

Inflation & Deflation

Macro Economics

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

Inflation and Deflation (cont'd)

- **Purchasing Power**
 - The value of money for buying goods and services
 - Varies with prices and income

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

$$\text{Price index} = \frac{\text{Cost today of market basket}}{\text{Cost of market basket in base year}} \times 100$$

Inflation and Deflation (cont'd)

- Real-world price indexes
 - Consumer Price Index (CPI)
 - Producer Price Index (PPI)
 - GDP deflator
 - Personal Consumption Expenditure (PCE)

Inflation and Deflation (cont'd)

- **Consumer Price Index (CPI)**
 - A statistical measure of a weighted average of prices of a specified set of goods and services purchased by wage earners in urban areas
 - Market basket of goods and services of typical consumer

Inflation and Deflation (cont'd)

- **Producer Price Index (PPI)**
 - A statistical measure of a weighted average of prices of goods and services that firms produce and sell
 - Used as a short-run leading indicator (before CPI)
 - PPIs for
 - Foodstuffs
 - Intermediate goods
 - Finished goods

Inflation and Deflation (cont'd)

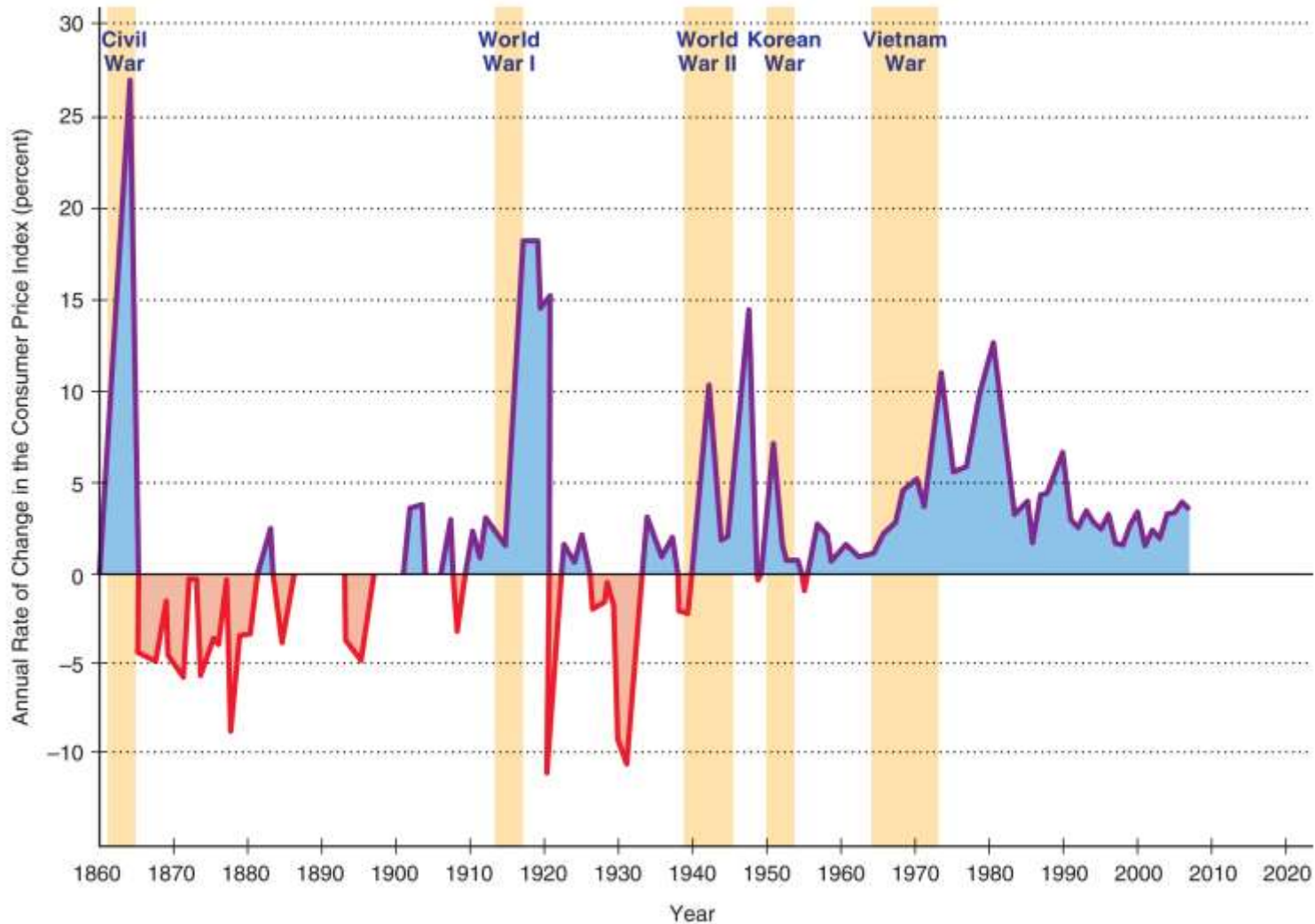
- **GDP Deflator**

- A price index measuring the changes in prices of all new goods and services produced in the economy
- Broadest measure of prices; reflects both price changes and the public's market responses to those price changes

Inflation and Deflation (cont'd)

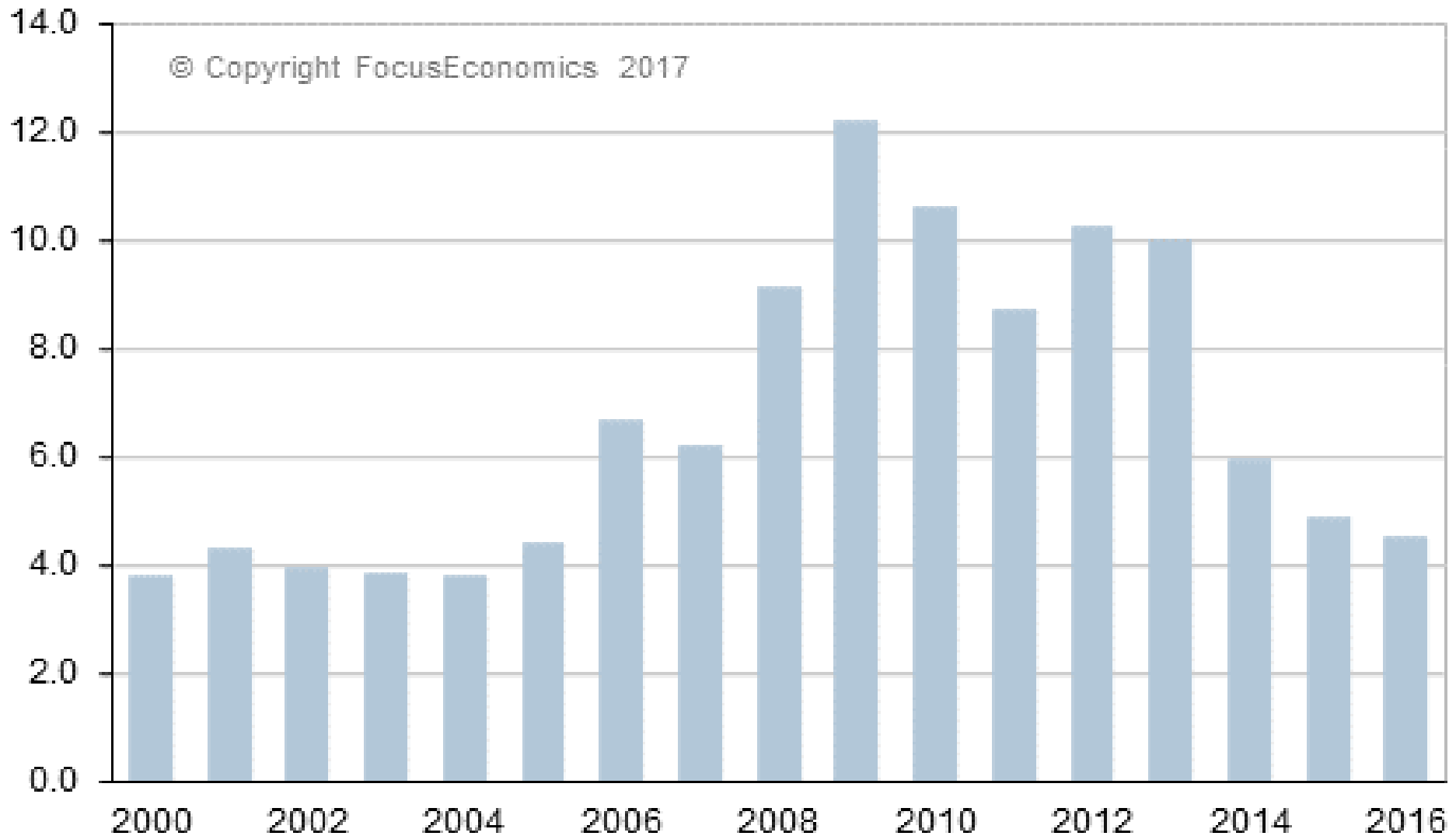
- **Personal Consumption Expenditure (PCE) Index**
 - A statistical measure of average price using annually updated weights based on consumer spending
 - Primary inflation index used by the Federal Reserve

