

Kamala Nehru College  
Delhi University



# Eco-centric

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Annual Economics Journal

# From the Principal's Desk



Economics affects our daily lives in both obvious ways and more subtle ways. From an individual perspective, economics frames many choices- as we are constantly faced with choices. It may be a matter of limited time. For example, at the weekend, you could spend 8 hours working in a cafe at the wage of 500/- or you could spend 8 hours studying or you could choose to spend 8 hours of leisure -sleeping in, Facebook etc.

Each choice has an opportunity cost. The opportunity cost of earning 500/- is that you don't have time to study. This could lead to poorer exam results and that could lead to lower future earning potential. Choosing to maximise our income in the short term (earning 500/- a day) may reduce our lifetime earnings and could be a poor decision. The problem is that when making decisions about whether to study, work or pursue leisure, we may forget or ignore long-term effects. Deciding to spend all our free time earning a modest amount, is something we may regret later in life. Economists suggest education is a merit good – meaning people may underestimate the benefits of studying.

Considering opportunity cost can help us make better decisions. If we act on instinct, we may choose the most pleasurable or easiest course of action, but the best decision in the short term may not be best in long term. So, the economist within you must understand the relevance of economics in your own case to begin with.

With this message, I extend all my best wishes to the faculty and students of economics department.

*Dr. Kalpana Bhakhuni*



"Words ought to be a little wild, for they are the assault of thoughts on the unthinking."

Econcentric'18 features articles that meet the above tenet given by one of the greatest writers and visionaries of economics, John Maynard Keynes. Each year, this journal allows young and budding economists to present their thoughts and opinions on economics, be it pressing issues of the day or obscure topics. This year's edition analyses the issues of labour migration in India and banking capitalization along with heterodox fields like the economics of war and the disutility of gifting giving, to mention a few. Apart from these nuggets of wisdom, Ecoconcentric'18 includes a timeline of the major economic and political events, a look at the ignoble awards for economics, and a test that tests the economist in you. The editorial team is honored to present Ecoconcentric'18 which we hope the readers will find to be a myriad of knowledge.

**Chief Editors:** Jasleen Kaur Thukral (middle) and Chetna Ahuja (2<sup>nd</sup> from left)

**2<sup>nd</sup> Year Representatives:** Prashansa Srivastava (2<sup>nd</sup> from Right) and Urvashi Saxena (Extreme Right)

**1<sup>st</sup> Year Representative:** Swati Mathuria (Extreme left)

**Faculty Advisor:** Ms. Shruti Gupta

## The Economics Department: 2017-18



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## III Year Class



## II Year Class



# I Year Class



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## JANUARY

The inauguration of Donald Trump as the 45th President of the United States marked the commencement of his four-year term with Mike Pence as Vice President on Friday, January 20, 2017. It was followed by the Women's March, the largest single-protest in US history day.

António Guterres, the ninth Secretary-General of the United Nations, took office on 1st January 2017. Having witnessed the suffering of the most vulnerable people on earth, in refugee camps and in war zones, the Secretary-General is determined to make human dignity the core of his work, and to serve as a peace broker, a bridge-builder and a promoter of reform and innovation.

Value of the crypto currency Bitcoin broke \$1,000 for the first time in years and started climbing like never before.



## FEBRUARY

Israel announced plans for its first new settlement in the West Bank in more than twenty years.

Economic activity in Brazil grew in February at the fastest pace since January 2010. It was the strongest sign yet that Latin America's largest economy is emerging from a two-year recession.

## MARCH

Prime Minister Theresa May triggered Article 50 on March 29, 2017 formally beginning the divorce of Britain from the EU.

For the next two years, Britain will thrash out a deal for leaving the EU, a process proving to be difficult. Britain now has until March 29, 2019 to negotiate the terms of its departure.



## JUNE

Theresa May retained her office in the UK general elections after a shocking result of a hung parliament. The Conservative party has formed the government without a majority, making the process of Brexit more complicated and uncertain. The pound sterling also slipped due to election results, leading to fears of inflation and weak growth rates in the future.



## MAY

The presidential elections in Iran were a wave of hope for many Iranian voters who believed that this would lead to positive changes in the economy. In the time leading up to the elections, Iran was plagued with high rates of inflation and unemployment.

