



# IAS PARLIAMENT

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## Impact of Stagflation on Markets

### What is the issue?

Authorities worldwide are trying to formulate appropriate set of policies to ensure that the current inflation is cooled without triggering a recession.

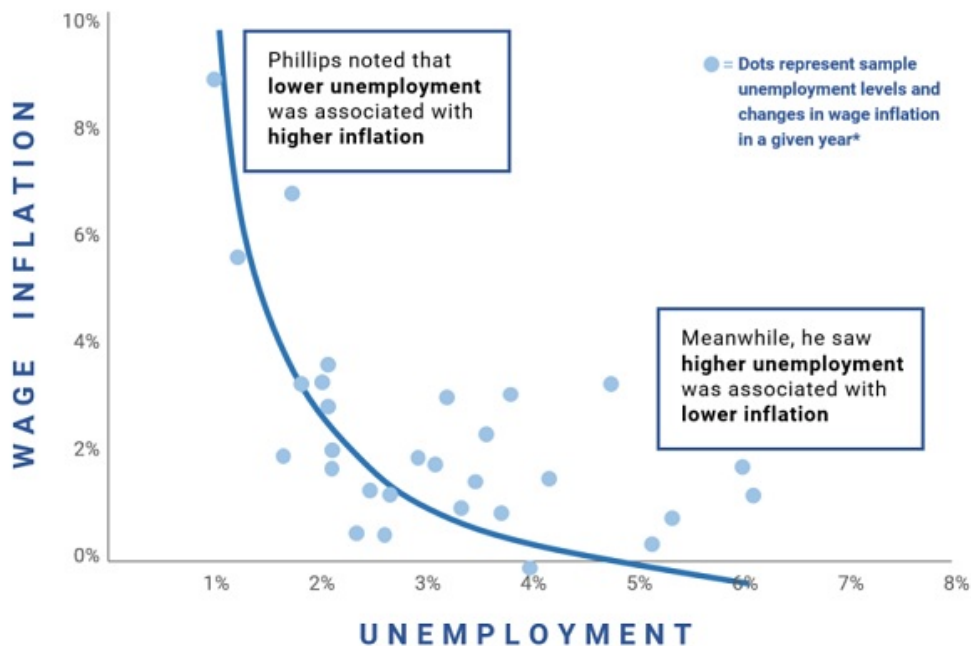
### What is stagflation?

- Stagflation is characterized by slow economic growth and relatively high unemployment (economic stagnation) and at the same time accompanied by rising prices (inflation).
- Stagflation was first recognized during the 1970s when many developed economies experienced rapid inflation and high unemployment as a result of an oil shock.
- Stagflation led to the emergence of the **Misery Index** which is the simple sum of the inflation rate and unemployment rate.
- The **Phillips curve** states that inflation and unemployment have an inverse relationship.

*The Misery Index measures the degree of economic distress felt by everyday people, due to the risk of joblessness combined with an increasing cost of living.*

# UNDERSTANDING THE PHILLIPS CURVE

In the 1950s, A.W. Phillips plotted decades' worth of data on wage inflation and unemployment. He noticed an inverse relationship between these two indicators.



## What has sparked the latest concerns about stagflation?

- **Covid-19**- The outbreak of the Covid-19 pandemic and the curbs imposed to contain the spread of the virus caused the major recent economic slowdown worldwide.
- **Fiscal and monetary measures**- The measures taken to address the downturn, including substantial increases in liquidity in most of the advanced economies fuelled upsurge in inflation.
- **Ukraine war**- The ongoing war in Ukraine following Russia's invasion and the consequent Western sanctions on Moscow has caused a fresh supply shock.

## What lies ahead?

- We've been hit by historically large inflationary shocks since the pandemic.
- There's a need to look the economy that's coming out the other side to find price stability.

## References

1. <https://www.thehindu.com/business/Economy/explained-how-are-fears-of-stagflation-impacting-markets/article65493930.ece?homepage=true>
2. <https://www.investopedia.com/terms/s/stagflation.asp>
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