Figure 7-4 Inflation and Deflation in U.S. History



Source: U.S. Department of Labor, Bureau of Labor Statistics

Inflation in India from 2000



TOURISM, TRANSITIONS & DEVELOPMENT IN INDIA (Government Role in Tourism)

MANAGERIAL ECONOMICS FOR
TOURISM

MAJOR BREAKTHROUGH, OSCILLATION & TURNING POINTS

- Sir John Sargeant Committee -1945
- The Committee Submitted the Report-1947
- Tourism thus grows on its own and from 15000 tourists arrivals in 1950
- TAAI-1951
- Establishment of a Separate Department of Tourism-1957(Mr. Somnath Chib, DG)
- L.K. Jha Committee 1962
- Establishment of ITDC -1966
- Creation of Separate Ministry of Tourism-1969
- PATA India Chapter-1974
- First National Tourism Policy -1982
- Formation of IATO-1982
- National Committee on Tourism- 1988
- Declaration of Tourism As An Industry -1987

TOURISM DEVELOPMENT IN FIVE-YEAR

Five-Year Plan	Allocation	Growth	Highlights
First (1951-1956)/			Opened of tourist offices with the country and overseas, and the production of tourist publicity materials.
Second (1956-1961)/ Third (1961-1966)	4.001	0.11	Introduced Schemes attracting tourists (international), development facilities for foreign & domestic tourists scheme domestic tourists
Fourth (1969-1974)	25.00	0.30	Planned for development of tourism infrastructure the production of tourist publicity literature for promotion in the overseas markets
Fifth (1974-1979)	23.62	0.121	Laid infrastructural facilities for foreign tourists by the Central department of Tourism, while the State governments' responsibility for development of facilities for domestic tourists. introduction of schemes of ITDC and promotion of Cultural Tourism . Study of tourism in India by NCAER and Gulmarg Winter Sports Project by UNDP.
Sixth (1980-1985)	72.00	0.15	Promoted cultural tourism, wild-life tourism and sports tourism including mountaineering and trekking, A list of 61 travel circuits comprising 440 tourist centers were identified and the second was the announcement of a national tourism policy 1982
Seventh (1985-1990)	138.68	0.15	National Development Council recommended to accord tourism the status of the industry and laid emphasis on encouraging private sector investments in developing tourism. Subsequently, 15 States and 3 Union Territories declared tourism as an industry and 4 States declared hotels as an TOURISM UNDER TEN FIVE YEAR PLANS / 112 industry. T
Eight (1992-1997)	272.00	0.11	development of selected tourist places/areas; diversification from culture-oriented tourism, Special Tourism Areas and the "Equity Scheme"
Ninth (1997-2002)	595.00	0.27	Government playing a role of facilitator for private sector participation in the development of tourism.
Tenth (2002-2007)	2900.00	0.71	vast employment generating potential of tourism and the role it can play in furthering the plan's socio-economic objectives. The Ministry of Tourism constituted a national Tourism Advisory Council (NTAC) in 2002 and in State Tourism Minister's Conference in September 2002 t
Eleventh (2007-2012)	5156.00	43.75	From non-awareness to awareness. • From awareness to interest. • From interest to desire. • From desire to final action i.e. booking a holiday.
Twelfth (2012-2017)	29,300.00	82.40	E-visa, PRASHAD- Pilgrimage Rejuvenation and Spiritual, Heritage Augmentation Drive for development , HRIDYA, National Medical and Wellness Tourism Board , India Golf Tourism Committee (IGTC) , Adopt a Heritage Scheme', "Swachhta Action Plan, pro-poor tourism approach

HINDRANCES ON THE WAYS

- British Rule of India-1757-1947
- Division of India-1947
- Indo China War-1963
- Indo-Pakistan War-1965
- **Pokhran-I** tests-1974
- National Emergency-1975
- Assassination of Indira Gandhi-1984
- Shortage of Foreign Exchange Reserve Ratio-1989
- Kashmir Turmoil-1990
- Iraq-Kuwait War-1990
- Kargil War-1999
- **Pokhran-II** tests -1998
- WTC Attack 9/11, 2002
- Declaration of War in Afghanistan & Iraq
Attack on Twin Towers, 2000