After Hassan Rouhani won the elections again, he was able to help bring down inflation rates from 40 percent to 7.5 percent. He also brought the growth rate out of negative digits up to 7 percent. Unemployment is still up as Iran still hasn't been able to attract the foreign investment that would translate to increased job opportunities.



# GST

Goods &  
Services  
Tax



## JULY

The Indian government officially implemented the Goods and Service Tax (GST) on July 1, 2017 aimed at reducing indirect taxes, to improve competitiveness in the economy and increase the tax base. It resulted in confusion for businesses and the government administration in getting accustomed to the new laws.

The US Senate's attempt to repeal Obamacare failed dramatically on a Friday morning much to the relief of American citizens. This failure marked the first six months of Donald Trump's presidency without any major legislative victories.

## AUGUST

Right at the start of the fiscal year, India saw a rise in its foreign investment by 23% to \$10.02 billion compared with \$8.12 billion in the corresponding period last year. This was a testament to the investor friendly policies put in place by the government.

The UN Security Council approved sanctions on North Korea to ban \$1bn of exports. It followed North Korea's first successful tests of intercontinental ballistic missiles capable of reaching the United States.

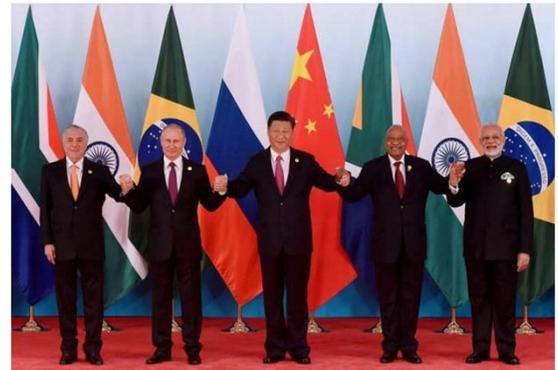
The Code of Wages Bill was introduced in the Lok Sabha to fix a national minimum wage for the unorganized sector and make a basic minimum wage a statutory right for all citizens.

## SEPTEMBER

The Trump administration hit Venezuela with its first round of economic sanctions. This was done in response to Venezuelan President Nicolás Maduro's turn towards an undemocratic government. The goal was to starve the troubled government of much-needed cash.

Over the last 4 years, Venezuela's GDP has fallen by 35%, with the country facing an unprecedented economic collapse caused by plunging oil prices and rampant mismanagement leading to hyperinflation, violent crime and widespread food and medicine scarcity.

The 2017 BRICS summit was held from 3rd to 5th September to map out the future course of these economies. The summit's agenda—under the theme “Stronger Partnership for a Brighter Future”—included discussions on economic collaboration, political and security. The five countries now account for 40% of the world's population. They also account for 45% of the increase in world growth since 2009, driven mainly by China and India.



## OCTOBER

The United Arab Emirates, which has been a tax haven for long began collecting “sin” taxes on tobacco products, energy drinks and soft drinks starting 8<sup>th</sup> October 2017. Tobacco and energy drinks were taxed at 100 percent and soft drinks at 50 percent. The sin tax was a precursor to the more general 5 percent value-added tax (VAT) that is to be implemented by UAE on consumption certain goods and services from 2018.

The 14<sup>th</sup> India-EU Summit was held in New Delhi on 6<sup>th</sup> of October, 2017. Prime Minister Narendra Modi along



with the top EU leadership deliberated extensively on issues pertaining to trade, investment, security, human rights, environment, climate change and refugees.

On 9<sup>th</sup> October 2017, Dr. Richard Thaler won the Nobel Prize in Economic Sciences. Dr. Thaler became the third behavioral scientist to win the prize, following Daniel Kahneman (2002) and Robert Shiller (2013). He is a pioneer in building economics on realistic assumptions to ensure efficiency and effectiveness in public policies. He has also conducted research on a variety of topics ranging from asset prices, property crime, and mental accounting.

## NOVEMBER

India's sovereign rating was upgraded by the Global rating agency Moody's Investors Services for the first time in 14 years. This led to optimism in the financial markets and inflow of foreign investment.

The Reserve Bank of India (RBI) decided not to pursue the proposal for the introduction of an Islamic banking system in the country. Islamic banking complies with the Islamic law or sharia and prohibits '*riba*', or usury, which is defined as the interest paid on all loans of money. It promised "*no inflation, no unemployment, no exploitation and no poverty*".



