UNIT -IV

- INFLATION AND DEFLATION
- BALANCE OF TRADE (BOT) BALANCE OF PAYMENT (BOP)
- ECONOMIC IMPACTS OF TOURISM
- TOURISM MULTIPLIER EFFECTS

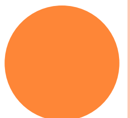
Inflation and Deflation

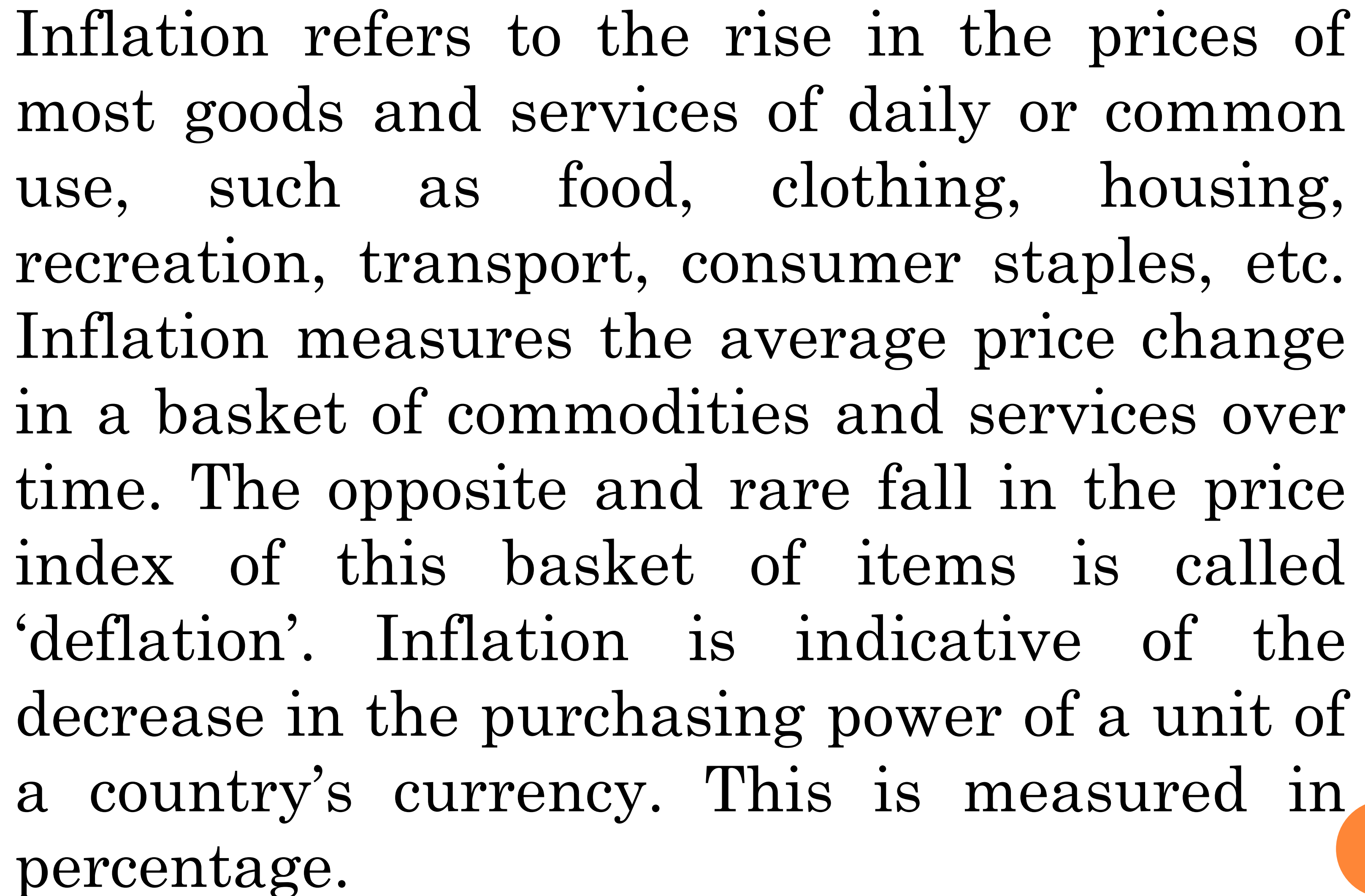
•Inflation

–A sustained increase in the average of all prices of goods and services in an economy

