



[Frequently Asked Questions]

[Inflation Targeting]

Subject:	Business Economics
Course:	B.A., 4 th Semester, Undergraduate
Paper No. & Title:	Paper – 401 Macroeconomics – II
Unit No. & Title:	Unit - 5 Monetary and Fiscal Policy
Lecture No. & Title:	1: Inflation Targeting

Frequently Asked Questions

1. In which year inflation targeting announced in India?

Ans. Inflation targeting announced in India in the year 2016.

2. Which equation shows the relationship between inflation and unemployment given by Phillips curve?

Ans. $\pi_t = \pi_{t-1} - \alpha(u_t - u_n)$

3. Which is the first country to adopt inflation targeting?

Ans. New Zealand is the first country to adopt inflation targeting.

4. In which year the first inflation target will end in India?

Ans. the first inflation target will end in India in March 31, 2021.

5. What is Taylor's rule?

Ans. John Taylor has given a rule to the central bank to set the inflation targeting.

$i_t = i^* + a(\pi_t - \pi^*) - b(u_t - u_n)$

6. Why is low and stable inflation an objective?

Ans. High inflation means that storing money is expensive since the real value of the money is constantly falling. High inflation can also result in an unnecessary use of resources if many people spend a lot of time and energy on reducing the adverse effects of high inflation. There are also costs involved for businesses when they continually have to alter their prices.

7. What is flexible inflation targeting?

Ans. Flexible inflation targeting means that the central bank gives weight to variability in output and employment, as well as inflation. Under a strict inflation targeting regime, the central bank only focuses on inflation.