

CURRENT AFFAIRS

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#DAILY UPDATES

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2023

1. June inflation quickens to 4.8% as food prices climb: The Hindu – Page 1,10

Why is it in news?	Retail inflation hardened in June to a three-month high of 4.81%, from May's 4.31%, driven by a spike in foodprice gains due to the rising costs of items like cereals, pulses, milk and tomatoes.
UPSC SYLLABUS RELEVANCE for prelims and Mains	Prelims: Indian Economy - Inflation Mains: General Studies III - Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.
Important concepts	Inflation

Prelims PYQ Exercise-Find answer:

Q. With reference to the Indian economy. consider the following statements: (2020)

1. An increase in Nominal Effective Exchange Rate (NEER) indicates the appreciation of rupee.
2. An increase in the Real Effective Exchange Rate (REER) indicates an improvement in trade competitiveness.
3. An increasing trend in domestic inflation relative to inflation in other countries is likely to cause an increasing divergence between NEER and REER

Which of the above statements are correct?

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

Today's prelims practice question:

Q. Consider the following statements about inflation:

1. Supply side inflation is caused by high demand and low production or supply of multiple commodities create a demand-supply gap, which leads to a hike in prices due to increase in consumption.
 2. The Wholesale Price Index (WPI) calculates the difference in the price of commodities and services such as food, medical care, education, electronics etc, which Indian consumers buy for use.
- Which among the statements mentioned above is/are correct?

- A. 1 only
- B. 2 only
- C. Both 1 and 2
- D. Neither 1 nor 2

Correct answer: D

Explanation: Demand Side inflation is caused by high demand and low production or supply of multiple commodities create a demand-supply gap, which leads to a hike in prices due to increase in consumption. The Consumer Price Index (CPI) calculates the difference in the price of commodities and services such as food, medical care, education, electronics etc, which Indian consumers buy for use.

Mains PYQ exercise:	Besides the welfare schemes, India needs debt management of inflation and unemployment to serve the poor and the underprivileged sections of the society. Discuss.(2022)
Today's mains practice question:	Examine the effect of inflation on the economy, in the light of the recent rise of inflation due to increase in the food prices.

DETAILED EXPLANATION OF IMPORTANT CONCEPTS

Inflation:

What is Inflation?

- Inflation refers to the rise in the prices of most goods and services of daily or common use, such as food, clothing, housing, recreation, transport, consumer staples, etc.
- Inflation measures the average price change in a basket of commodities and services over time.
- The opposite and rare fall in the price index of this basket of items is called 'deflation'.
- Inflation is indicative of the decrease in the purchasing power of a unit of a country's currency.
- This is measured in percentage.

Types of inflation:

- Demand Pull Inflation: Demand pull inflation arises when aggregate demand in the economy becomes more than aggregate supply.
- Cost push inflation: when there is decrease in aggregate supply of goods and services results into increase in cost of production.

What causes Inflation?

- Demand Side inflation is caused by high demand and low production or supply of multiple commodities create a demand-supply gap, which leads to a hike in prices due to increase in consumption.
- Along with these, an increase in exports which undervalues rupee; the excess circulation of money leads to inflation as money loses its purchasing power.
- With people having more money, they also tend to spend more, which causes increased demand.
- Cost Pull inflation is caused by shortage of factors of production like labour, land, capital etc. and also due to artificial scarcity created due to hoarding.

Inflation Rates in India:

- There are different indices in India like Wholesale Price Index (WPI), Consumer Price Index (CPI) etc. which measure inflation rates in India, which measure wholesale and retail-level price changes, respectively.
- The CPI calculates the difference in the price of commodities and services such as food, medical care, education, electronics etc, which Indian consumers buy for use.
- On the other hand, the goods or services sold by businesses to smaller businesses for selling further is captured by the WPI.
- In India, both WPI (Wholesale Price Index) and CPI (Consumer Price Index) are used to measure inflation.