Deflation

–A sustained decrease in the average of all prices of goods and services in an economy




What is Inflation?
Inflation refers to the rise in the prices of most goods and services of daily or common use, such as food, clothing, housing, recreation, transport, consumer staples, etc. Inflation measures the average price change in a basket of commodities and services over time. The opposite and rare fall in the price index of this basket of items is called ‘deflation’. Inflation is indicative of the decrease in the purchasing power of a unit of a country’s currency. This is measured in percentage.

Inflation and Deflation (cont'd)

•Purchasing Power

–The value of money for buying goods and services

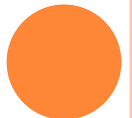
Inflation and Deflation (cont'd)

•Nominal value

–Price expressed in today’s dollars

•Real value

–Value expressed in purchasing power, adjusted for inflation



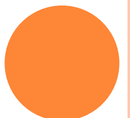
Measuring the rate of inflation

–Price Index The cost of today's market basket of goods expressed as a percentage of the cost of the same market basket during a base year

–Market Basket Representative bundle of goods and services

–Base Year The point of reference for comparison of prices in other years

Price index =Cost today of market basket/Cost of market basket in base year X 100

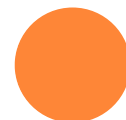


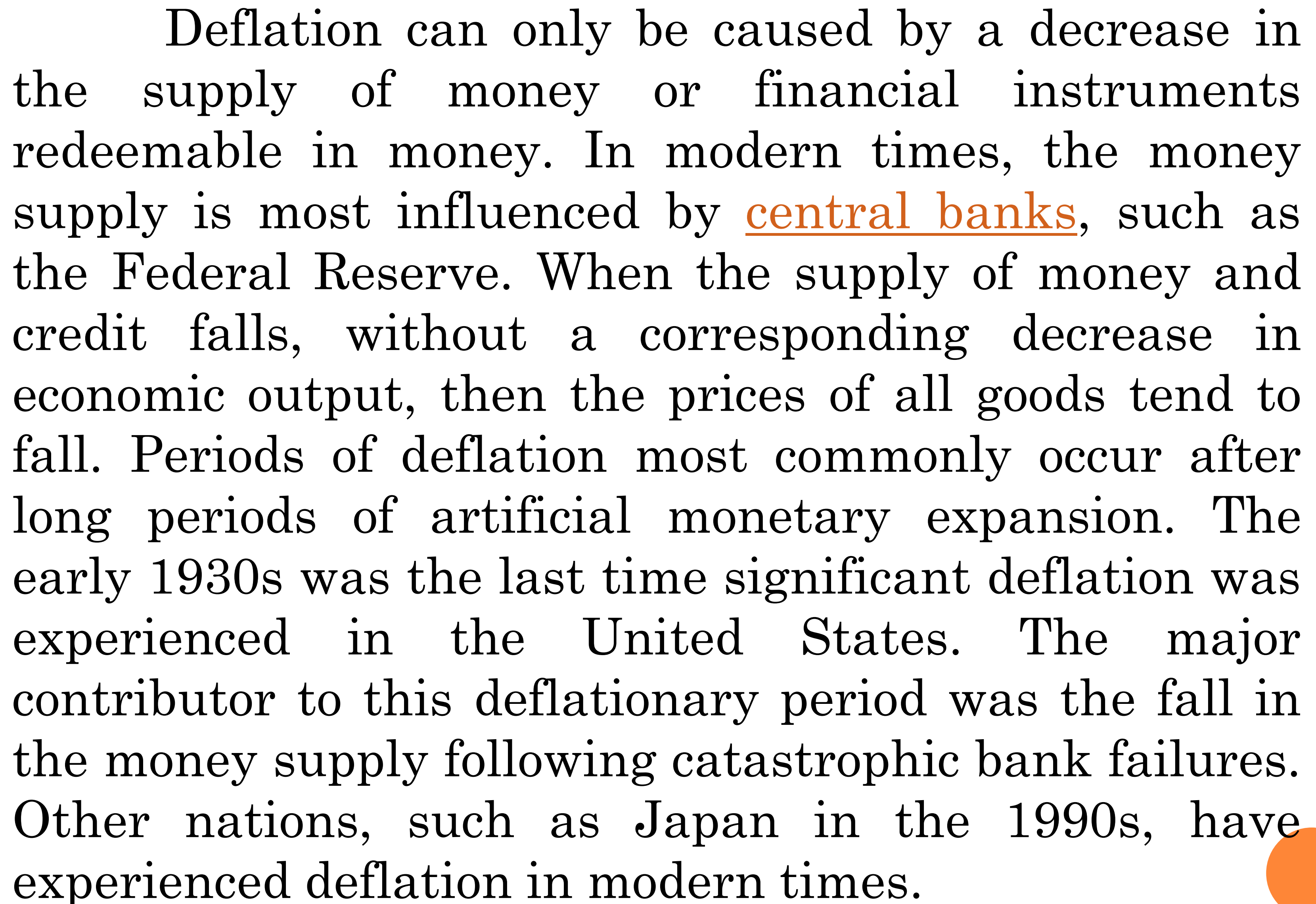
The main causes of inflation in India have been subject to considerable debates and discussions. These are some of the chief reasons for the increase in prices:

High demand and low production or supply of multiple commodities create a demand-supply gap, which leads to a hike in prices.

Excess circulation of money leads to inflation as money loses its purchasing power.

With people having more money, they also tend to spend more, which causes increased demand

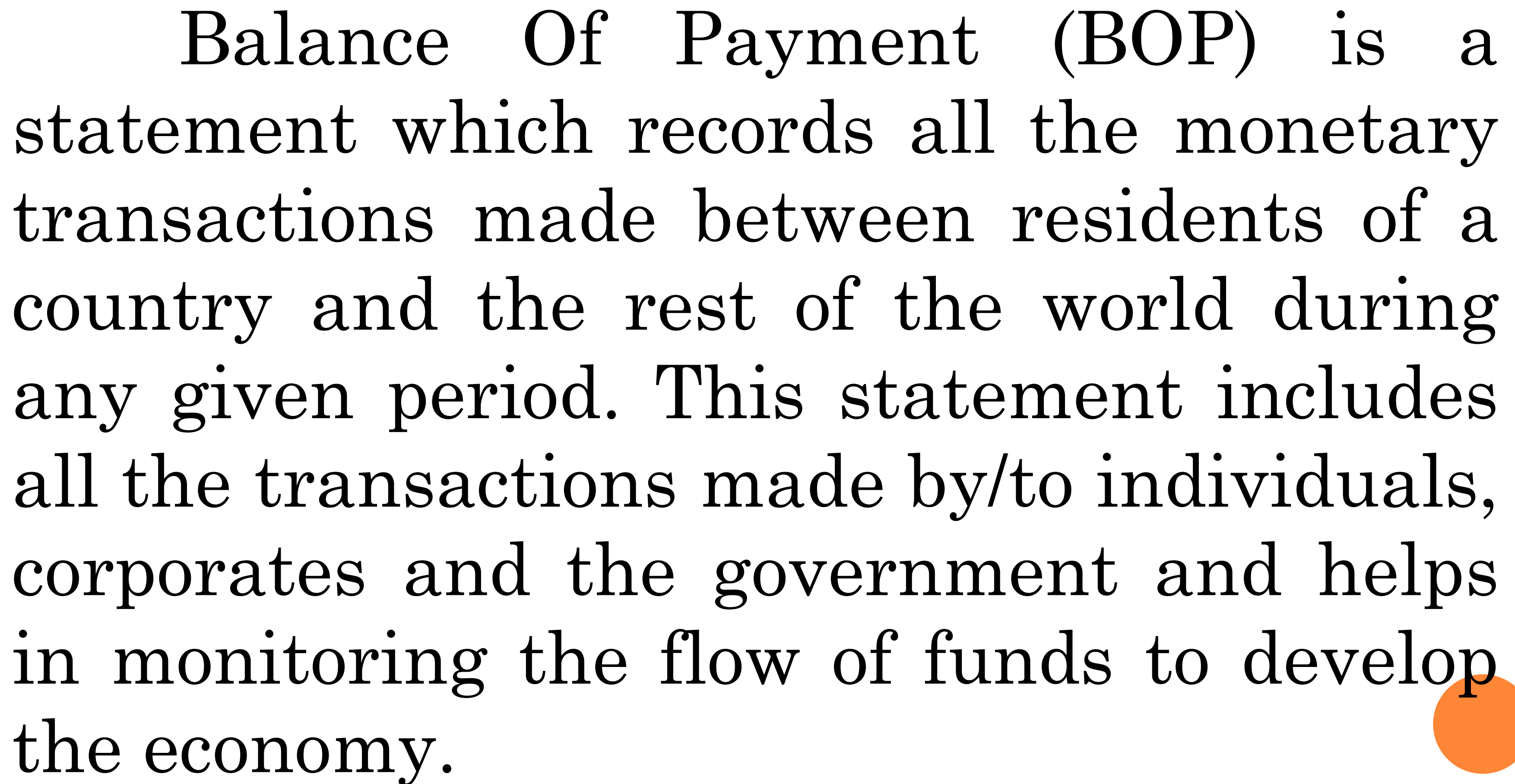




Causes of Deflation

Deflation can only be caused by a decrease in the supply of money or financial instruments redeemable in money. In modern times, the money supply is most influenced by central banks, such as the Federal Reserve. When the supply of money and credit falls, without a corresponding decrease in economic output, then the prices of all goods tend to fall. Periods of deflation most commonly occur after long periods of artificial monetary expansion. The early 1930s was the last time significant deflation was experienced in the United States. The major contributor to this deflationary period was the fall in the money supply following catastrophic bank failures. Other nations, such as Japan in the 1990s, have experienced deflation in modern times.

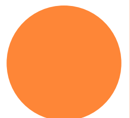
Balance Of Payment (BOP)



Balance Of Payment (BOP) is a statement which records all the monetary transactions made between residents of a country and the rest of the world during any given period. This statement includes all the transactions made by/to individuals, corporates and the government and helps in monitoring the flow of funds to develop the economy.

What is the Balance of Payments (BOP)?

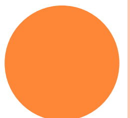
The balance of payments (BOP) is a statement of all transactions made between entities in one country and the rest of the world over a defined period of time, such as a quarter or a year.



What Is the Balance of Trade (BOT)?

Balance of trade (BOT) is the difference between the value of a country's exports and the value of a country's imports for a given period. Balance of trade is the largest component of a country's balance of payments (BOP). Sometimes the balance of trade between a country's goods and the balance of trade between its services are distinguished as two separate figures.

The balance of trade is also referred to as the trade balance, the international trade balance, commercial balance, or the net exports.



THE ECONOMIC IMPORTANCE OF THE TOURISM INDUSTRY GLOBALLY:

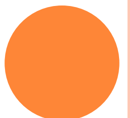
•The tourism economy represents 5 percent of world GDP