Highlights of tourism policy 1982:

1. The policy emphasizes that development of tourism is connected to central, state and district level, public sector and private sector.
2. The policy encourages individuals to participate in tourism development and also create interest in local youth.
3. The policy encourages public private partnership for tourism growth.
4. Realizing that tourism is a multi -sectoral activity the policy ensures inter-governmental linkages and co-ordination.
5. The policy states that tourism development depends on private sector. Private sector has to build and manage tourist facility, preserve it, maintain it, involve local community, build security etc to develop tourism.
6. The role of voluntary agencies and volunteers in tourism development is recognized by the policy.
7. The policy implies to facilitate larger funds to tourism infrastructure.
8. The policy recognizes that high quality standards in services, hotels and tourism related industries are required for foreign investment.
9. The policy suggests giving priority to technological advancement especially to information technology.
10. The policy suggests for safety and security of tourism sector.
11. Through government agencies the policy provides facilities like obtaining visas, immigration checks, fees etc.
12. The policy creates tourism economic zones, circuits and tourism areas.
13. The policy introduces prospective plans, conservation of natural environment and cultural heritages, cost effectiveness etc.

IX. National Tourism policy 2002:

Announcement of National tourism policy 2002 by the Government of India is a mile stone in tourism planning in India. This tourism policy 2002 is based on a multi faced approach, which includes faster or speedy implementation of tourism project development of integrated tourism circuits, capacity building in the hospitality sector and new marketing strategies. Main aim of National tourism policy 2002 is to position tourism as a major driver of economic growth. Government tries to achieve this aim by promoting domestic and international inbound tourism, developing tourist infrastructure, developing new destinations, promoting of agro rural tourism, new tourist circuits, and public private partnership. Main areas emphasized by the Government of India, in national policy 2002 are:

- i. Tourism product or destination development: National policy 2002 emphasized to promote existing tourism product and destination. For the development of tourism product and destination development, central Government provided assistance to the state Government and large projects have been funded.
- ii. Integrated development of tourist circuits: Central Government provided funds to the state government to develop tourist circuits to international standard.
- iii. Assistance for large revenue generating projects: This policy emphasized private public partnership to undertake large revenue generating projects like convention centre's, golf courses, cruises and tourist trains, which are used by tourists and provides large revenues to the state.
- iv. Support for private public partnership in infrastructure: This policy realized that private financial resource as well as technology and managerial talents are required for tourist infrastructure development. Therefore Government gives financial support to conduct study tour in India, fairs or exhibitions in abroad, publicity etc.

Foreign direct Investment:

Government of India allowed 100% Foreign Direct Investment in hotels and tourism industry. Hotels refer to restaurants, beach resorts and other tourist complexes providing accommodation and catering facilities to the tourists. Tourism industry includes travel agencies, tour operating agencies, tourist transport operating agencies and facilities for cultural, adventure and wild life experience, surface, air and water transport facilities, leisure, entertainment, sports, health and convention etc.

During the Eleventh five year plan (2007-2012) there was a distinct shift in the approach of tourism development as compared to previous plans. The vision for the tourism sector for the 11th FYP was 'to achieve a superior quality of life through development and promotion of tourism which would provide a unique opportunity for physical invigoration, mental rejuvenation, cultural enrichment and spiritual elevation'. This vision for tourism development was proposed to be achieved through the following strategic objectives.

- a) Positioning and maintaining tourism development as a national priority.
- b) Enhancing and maintaining India's competitiveness as a tourism destination.
- c) Improving and expanding product development.
- d) Creating world class infrastructure.
- e) Drawing up effective marketing plans and programmes and
- f) Developing human resources and capacity building of service providers.

NITI AAYOG

Introduction

- The NITI Aayog (National Institution for Transforming India) was set up in the year 2015 Jan 1st in the place of planning commission.
- The original planning commission was set up in March 1950 through a cabinet resolution.
- The Prime Minister will head the new institution as the Chairperson.
- The Prime Minister will appoint the vice chairperson and CEO.

History

- ▶ On May 29, 2014, the Independent Evaluation Office submitted an assessment report to Prime Minister Modi with the recommendation to replace the Planning Commission with a "control commission".

- ▶ On August 13, 2014, the Union Cabinet scrapped the Planning Commission, to be replaced with a diluted version of the National Development and Reform Commission (NDRC) of India.

