SHRI KRISHNA IAS INSTITUTE

FOR PRELIMS AND MAINS

DAILY CURRENT AFFAIRS

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ECONOMICS

1. GREEDFLATION

Context: Progressives in the United States have accused corporate greed as a major reason for the historically high price inflation in the U.S. since the pandemic.

The proponents of the idea of greedflation argue that corporate profit margins have risen significantly since the pandemic even though the larger economy has struggled and that this has contributed to high inflation.

Many economists have questioned the validity of the argument that corporate thirst for higher profits is the cause behind inflation. They see it as mostly a political narrative built around the issue of inflation rather than as a economic explanation of high inflation since the pandemic.

What is Greedflation and is it happening in developed countries?

- **Greedflation** simply means (corporate) greed is fuelling inflation.
- In other words, instead of the wage-price spiral, it is the **profit-price spiral** that is in play.
- In essence, greedflation implies that companies exploited the inflation that people were experiencing by putting up their prices way beyond just covering their increased costs and then used that to maximise their profit margins. That, in turn, further fuelled inflation.
- In the developed countries — in Europe and the US — there is a growing consensus that greedflation is the real culprit.

What is inflation — and disinflation, deflation and reflation?

To begin with, inflation (or the inflation rate) is the rate at which the general price level rises. When it is reported that the inflation rate was 5% in June it implies that the general price level of the economy (as measured by a representative basket of goods and services) was 5% more than what it was in June 2022.

Disinflation refers to the trend when the inflation rate decelerates. Suppose it was 10% in April, 7% in May and 5% in June. This is disinflation.

In other words, disinflation **refers to a period when even though prices are rising** (or inflation is happening), it is happening at a **slower rate each passing month.**

Deflation is **the exact opposite of inflation**. Imagine if the general prices level in June was 5% lower than what it was in June last year. That's deflation.

Reflation typically follows deflation as **policymakers try to pump up economic activity** either by government spending more and/or interest rates being reduced.

TYPES OF INFLATION

For the most part, there are two main ways in which inflation happens.

Either prices get pushed up because input costs have risen — this is called **cost-push inflation** — or they are pulled up because there is excess demand — this is called **demand-pull inflation.**

If crude oil prices went up by 10% overnight — say, because of a supply disruption — then the general price level will be pushed up because energy costs have gone up.

Similarly, if demand goes up suddenly and far in excess of supply, then prices can be pulled up. Suppose RBI cuts interest rates sharply and you and all your friends find that buying a house is now quite affordable, since EMIs have fallen, then the sudden surge in demand for new houses will pull up home prices because new houses cannot be made immediately.

<u>How is inflation solved?</u>

If inflation is because of excess demand, the central banks raise interest rates to bring overall demand in line with overall supply.

However, oddly enough, if inflation is due to cost pressures, even then the central banks raise interest rates. Of course, raising interest rates does nothing to boost supply.

Still central banks do what they can: contain demand because that is all they can do.

The idea is to prevent something called the **wage-price spiral.**

What Is the Wage-Price Spiral?

The wage-price spiral is a macroeconomic theory used to explain the cause-and-effect relationship between rising wages and rising prices, or inflation.

The wage-price spiral suggests that rising wages increase disposable income raising the demand for goods and causing prices to rise.

Rising prices increase demand for higher wages, which leads to higher production costs and further upward pressure on prices creating a conceptual spiral.

2.'MANUFACTURING GROWTH EASED IN JUNE'

<u>CONTEXT:</u> Manufacturing growth eased slightly in June, the survey based S&P Global India

Manufacturing Purchasing Managers' Index (PMI) signalled, with the index easing to 57.8 from 58.7 in May. New orders, however, grew at a fast clip, compelling firms to ramp up output at a pace that was among the fastest in 18 months even as they raised output charges at the quickest pace since May 2022.