•Tourism contributes to 6-7 percent of total employment

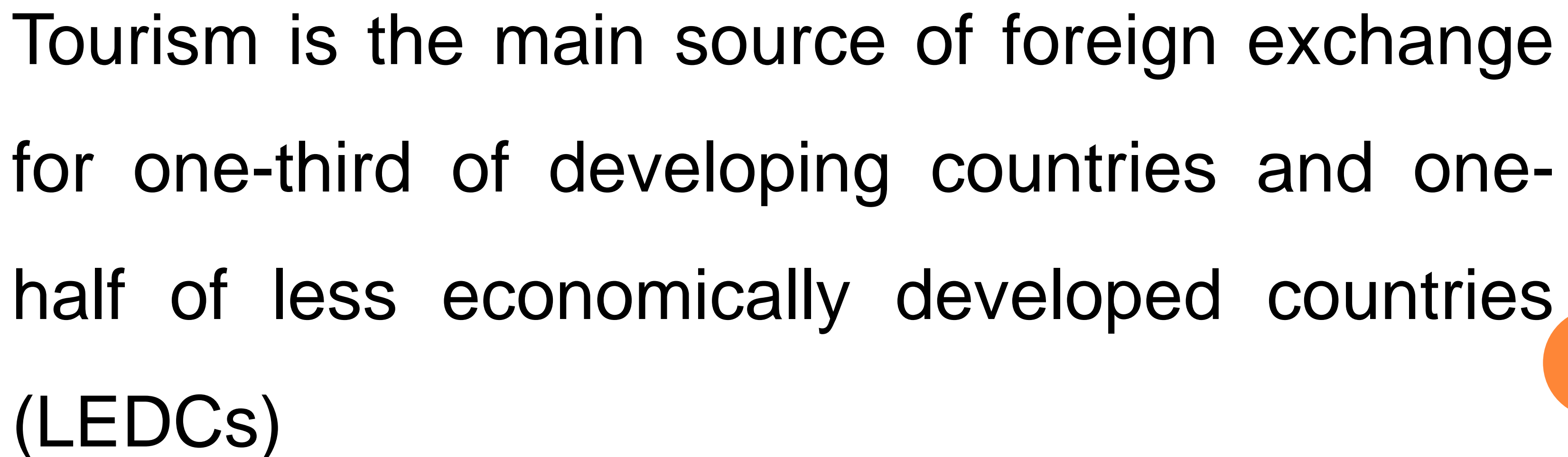
•International tourism ranks fourth (after fuels, chemicals and automotive products) in global exports

•The tourism industry is valued at US$1trillion a year

•Tourism accounts for 30 percent of the world's exports of commercial services



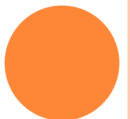
- Tourism accounts for 6 percent of total exports
- 1.4billion international tourists were recorded in 2018 (UNWTO)
- In over 150 countries, tourism is one of five top export earners



Tourism is the main source of foreign exchange for one-third of developing countries and one-half of less economically developed countries (LEDCs)

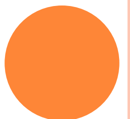
The economic impacts of tourism:

Tourism brings with it huge economic potential for a destination that wishes to develop their tourism industry. Employment, currency exchange, imports and taxes are just a few of the ways that tourism can bring money into a destination.



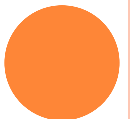
In recent years, tourism numbers have increased globally at exponential rates, as shown in the World Tourism Organization data below.

There are a number of reasons for this growth including improvements in technology, increases in disposable income, the growth of budget airlines and consumer desires to travel further, to new destinations and more often.



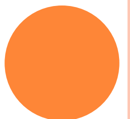
Tourism Multiplier Effect

Tourism not only creates jobs in the tertiary sector, it also encourages growth in the primary and secondary sectors of industry. This is known as the multiplier effect which in its simplest form is how many times money spent by a tourist circulates through a country's economy.



Money spent in a hotel helps to create jobs directly in the hotel, but it also creates jobs indirectly elsewhere in the economy. The hotel, for example, has to buy food from local farmers, who may spend some of this money on fertilizer or clothes. The demand for local products increases as tourists often buy souvenirs, which increases secondary employment.

The multiplier effect continues until the money eventually 'leaks' from the economy through imports - the purchase of goods from other countries.



New hotels set up

Create jobs directly in the hotels

Local businesses supply services

Other companies are attracted to the area

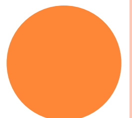
Workers spend their income in the local area; tax revenues increase

More jobs are indirectly created

The area becomes a more popular tourist destination, increasing profitability and revenue for re-investment

Taxes spent on improving infrastructure, image and tourist services

Money lost through leakage



Thank you