- ▶ On January 1, 2015 a Cabinet resolution was passed to replace the Planning Commission with the newly formed NITI Aayog (National Institution for Transforming India).
- ▶ The first meeting of NITI Aayog was chaired by Narendra Modi on February 8, 2015.

Objectives of NITI Aayog

- NITI Aayog is essentially an advisory body that seeks to provide critical directional and strategic inputs across spectrum of key elements of policy to the centre as well as states.
- It also seeks to put an end to the slow and tardy implementation of the policy by fostering inter-ministry, inter-state and centre-state coordination
- Strong states make a strong nation, is the core idea; and the Ayog will foster cooperative federalism by evolving a shared vision of national development priorities.
- It has been envisaged to follow the bottom-top development approach whereby, it would develop mechanisms to formulate credible plans to the village level and aggregate these progressively at higher levels of government.

- It would also pay attention to the weaker sections of the society that may not have benefitted from economic progress.
- It would create a knowledge, innovation and entrepreneurial support system via a community of national and international experts, practitioners and partners.
- It would serve as a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda.
- It will also monitor and evaluate the implementation of programmes, and focus on technology upgradation and capacity building

Composition of NITI Ayog

- Chairperson - Prime Minister
- Governing Council – Its members are Chief Ministers and Administrators of the Union Territories
- Regional Councils -These would be created as per need and its members would be chief ministers and administrators of UTs of respective regions.
- Vice-Chairperson – The Vice-chairperson of the Niti Ayog will be appointed by Prime Minister. The first Vice-Chairperson of Niti Ayog is Arvind Panagariya.

- Niti Ayog has full time members (number unspecified), part time members (maximum 2), Ex-officio members (maximum 4, these are ministers from Union Council of Ministers), Special Invitees (appointed by PM for fixed tenure.
- Finally, there is a Chief Executive Officer (CEO) of the Niti Ayog, who is appointed by Prime Minister and has a rank similar to Secretary to the Government of India.

NITI AAYOG V/S PLANNING COMMISSION

PARAMETER	NITI AAYOG	PLANNING COMMISSION
Financial clout	To be an advisory body or a think tank.	Enjoyed the powers to allocate funds to ministers and state government.
States role	State government are expected to play a significant role than they did in the planning commission.	States role was limited to the National Development Council and annual interaction during plan meetings.

Full time
member
s

The number of full time
members could be less
than planning
commission.

The last commission
has 8 full time
members.

Member
secretary

To be known at the
CEO and to be
appointed by the PM

Secretaries or member
secretaries were
appointed through
usual process.

Part time
members

To have a number of
part time members
depending on the need
from time to time.

Full planning
commission had no
provision for part time
members.

PPP

Managerial Economics for Tourism

Models of Public Private Partnership (PPP)

Commonly adopted model of PPPs include

- Build-Operate-Transfer (BOT) ,
- Build-Own-Operate (BOO),
- Build-Operate-Lease-Transfer (BOLT),
- Design-Build-Operate-Transfer (DBFOT),
- Lease-Develop-Operate (LDO),
- Operate-Maintain-Transfer (OMT).

These models are different on level of investment, ownership control, risk sharing, technical collaboration, duration, financing etc.

BOT

- It is **conventional PPP model** in which private partner is responsible to design, build, operate (during the contracted period) and transfer back the facility to the public sector.
 - Private sector partner has to bring the finance for the project and take the responsibility to construct and maintain it.
 - Public sector will allow private sector partner to collect revenue from the users. The national highway projects contracted out by NHAI under PPP mode is a major example for the BOT model.

- **BOO:** In this model ownership of the newly built facility will rest with the private party.
 - On mutually agreed terms and conditions public sector partner agrees to ‘purchase’ the goods and services produced by the project.
- **BOOT:** In this variant of BOT, after the negotiated period of time, project is transferred to the government or to the private operator.
 - BOOT model is used for the development of highways and ports.

- **BOLT:** In this approach, the government gives a concession to a private entity to build a facility, own the facility, lease the facility to the public sector and then at the end of the lease period transfer the ownership of the facility to the government.
- **DBFO:** In this model, entire responsibility for the design, construction, finance, and operation of the project for the period of concession lies with the private party.

- **LDO:** In this type of investment model either the government or the public sector entity retains ownership of the newly created infrastructure facility and receives payments in terms of a lease agreement with the private promoter.
 - It is mostly followed in the development of airport facilities.

END