UPSC CURRENT AFFAIRS MCQS 08-10-2023

1. Consider the following statements regarding GDP Deflator:

1. It shows the increase in the value of GDP due to an increase in inflation between the periods rather than an increase in output.
2. The GDP deflator contains only those goods and services which households purchase for consumption.

Which of the above statements is/are correct?

(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

Answer: (a)

Explanation: GDP Deflator is the ratio of the GDP at current prices to that of the constant prices. It is derived by using the following formula—GDP Deflator = GDP at Current Prices ÷ GDP at Constant Prices * 100. This ratio helps show the extent to which the increase in the gross domestic product has happened on account of higher prices rather than an increase in output. This is why it is used as a measure of inflation (also known as an 'implicit price deflator').

In case of India, while services are not included in the wholesale price index (WPI), the consumer price index (CPI) contains only those goods and services which households purchase for consumption (such as food, cloth, health, education, etc.) and misses several other goods and services (such as intermediate goods, services required by firms, etc.).

Hence, statement 1 is correct.

2. Consider the following statements:

1. The Monetary Policy Committee (MPC) has six members including the RBI Governor, where each member is nominated by the RBI.
2. The Monetary Policy Committee meets every two months to evaluate the current status and outlook for inflation and economic growth.
3. When the Monetary Policy Committee wants to contain inflation, it follows "dear money" policy.

How many of the above statements are correct?

(a) Only one
(b) Only two

(c) All three
(d) None

Answer: (b)

Explanation: The MPC has six members including the RBI Governor — three each nominated by the RBI and the government. The MPC meets every two months to evaluate the current status and outlook for inflation and economic growth. Based on that assessment, it tweaks the repo rate, which is the interest rate at which the RBI loans money to the banking system. It is for this reason that movements in the repo rate influence the overall interest rates in the economy.

Typically, when the MPC wants to contain inflation, it raises the repo rate. Such a "dear money" policy makes all types of borrowing — both for consumers (say, car loans) and producers (say, fresh business investments) — costlier and effectively slows down economic activity in the economy. When inflation outlook is benign but growth is stalling, the RBI can choose to lower the repo rate and promote economic activity; such a "cheap money" policy incentivises people to spend money instead of saving it. Hence, statement 1 is incorrect.

3. Which of the following factors can lead to cyclical slowdown in the Indian Economy?

1. Over-investment in capital assets and in inventory.
2. The production of final goods is not absorbed leading to lower prices and lower economic activity.
3. Changing demographics and change in consumer behaviour.

How many of the above statements are correct?

(a) Only one
(b) Only two
(c) All three
(d) None

Answer: (b)

Explanation: Typically, a cyclical slowdown is caused by an excess of investment demand—over-investment in capital assets (residential and non-residential) and in inventory. The production of final goods generated by excess investment is not absorbed, leading to inventory reduction, lower prices, lower economic activity, and some loss in employment. When this is accompanied by excess debt, the cyclical slowdown can be prolonged or it may become structural.

A structural slowdown, on the other hand, is a more deep-rooted phenomenon that occurs due to a one-off shift from an existing paradigm. The changes, which last over a long-term, are driven by disruptive technologies, changing demographics, and/or change in consumer behaviour.

4. Stressed Assets is a powerful indicator of the health of the banking system. It includes:

1. Non-performing Assets
2. Restructured Loans
3. Written off Assets

How many of the above statements are correct?

(a) Only one
(b) Only two
(c) All three
(d) None

Answer: (c)

Explanation: The most important scale of asset quality is Non-Performing Assets (NPA). But NPA alone doesn't tell the whole story of bad asset quality of loans given by banks. Hence a new classification is made in the form of stressed assets that comprises restructured loans and written off assets besides NPAs.

Restructured asset or loan are that assets which got an extended repayment period, reduced interest rate, converting a part of the loan into equity, providing additional financing, or some combination of these measures.
Written off assets are those the bank or lender doesn't count the money borrower owes to it. The financial statement of the bank will indicate that the written off loans are compensated through some other way.

Hence, all are correct.

5. The term 'Kostak rate' sometimes seen in news, is related to:

(a) Money Market
(b) Minimum Support Price (MSP)
(c) Initial Public Offer (IPO)
(d) Gross Domestic Product

Answer: (c)

Explanation: It relates to an IPO application. So, the rate at which an investor buys an IPO application before the listing is termed the Kostak rate. Hence, option (c) is correct.