

NDA-CDS 2 2024

GK

LIVE

ECONOMICS

CLASS 3



RUBY MA'AM



18 July 2024 Live Classes Schedule

8:00AM	18 JULY 2024 DAILY CURRENT AFFAIRS	RUBY MA'AM
9:00AM	18 JULY 2024 DAILY DEFENCE UPDATES	DIVYANSHU SIR

SSB INTERVIEW LIVE CLASSES

9:30AM	MOCK PERSONAL INTERVIEWS	ANURADHA MA'AM
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NDA 2 2024 LIVE CLASSES

11:30AM	GK - ECONOMICS - CLASS 3	RUBY MA'AM
5:30PM	ENGLISH - USE OF PHRASAL VERBS - CLASS 1	ANURADHA MA'AM

CDS 2 2024 LIVE CLASSES

11:30AM	GK - ECONOMICS - CLASS 3	RUBY MA'AM
5:30PM	ENGLISH - PREPOSITIONS & DETERMINERS - CLASS 2	ANURADHA MA'AM



Inflation

- ▶ Increase in the general level of prices for goods and services **over a period of time**



2012: Rs.25/-

2016: Rs.50/-

Rate of Inflation = $(\text{Price in this Period} - \text{Price in the Previous Period}) \times 100$
/Price in the Previous Period

TYPES OF INFLATION OVERVIEW:

Based On Causation

- Demand Pull Inflation
- Cost Push Inflation
- Monetary Inflation
- Built In Inflation
- Headline/Core Inflation
- Profit Induced Inflation
- Structural Inflation

Based On Speed

- Creeping Inflation
- Walking Inflation
- Running Inflation
- Galloping or Hyperinflation

Others

- Skewflation
- Stagflation

Cost Push Inflation

Caused By **An Increase In Prices Of Inputs** Like Labour, Raw Material, Etc.

- Increased Price Of Factors Of Production Leads To A Decreased Supply Of These Goods.
- While **Demand Remains Constant**, Prices Of Commodities Increase Causing A Rise In The Overall Price Level. This Is In Essence Cost Push Inflation.

Demand Pull Inflation

- Increase In **Aggregate Demand Mainly** Comes From Either Increase In Government Expenditure (Expansionary Fiscal Policy) Or By An Increase In Expenditure From Households And Firms.
- **Aggregate Demand > Aggregate Supply**. This Simply Means That Firms In Economy Are Not Capable Of Producing Goods And Services Demanded By Households In Present Time Period.

CORE INFLATION	HEADLINE INFLATION
<ul style="list-style-type: none">• Core inflation is the change in the costs of goods and services but does not include those from the food and energy sectors. This measure of inflation excludes these items because their prices are much more volatile. It is most often calculated using the consumer price index (CPI), which is a measure of prices for goods and services.• Core Inflation is a reflection of a long-term inflationary trend in the economy.	<ul style="list-style-type: none">• A measure of the total inflation within an economy, including commodities such as food and energy prices (e.g., oil and gas), which tend to be much more volatile and prone to inflationary spikes.• Headline inflation may not present an accurate picture of an economy's inflationary trend since sector-specific inflationary spikes are unlikely to persist.

INFLATION BASED ON SPEED

Creeping Inflation (1-4%)	When the rate of inflation slowly increases over time. For example, the inflation rate rises from 2% to 3%, to 4% a year.
Walking Inflation (2-10%)	When inflation is in single digits – less than 10%. Central Banks will be increasingly concerned.
Running Inflation (10-20%)	When inflation starts to rise at a significant rate. It is usually defined as a rate between 10% and 20% a year.
Galloping Inflation (20%-1000%)	This is an inflation rate of between 20% up to 1000%. At this rapid rate of price increases, inflation is a serious problem and will be challenging to bring under control.
Hyper-inflation	Inflation rising at a very faster rate, can lead to a total collapse of the currency and economic crisis. E.g., Venezuela is experiencing hyperinflation due to poor economic policies and weak government.