Effect of Inflation in Indian economy:

- The purchasing power of a currency unit decreases as the commodities and services get dearer.

- This also impacts the cost of living in a country.
- When inflation is high, the cost of living gets higher as well, which ultimately leads to a deceleration in economic growth.
- A certain level of inflation is required in the economy to ensure that expenditure is promoted and hoarding money through savings is demotivated.

2. Zelenskyy persists with bid for Ukraine's NATO entry: The Hindu – Page 13

Why is it in news?	Ukrainian President Volodymyr Zelenskyy welcomed fresh commitments of weapons and ammunition to fight Russia's invasion even as he expressed disappointment over the lack of a clear path for his country to join NATO as the alliance wrapped up its annual summit.
UPSC SYLLABUS RELEVANCE for prelims and Mains	<p>Prelims: Current events of national and international importance.</p> <p>Mains: General Studies II - Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests.</p>
Important concepts	NATO
<p align="center">Today's prelims practice question:</p> <p>Q. Consider the following statements about NATO:</p> <ol style="list-style-type: none"> 1. The Vienna convention forms the basis of the North Atlantic Treaty Organization or NATO. 2. At present, NATO has 36 member countries. <p>Which among the statements mentioned above is/are correct?</p> <p>A. 1 only</p> <p>B. 2 only</p> <p>C. Both 1 and 2</p> <p>D. Neither 1 nor 2</p> <p>Correct answer: A</p>	

Explanation: The Washington Treaty or North Atlantic Treaty forms the basis of the North Atlantic Treaty Organization or NATO. The Treaty was signed in Washington D.C. on 4 April 1949 by 12 founding members. At present, NATO has 31 member countries.

DETAILED EXPLANATION OF IMPORTANT CONCEPTS

NATO:

Foundation of NATO:

- The foundations of the North Atlantic Treaty Organization (NATO) were officially laid down on 4 April 1949 with the signing of the North Atlantic Treaty, more popularly known as the Washington Treaty.
- The Washington Treaty or North Atlantic Treaty forms the basis of the North Atlantic Treaty Organization or NATO.
- The Treaty was signed in Washington D.C. on 4 April 1949 by 12 founding members.

About NATO:

- The Treaty derives its authority from Article 51 of the United Nations Charter, which reaffirms the inherent right of independent states to individual or collective defence.
- Collective defence is at the heart of the Treaty and is enshrined in Article 5.
- It commits members to protect each other and sets a spirit of solidarity within the Alliance.
- The Treaty is short – containing only 14 articles – and provides for in-built flexibility on all fronts.
- Despite the changing security environment, the original Treaty has never had to be modified and each Ally has the possibility to implement the text in accordance with its capabilities and circumstances.

Member countries:

- At present, NATO has 31 member countries.
- These countries, called NATO Allies, are sovereign states that come together through NATO to discuss political and security issues and make collective decisions by consensus.

NATO Secretary-General:

- NATO Secretary-General Jens Stoltenberg will stay in office for another year, until 1 October 2024.
- Mr. Stoltenberg, a former Norwegian Prime Minister, has been NATO's top civilian official since 2014.
- His term had been due to expire last year but was extended then to keep a steady hand at the helm after Russia's invasion of Ukraine in February 2022.
- U.S. President Joe Biden and his NATO counterparts had been due to name a successor when they meet in Vilnius, Lithuania, on July 11-12.
- But the world's biggest security organisation makes decisions by consensus, and no agreement could be found on a new candidate.
- It's the fourth time Mr. Stoltenberg has had his mandate extended.
- He's the second-longest serving NATO Secretary-General.

