation has an effect on the economy. Whether the effect is positive or negative should determine the method by which we tackle inflation. A functional approach to inflation classifies into three groups such as; demand-pull, cost-push and built in inflation. Certain other parameters can classify inflation to include certain other categories such as; black money, boom and bust cycles, deflation, stagflation. Many of the planners get in to the concept of an economic growth model which targets inflation. It has been predominantly seen that targeting inflation will develop in to a cycle of events which may lead to recession hence it would be prudent to take inflation rate as a rough figure and monitor it based on other parameters such as economic growth, GDP, planned devaluation, poor supply side of certain items. It has been generally identified that most of the economic planners adopt a uniform procedure for all types of inflation despite the fact that causative reasons are different. The technique of adopting monetarism would not be prudent except in the case of built-in inflation. For issues such as demand pull inflation industrial policy would be more appropriate and not monetarism. Cost push inflation would be related to the restricted production or natural disasters that have made shortage of items resulting in spiral the cost. Here the monetarism would lead to recession rather than controlling inflation.

Each of these individual factors can cause a damaging effect individually and compounded when they create the bull whip effect. Despite the fact that the current inflation is demand pull inflation in developed countries, policy makers have chosen to treat it as a built inflation. Most of these countries have targeted the inflation making structural adjustments with monetarism resulting in lack of incentives for growth with high interest rate. This is bound to translate the short term inflation to long term in a period of time as a result of the monetary policy adopted and absence of correct industrial policy in tune with the causative factors of inflation. However pragmatic the people are central banks adopting a higher lending rate would prevail upon people as a sign of long term inflation. Banks with more risk exposure may collapse in case customers lose confidence and withdraw deposits en bloc. Unrestricted money supply results in reduction of purchasing power and devaluation of certain currencies

leading to recession. There is another important point to be considered with higher institutional control on interest rate and diversion of substantial amount by way of relief to people during covid. It is clear that governments by and large would have made higher borrowing or printed paper money without substantial ground support. If it is true then the present trend can be arrested by adopting industrial policy and reversing the inflationary support measures such as higher lending rates by central banks. As has seen before, the policy makers are largely driven by feelings and beliefs which are based on strong reflections of the past. The opaque nature of such belief will be understood only after the recession. Hence it is not too late for the monetarism as a policy adopted by the central bank in all cases of inflation is changed with aim of avoiding the apocalypse.

VI. CONCLUSION

There is a link to mismanaging inflation by monetarism where targeting inflation results in increase of interest rate, inflation and lower unemployment. Cyclical movement of financial strengths of individuals and States results in inflation which can be corrected by a combination of fiscal and economic policies. Devaluing of currency results in lower purchasing power and the result is inflation. Monetarism by central banks and modeling wages with inflation is a common practice. Inflation lowers demand temporarily but in case it persists longer inflationary pressures increase. Phillip's curve considers that inflation and unemployment maintains a stable and inverse relationship, but inflation has a transitory effect on unemployment. It is assumed that with economic growth the inflation tends to rise. It is believed that inflation can also occur due to absence of a change regime. Inflation targeting is a concept which is followed by many economies to keep a check on inflation, which is not considered as a good practice. Black money increases demand for goods resulting in inflation because the purchasing power of few individuals increase whereas large majority of citizens find it difficult to survive. Hence their living standards decrease, and inflation becomes more prominent. It may be also possible that due to hoarding and reduction of money in circulation government pumps in more money in the market resulting in larger amount of money in circulation resulting in inflation. Scarcity of vital commodities takes place as a result of demand pull inflation that would result in rise in overall cost of living and inflation. Cost pull inflation reduces the purchasing power of the consumers and can weaken in case government interferes with transparent marketing policies such as; price cap on monopolies, reducing the power of trade unions and reducing transport bottlenecks. Here also to control cost push inflation, the supply side requires attention. In case government adopts deflationary monetary policies it will result in recession. When the economic growth is above the long trend it will result in rise in inflation. Short term inflation is acceptable as it reduces unemployment, but if it persists the resulting trend would be reduction of purchasing power.

Management of economy of nations has been a difficult proposition considering events of the past such as Covid 19 and the recent Ukraine war. Notwithstanding, considering examples from the past monetarism adopted by central bank would translate in to a recession which may lead to a hyperinflation.

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