

All-Inclusive Current Affairs for Prelims 2023

Economy Class-15

Inflation

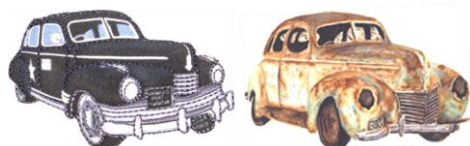
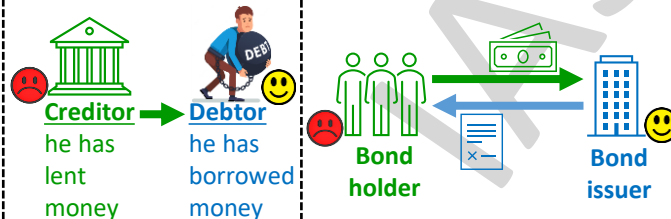
Inflation reduces value of money
Inflation reduces purchasing power of money

Prelims 2013 Consider the following statements

1. Inflation benefits the **debtors**
2. Inflation benefits the **bond-holders**

Which of the statements given above are correct?

- (a) **Only 1** (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2



You lent your car to a friend.
When friend returned car, its value had reduced.



Creditor lent money to Debtor.
When Debtor returned money, its value had reduced.

Inflation	Price increasing
Disinflation	Price increasing, but at slower speed
Deflation	Price falling
Stagflation	Stagnant (low) GDP growth rate, High Inflation, High unemployment
Shrinkflation	Companies shrinking size of goods instead of increasing price

2022 Economy	
Class-10	pg-60
Hindi video	58:45
English video	1:05:27

UP-PCS (M) 2017

Which of the following is/are definite implications of **fall in inflation rate** :

- I. Prices have fallen
- II. Prices are increasing more slowly than before
- III. Food supply has increased
- IV. There is industrial stagnation

Select the correct answer

- (a) I and III (b) I only
(c) II only (d) I, III and IV

Headline inflation

- It indicates total inflation in the country
- It is measured in **CPI**
- It includes food & fuel also
- It is more volatile than core inflation

Core inflation

CPI that does not include **food & fuel** due to excessive volatility

Prelims 2021

With reference to Indian economy, demand-pull inflation can be caused/increased by which of the following?

1. Expansionary policies
2. Fiscal stimulus
3. Inflation-indexing wages
4. Higher purchasing power
5. Rising interest rates

Select the correct answer

- (a) **1, 2 and 4 only** (b) 3, 4 and 5 only
(c) 1, 2, 3 and 5 only (d) 1, 2, 3, 4, and 5

Consumer Food Price Index

- uses same method as **CPI**
- for retail price of food products
- 3 categories - rural, urban, combined

Released by	CSO in MoSPI
Base year	2011-12
Frequency	monthly
Weightage	cereals > milk > vegetables...

Prelims 1993

A zero rate of inflation obtains necessarily in a year where the annual rate of inflation
(a) in every week of the year is zero
(b) is falling in every week of the year
(c) is both falling and rising in a year
(d) is constant in every week of the year



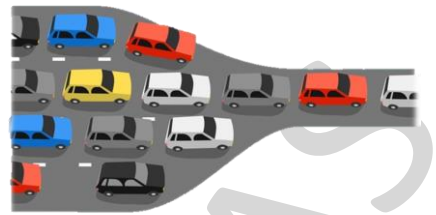
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UP-PCS 2021

Assertion (A) : The government faces a tough time tackling the bottleneck inflation.

Reason (R) : The situation is due to deficiencies existing in the economy such as supply bottleneck and inefficient distribution. Select the correct answer from the codes given below.

(a) Both (A) and (R) are true and (R) is correct explanation of (A)



Bottleneck inflation

Inflation due to supply side problems. e.g. restrictions during covid like factory shutdown & transport issues.

Structural inflation

Inflation due to structural weakness (supply bottlenecks, poor infra, etc.) Structural weakness does not allow supply to increase as per demand. It is mostly seen in developing countries.

Prelims 2011

India has experienced persistent & high food inflation in recent past. What could be the reasons?

1. Due to a gradual switch over to the cultivation of commercial crops, the area under the cultivation of food grains has steadily decreased in the last five years by about **30%**.
2. As a consequence of increasing incomes, the consumption patterns of the people have undergone a significant change.
3. The food supply chain has structural constraints.

Which of the statements given above are correct ?

