



[Glossary]
[Inflation Targeting]

Subject:	Business Economics
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Lecture No. & Title:	1: Inflation Targeting

Glossary

- **Inflation:** It is the rate at which the general level of prices for goods and services is rising and as a result the [purchasing power](#) of currency is falling.
- **Unemployment:** It is defined as a situation where someone of working age is not able to get a job but would like to be in full time employment.
- **Nominal Interest Rate:** It refers to the [interest rate](#) before taking [inflation](#) into account. [Nominal](#) can also refer to the advertised or stated interest rate on a loan, without taking into account any fees or compounding of interest.
- **Monetary policy:** monetary policy consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates. Monetary policy is maintained through actions such as modifying the interest rate, buying or selling government bonds, and changing the amount of money banks are required to keep in the vault (bank reserves).
- **Fiscal Policy:** It is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply.

- **Primary Deficit** refers to difference between fiscal deficit of the current year and interest payments on the previous borrowings. $\text{Primary Deficit} = \text{Fiscal Deficit} - \text{Interest Payments}$
- **The Consumer Price Index (CPI)** is a measure that examines the [weighted average](#) of prices of a basket of [consumer goods](#) and services, such as transportation, food and medical care. It is calculated by taking [price changes](#) for each item in the predetermined [basket of goods](#) and averaging them.