3. IIP rises 5.2%, led by infrastructure: The Hindu – Page 14

Why is it in news?	Industrial output expanded at the fastest pace in three months in May buoyed by infrastructure to grow by 5.2%, compared with April's 4.46%.
UPSC SYLLABUS RELEVANCE for prelims and Mains	<p>Prelims: Indian Economy</p> <p>Mains: General Studies III - Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.</p>
Important concepts	Index of Industrial Production (IIP)
<p align="center">Prelims PYQ Exercise-Find answer:</p> <p>Q. In the 'Index of Eight Core Industries', which one of the following is given the highest weight? (2015)</p> <p>a. Coal production</p> <p>b. Electricity generation</p> <p>c. Fertilizer production</p>	

d. Steel production

Today's prelims practice question:

Q. Consider the following statements about the Index of Industrial Production (IIP):

1. The Index of Industrial Production (IIP) is calculated using the Laspeyre's formula.
2. Weightage of Crude oil is highest in IIP.

Which among the statements mentioned above is/are correct?

- A. 1 only
- B. 2 only
- C. Both 1 and 2
- D. Neither 1 nor 2

Correct answer: A

Explanation: The Index of Industrial Production (IIP) is compiled as a simple weighted arithmetic mean of production relatives by using Laspeyre's formula. The Laspeyres index is a method for calculating the consumer price index that compares the current year's price of the basket of items to the base year. The eight core sector industries in decreasing order of their weightage: Refinery Products> Electricity> Steel> Coal> Crude Oil> Natural Gas> Cement> Fertilizers.

Today's mains practice question:

Discuss the significance of the Index of Industrial Production (IIP) and its criticisms. Also bring about the differences between the Index of Industrial Production (IIP) and the Annual Survey of Industries (ASI).

DETAILED EXPLANATION OF IMPORTANT CONCEPTS

Index of Industrial Production (IIP):

Compilation of IIP:

- The Central Statistical Organization, now known as National Statistical Office (NSO), which operates under the Ministry of Statistics and Programme Implementation (MoSPI) is responsible for the compilation and publication of the Index of Industrial Production (IIP) since 1950.

- **About NSO:**

- ✓ The National Sample Survey Office used to work under the Ministry of Statistics of the Indian government until May 2019.
- ✓ On 23rd May 2019, the Indian government passed the order to merge the NSSO with the Central Statistics Office (CSO) to form the National Statistical Office (NSO).
- ✓ The Government stated that the NSO will be headed by the Ministry of Statistics and Programme Implementation (MOSPI).

What is IIP?

- IIP is a composite indicator measuring changes in the volume of production of a basket of industrial products over a period of time, with respect to a chosen base period.
- It is compiled and published on a monthly basis by the CSO with a time lag of six weeks from the reference month.
- It is compiled as a simple weighted arithmetic mean of production relatives by using Laspeyre's formula.
- The IIP is a quantum index, the production of items being expressed in physical terms.
- However, the unit of reporting in respect of certain items like machinery, machine tools, ship building, etc. is in value terms.
- The monthly figure of production value in such cases is first deflated by the Wholesale Price Index (WPI) of the corresponding categories, released by the Office of the Economic Adviser, Ministry of Commerce and Industry.
- The scope of the IIP as recommended by the United Nations Statistical Office (UNSO) includes mining, manufacturing, construction, electricity, gas and water supply.
- But due to constraints of data availability, the IIP compiled in India has excluded construction, gas and water supply sectors.

Base year of IIP:

- It is currently calculated using 2011-2012 as the base year.
- It tells about the overall level of industrial activity in the economy.

Characteristics of Index of Industrial Production:

- IIP is a composite indicator that gauges the pace of growth of many industry categories.

- Mining, manufacturing and electricity industries are all broad sectors.
- Use based sectors, such as Basic Goods, Capital Goods, and Intermediate Goods.
- It includes eight core industries of India representing 40% of the weight of items that are included in the IIP.
- Eight Core Sectors/Industries included in IIP are electricity (19.85%), steel (17.92%), refinery products (28.04%), crude oil (8.98%), coal (10.33%), cement (5.37%), natural gas (6.88%), fertilizers (2.63%).