(a) 1 and 2 only **(b) 2 and 3 only** (c) 1 and 3 only (d) 1, 2, and 3

BusinessLine

Don't ignore NAIRU

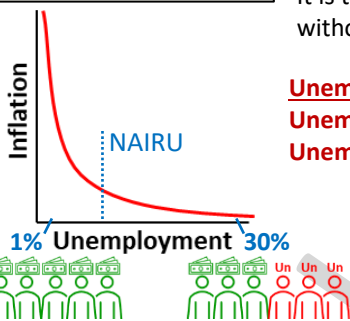
July 19, 2022 - Updated 09:56 am IST

It's an important metric for explaining inflation

NAIRU

Non-Accelerating Inflation Rate of Unemployment
(Unemployment that will not accelerate inflation)

It is the lowest unemployment rate that can be sustained without causing wages growth and inflation to rise.



Unemployment gap: difference unemployment rate and NAIRU

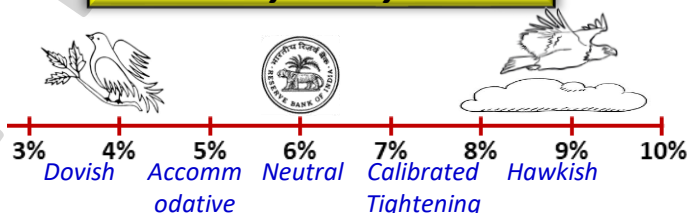
Unemployment less than NAIRU → high inflation → RBI may raise interest rates

Unemployment more than NAIRU → low inflation → RBI may reduce interest rates



Generally, 3-4% inflation, and 4-5% unemployment is considered good for developing economies like India.

Monetary Policy Stance



Dovish	Decrease rates to promote economic growth. Loose monetary policy.
Accommodative	May reduce rates in some meetings. Will not increase rates.
Neutral	No change, or may either increase or decrease the rates.
Calibrated Tightening	May increase rates in some meetings. Will not decrease rates.
Hawkish	Increase rates, to control inflation. Tight monetary policy.

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Digital Banking Unit

THE ECONOMIC TIMES

RBI shoots down proposal on "digital only banks"

Jun 17, 2022, 03:05 PM IST

The Reserve Bank of India has shot down the idea of full-stack "digital only banks" as they pose risks to the system, governor **Shaktikanta Das** hinted on Friday. Das who was speaking at an event in the financial capital also said that there was no proposal at the moment to regulate neo-banks and called for existing banks and non-banks to use technology for financial service delivery.

Digital Only Bank

- They have [no physical branch](#)
- They are [not allowed](#) in India

Digital Banking Unit

- Banking outlet of existing bank
- No separate license required
- Completely paperless
- Works in two modes: Self-service and Assisted

Who can open DBU?

Yes - Scheduled Commercial Banks

Yes - Small Finance Banks

No - [RRBs](#), [Payment Banks](#), [Local Area Banks](#)



Bank branch



DBU

Facilities at DBU

- Automated Teller Machine
- Cash Deposit Machine
- Passbook printing Machine
- Cheque Deposit Machine
- Account opening Machine
- Transfer funds, pay bills
- Credit card, debit card
- KYC, Loan, investment, insurance, digital financial literacy, etc.

Digital lending

THE HINDU

RBI's modified digital lending norms to come in effect from December 1

Under the new norms, all loan disbursements and repayments are required to be executed only between the bank accounts of borrower and the regulated entities

November 30, 2022 10:41 pm | Updated 10:41 pm IST - New Delhi

loans given digitally, by banks & NBFCs, usually through "[Lending Service Providers](#)" or "[Digital Lending App](#)"

RBI's guidelines on Digital lending

- applies to [all](#) banks and NBFCs
- applies to Buy Now Pay Later ([BNPL](#))
- Does [not](#) apply to [EMI on Credit card](#) (they have separate guidelines)
- Must disclose [Annual](#) Percentage Rate (APR) (including fees)
- [Recovery agent's](#) details must be shared with defaulter
- Can't increase [loan limit](#) without customers consent
- All [data](#) must be stored in [India only](#)

The Statesman

Jan Samarth Portal hosts loans under 13 credit linked Government Schemes

Any applicant/beneficiary can register, check eligibility under various Government Schemes, and apply for digital loan approval through the Jan Samarth Portal.