<u>FACTS ABOUT PMI</u>

- The Purchasing Managers' Index (PMI) is an **economic indicator** that measures the performance of the manufacturing and services sectors in India.
- The PMI is **<u>published by IHS Markit</u>**
- It is based on **monthly surveys of purchasing managers** in various industries and provides insight into changes in output, new orders, employment, and other factors affecting business activity.
- **<u>USE</u>**: PMI is used by policymakers, investors, and businesses to monitor economic trends and make informed decisions

<u>The Purchasing Managers Index (PMI) has several components, including:</u>

1) **Manufacturing PMI:** This measures the performance of the manufacturing sector, including changes in output, new orders, employment, and inventory levels.
2) **Services PMI:** This measures the performance of the services sector, including changes in business activity, new orders, employment, and backlogs.
3) **Composite PMI:** This is a weighted average of the Manufacturing PMI and the Services PMI, providing an overall picture of economic activity in India.

HOW IS PMI CALCULATED?

- ✓ The PMI is calculated by surveying purchasing managers in various industries, who are asked about their perceptions of changes in key variables such as output, new orders, employment, inventory levels, and supplier deliveries.
- ✓ The survey respondents are asked to provide their responses **on a scale of 0 to 100**, with scores **above 50 indicating expansion in the sector** and **scores below 50 indicating contraction.**

QUESTION: WHAT ARE THE IMPORTANCE AND LIMITATIONS OF PMI ?

SCIENCE AND TECHNOLOGY

1. WHY GOVT IS GOING AFTER 'DARK PATTERNS'

CONTEXT: The Centre has asked e-commerce companies to not use "dark patterns" on their platforms that may deceive customers or manipulate their choices. The government has set up a 17-member task force to prepare guidelines to protect consumers.

What are dark patterns?

Dark patterns, also known as **deceptive patterns**, is the term used to describe the ways in which **websites or apps make their users do things** that the **users do not intend to do or would not** otherwise do, as well as to discourage user behaviour that is **not beneficial for the companies**.

The term dark patterns was **coined by Harry Brignull**, a London-based user experience (UX) designer, **in 2010.** The Internet is replete with examples of dark patterns.

The Consumer Affairs Ministry has identified nine types of dark patterns being used by e-commerce companies. Most of these are also listed on deceptive.design.

* **False urgency:** Creates a sense of urgency or scarcity to pressure consumers into making a purchase or taking an action;

* **Basket sneaking:** Dark patterns are used to add additional products or services to the shopping cart without the user's consent;

* **Confirm shaming:** Uses guilt to make consumers adhere; criticises or attacks consumers for not conforming to a particular belief or viewpoint;

* **Forced action:** Pushes consumers into taking an action they may not want to take, such as signing up for a service in order to access content;

* **Nagging:** Persistent criticism, complaints, and requests for action;

* **Subscription traps:** Easy to sign up for a service but difficult to quit or cancel; option is hidden or requires multiple steps;

* **Bait & switch:** Advertising a certain product/ service but delivering another, often of lower quality;

* **Hidden costs:** Hiding additional costs until consumers are already committed to making a purchase;

* **Disguised ads:** Designed to look like content, such as news articles or user-generated content.

ENVIRONMENT

1. DIVERSITY FOR RESTORATION (D4R) TOOL

CONTEXT: Researchers from Bioversity International have devised a tool named Diversity for Restoration (D4R) for promoting restoration programmes in India.

Another team from Ashoka Trust for Research in Ecology and the Environment helped these researchers to modify the tool for Indian conditions.

In countries like Malaysia, Ethiopia, Columbia, Peru, Burkina Faso, Cameroon the tool is already in use.

It is modified for India and provides recommendations about a particular tree species for plantations in a specific location.

IMPORTANCE OF D4R TOOL

- This tool is being claimed to help in enabling appropriate agroforestry and aiding systematic ecosystem restoration programmes in India.
- By using this tool tree species, which match the restoration objectives, are identified along with their ecological benefits.
- It helps in identifying the best suited tree species for a particular geographical region. Hence it promotes sustainable development.
- It will also help in success of restoration of land and ecosystems with minimum instances of failure of plantation programme.
- Thus, better decision would be taken regarding selection of the species suitable to local environmental, soil, and geographical conditions.
- This tool contains information on 100 plant functional traits of 237 important native trees of Western Ghats which have socio-economic significance.
- Functional trait provides information on economic and ecological uses of tree like timber, medicine, fruits or other commercial benefits.
- Habitat suitability, threat status are also considered by this tool while identifying suitable species.

- This tool will serve the **purpose of socio-ecologically responsible restoration** and will benefit **local communities**.