Importance of Index of Industrial Production:

- It is used to measure the physical volume of production.
- It is used by different government agencies for various policy-making initiatives such as the Ministry of Finance, the Reserve Bank of India, etc.
- It is also used for the calculation of the quarterly and advance GDP estimates.
- This index is also used by business analysts, financial experts, and the private industry for different purposes.
- It also tells about the Gross Value Added of the manufacturing sector quarterly.

Basket of Products in Index of Industrial Production:

- There are six sub-categories under this.
 - i. Primary Goods consists of mining, electricity, fuels and fertilizers.
 - ii. Capital Goods that consist of machinery items, etc.
 - iii. Intermediate Goods e.g. yarns, chemicals, semi-finished steel items, etc.
 - iv. Infrastructure Goods such as paints, cement, cables, bricks and tiles, rail materials, etc.
 - v. Consumer Durables such as garments, telephones, passenger vehicles, etc.
 - vi. Consumer Non-durables such as food items, medicines, toiletries, etc.

Recent trends:

- Electricity generation snapped a two-month contraction to rise 0.9%.
- Mining and manufacturing as a whole edged up at a swifter rate of 6.4% and 5.7%, respectively, data from the National Statistical Office (NSO) show.

- Production of consumer durables rebounded to growth for the first time in six months, expanding 1.1% compared with a 2.5% contraction in April.
- Infrastructure and construction goods' output continued to drive up the Index of Industrial Production (IIP), rising 14% after an almost 13% rise in April.
- Capital goods' production growth also accelerated to 8.2%, from April's 6.2%.
- Of the 23 manufacturing sectors tracked by the NSO, 12 sectors recorded a contraction in output in May, with apparel makers (-21%) and furniture producers (-20.5%) reporting the sharpest declines, followed by wood products (-12.7%), paper products (-8.6%) and computers and electronics (-5.7%).
- This was counterweighed by a sharp 20.9% uptick in pharma output and a 13.4% surge in motor vehicles' production.
- Other transport equipment grew 10.9%, while non-metallic mineral products and machinery and equipment makers also upped output by more than 10%.

MODEL MAINS ANSWER FOR TODAY'S EXPECTED MAINS QUESTION

Q. Discuss the significance of the Index of Industrial Production (IIP) and its criticisms. Also bring about the differences between the Index of Industrial Production (IIP) and the Annual Survey of Industries (ASI).

<u>First step is to understand the demand of the question</u>	Question has two parts: 1. Significance of IIP 2. Criticism of IIP				
Introduction	IIP is a composite indicator measuring changes in the volume of production of a basket of industrial products over a period of time, with respect to a chosen base period. It is compiled and published on a monthly basis by the CSO with a time lag of six weeks from the reference month.				
Body	Significance of IIP <table border="1"> <thead> <tr> <th>Dimension</th><th>Content</th></tr> </thead> <tbody> <tr> <td></td><td></td></tr> </tbody> </table>	Dimension	Content		
Dimension	Content				

	Significance	Monetary Policy
		Policy making
		Sectoral Analysis
		Business Planning
		Economic forecasting
		Investment decisions
	Criticism of IIP	
	Dimension	Content
	Criticism	Delay in reporting
		Data is limited
		Scope is narrow
		Does not provide detailed information
		Not accurate
	Differences between IIP and ASI	
	Dimension	Content
	Differences	IIP is based on a set of items and factories that were chosen at the start of the period, whereas ASI is a data-driven survey of factories registered under the Factories Act of 1948.
		ASI captures new items and factory information, whereas the IIP does not.
		IIP establishments are generally larger in size, whereas ASI establishments include both large and small units.
		Growth rates in IIP are calculated using production volume, whereas growth rates in ASI are calculated using Value Added.

Conclusion:

The Index of Industrial Production measures the short-term changes in the volume of production of a basket of industrial products during a given period with respect to that in a chosen base period. It tells about the industrial output of an economy and hence the growth prospects of a nation. It is used as a measure of the physical value of production in an economy.