SNS | New Delhi | July 20, 2022 9:00 am

Jan Samarth Portal

(National portal for [credit linked](#) govt schemes)

- It is a digital portal linking various govt schemes.
- Various subsidy & [loan](#) schemes are available on it.
- Eligible people can apply online and get approval.
- It is linked to various ministries, banks, UIDAI, CDBT, NSDL, etc.

Price Monitoring

Ministry of Consumer Affairs, Food & Public Distribution
All states should establish price monitoring centres in all districts: Centre
 Posted On: 02 DEC 2022 6:50PM by PIB Delhi

Market Intelligence and Early Warning System

To monitor price of TOP Crops (Tomato, Onion, Potato)
 It generates alerts for intervention under [Operation Greens](#)
<https://pib.gov.in/newsite/PrintRelease.aspx?relid=199583>

Price Monitoring Division

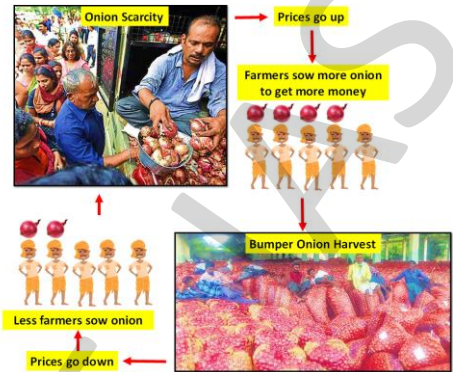
- It monitors (retail & wholesale) price of (22) selected essential commodities, on [daily basis](#)
- It implements commodity-specific [market intervention](#) schemes to give temporary relief to consumers
- It comes under [Department of Consumer Affairs](#), Ministry of Consumer Affairs, Food & Public Distribution

Price Stabilization Fund

- Set up in 2014-15 under Department of Agriculture (MoA&FW)
- In 2016 it was transferred to [Department of Consumer Affairs](#) (MoCA,F,PD)
- To regulate price volatility of agri commodities like onion, potatoes and pulses
- Direct purchase is done from mandi to create [strategic buffers](#)
- [Interest free loan](#) is given to govt agencies for [market intervention](#)
- Funds are maintained by [SFAC](#) (Small Farmers Agribusiness Consortium), a society under Dept of Agri

Cobweb phenomenon

Price fluctuation leads to fluctuations in supply, which causes a cycle of rising and falling prices



Yield Curve

The Indian EXPRESS
 JOURNALISM OF COURAGE
Inverted curve: Yield on 1-year bond rises above 10-year bonds to 7.48%
 Mumbai | March 9, 2023 05:00 IST

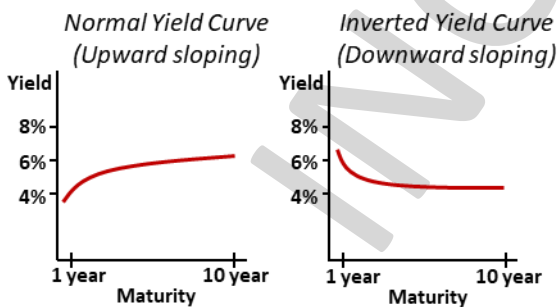
Prelims 2021

Indian Govt Bond Yields are [influenced by](#) which of the following?

- Actions of the United States Federal Reserve
- Actions of the Reserve Bank of India
- Inflation and short-term interest rates

Select the correct answer

- (a) 1 and 2 only (b) 2 only (c) 3 only **(d) 1, 2 and 3**



Yield Curve

It shows yields (interest rates) of bonds, of equal credit quality, but different maturity.

Someone borrows ₹ 10,000 from you

for 1 month → low risk → you will charge 4% interest
 for 10 years → high risk → you will charge 6% interest

Normal Yield Curve

Bond maturing [next year](#) has low risk, so [low yield](#).
 Bond maturing in [10 years](#) has more risk, so [high yield](#).

Inverted Yield Curve

Suppose economy is going through difficult time

Bonds maturing next year become risky.
 People don't want to buy 1 year bonds.

[Demand](#) for 1 year bonds will [fall](#)
[Yield](#) of 1 year bonds will [rise](#)

People will put money in safe place
 People will buy 10 year bonds

[Demand](#) for 10 year bonds will [rise](#)
[Yield](#) of 10 year bonds will [fall](#)

When the yield curve slowly starts to invert, it means that the market is predicting a slowdown/ [recession](#)

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