DEFLATION, DISINFLATION, INFLATION, REFLATION AND DEPRESSION

Deflation	It is the general fall in the price level over a period of time
Disinflation	It is the fall in the rate of inflation or a slower rate of inflation. Example: a fall in the inflation rate from 8% to 6%.
Inflation	It is the rise in prices of goods and services within a particular economy wherein, the purchasing power of consumers decreases, and the value of the cash holdings erode
Reflation	Reflation is the act of stimulating the economy by increasing the money supply or by reducing taxes, seeking to bring the economy back up to the long-term trend, following a dip in the business cycle. It is the opposite of disinflation.
Depression	It is Economic depression is a sustained, long-term downturn in economic activity

Wholesale Price Index (WPI)

Price Of A Representative Basket Of Wholesale Goods

- Focuses On Price Of Goods **Traded Between Corporations, Rather Than** Goods Bought By Consumers, Which Is Measured By Consumer Price Index
- Purpose Of The WPI → **To Monitor Price Movements** That Reflect Supply And Demand In Industry, Manufacturing And Construction
- **Published By Office Of Economic Adviser**, Ministry Of Commerce And Industry
- Base Year Of All- India WPI → Revised From 2004-05 To 2011-12 In 2017

Consumer Price Index CPI

Measures Changes In Price Level Of A Weighted Average Market Basket Of Consumer Goods And Services Purchased By Households.

➤ It Measures Changes Over Time In The Level Of Retail Prices Of Selected Goods And Services On Which Consumers Of A Defined Group Spend Their Incomes.

➤ Base Year For CPI → 2012

Four types of CPI:

1) **CPI for Industrial Workers (IW)**

2) **CPI for Agricultural Labourer (AL)**

3) **CPI for Rural Labourer (RL)**

4) **CPI (Rural/Urban/Combined) → Central Statistical Organization (CSO)**

Labour Bureau in the Ministry of Labour and
Employment

GDP Deflator

GDP Deflator refers to ratio between GDP at Current Prices & GDP at Constant Prices. **(GDP Deflator = GDP at Current Prices/GDP at Constant Prices)**

- If the GDP Deflator = 1, it implies no change in the general price level.
- If the GDP Deflator > 1, it implies an increase in the general price level.
- If the GDP Deflator < 1, it implies a decrease in the general price level.

EFFECT OF INCREASING INFLATION

BENEFITS	DISADVANTAGES
It lowers the interest rate	Lenders suffer as real purchasing power declines
Debtors benefit.	Fixed income people like pensioners and salaried people suffer. Uncertainty in the economy so less investment
Currency depreciates	Imports suffer as they become costlier due to depreciation of the currency
Exports benefit majorly due to the depreciation of the currency	Real wages decrease.
Businesspeople gain profits.	Rupee purchasing power declines.
Savings, investment, and employment rise in the short term	Fall in real value of savings.



REVIEW QUESTIONS

Inflation Is Caused By

- A. Increase In Supply Of Goods
- B. Increase In Cash With The Government
- C. Decrease In Money Supply
- D. Increase In Money Supply

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- A. Growth Has No Relation With The Change In Price
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- C. Rate Of Growth Is Faster Than The Rate Of Price Increase
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- A. Cost of Living Index (CLI)
- B. Consumer Price Index (CPI)
- C. Gross Domestic Product (GDP)
- D. Wholesale Price Index (WPI)

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- A. Discount Field
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- C. Negative Growth
- D. Market Capitalism

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- A. Wholesale Price Index Number
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- C. Consumers Price Index For Agricultural
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- A. Specialisation increases
- B. Commercialisation decreases
- C. Market imperfections increase
- D. None of the above

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- C. Increase in investment.
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A Rapid Increase In The Rate Of Inflation Is Sometimes Attributed To The Base Effect. What Is Base Effect

- A. It Is The Impact Of Drastic Deficiency In Supply Due To Failure Of Crops.
- B. It Is The Impact Of The Surge In Demand Due To Rapid Economic Growth.
- C. It Is The Impact Of The Price Levels Of Previous Year On The Calculation Of Inflation Rate.
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- B. Deficit Financing Takes Place.
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[CDS-2014-II]

- (a) When total product increases at an increasing rate : Marginal product increases
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ANSWER - D

The Way Total Output Changes Due To Change In All Inputs In Same Proportion Is Known As Law Of

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- C. Increasing Returns
- D. Constant Returns

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Market In Which There Are Large Numbers Of Sellers Of A Particular Product, But Each Seller Sells Somewhat Differentiated But Close Products Is Termed As

- A. Perfect Competition
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- C. Monopolistic Competition
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