## DECEMBER

Bitcoin dropped more than 22% to a price as low as \$15,262. Some see the drop as fallout from long-unresolved problems with Bitcoin's infrastructure and the increasingly intense civil war it has produced in the cryptocurrency community. As of January 2018, the value of Bitcoin continues to fall.



The Australian parliament voted in December to legalize same-sex marriage, making it the twenty fifth country to do so. Researchers forecast the economic benefits would flow thick and fast on the back of a law change. It will be a much-needed source of demand for the Australian economy and boost traditional beneficiaries: retailers, hospitality and professional service businesses involved in the wedding and honeymoon industry, and additional economic benefits from an improved image of Australia as a more tolerant and progressive country.

Recent data suggests that India's economic recovery is gradually taking hold following a lackluster performance in Q1 FY 2017. The economy grew at a faster 6.3% in year-on-year terms in Q2 FY 2017—which runs from July to September—with the effects of demonetization and the implementation of the GST gradually dissipating. Although the fourth quarter got off to a weaker start, the economy remains on a recovery path.

The Plural Eco lectures series are a tradition for the economics department of Kamala Nehru College. These lectures, held almost every month, bring on board eminent speakers from diverse fields to have a discourse with the students. The sessions allow students to step out of the realm of mainstream economics and understand new and different perspectives on economic and political issues. This year was no different with distinguished speakers speaking on various topics such as press freedom, queer politics, feminism, women's representation in economics etc.

Mr. Sukumar Muralidharan, a freelance journalist and professor at OP Jindal University, spoke on the topic of press freedom for the first lecture of the academic year. He regaled the students with stories of his own days as a print journalist. He also discussed the importance of freedom of press in present times of turmoil and whether there should be limits of this freedom. Mr. Muralidharan touched on the tragic murder of journalist Gauri Lankesh, which had occurred a few days before the lecture took place. The interactive Q&A that followed discussed the role of journalists in speaking truth to power and the importance of protecting free speech in a democracy.



Ms. Rakhi Sehgal, vice president of the Hero Honda Theka Mazdoor Sangathan spoke about 'Feminism and Trade Unionism'. She engaged the audience with her experiences in a predominantly male field of work and the lessons she learned from it. On a personal note, Ms Sehgal, who insisted that

she be called "Comrade" or simply Rakhi, spoke about how she dealt with sexism in everyday life and how she maneuvered around it to ensure her work got done.

Prof. Dibyesh Anand, professor of international relations at the University of Westminster, UK gave a talk about queer politics. He explained the word "Queer" and its political and personal implications. He spoke of the importance of intersectionality when advocating for the rights of the LGBTQ community.



For the first time in the history of PluralEco Lectures, the floor was opened to third-years to express their opinions on politics, economics and feminism.



Smriti Gupta, Anushka Srivastava, Ayushi Sarraf and Mridu Choudhary presented on the lack of female representation in economics; Ayushi Chawra and Sachi Priya did an analysis on Dera Sacha Sauda; Chetna Ahuja and Shruti Gupta talked about the political spectrum while Sanya Chopra and Prachi Paliwal spoke on the assumption of rationality in economics. It was a learning opportunity for both the presenters and the audience. It is hoped that a lecture by the third years will become a regular event in the PluralEco Lecture series every year.



## Labour Migration in India

### Chetna Ahuja

Editor, 3<sup>rd</sup> Year

Labour migration within the country and outside of it is a big part of India's story of economic growth. There were 16 million international migrants from India in 2015 and 326 million internal migrants in 2007-08.

India's internal migrants make up 28.5 per cent of the total population and have contributed largely to urban growth. They include permanent, semi-permanent, and seasonal and circulatory migrants. With low levels of employment in rural areas and many trapped in cycles of poverty and debt, the poor are forced to migrate in search of jobs. While most men give economic reasons for migration, 70 per cent of women from rural areas cite marriage as their reason for migration. These internal migrants are usually employed in low skilled jobs of construction, domestic work, textile, transportation, mining, quarrying and agriculture. Female migrants do end up in the domestic jobs, but there is little follow-up data on the same.

Perhaps the biggest disadvantage migrants face is the loss of identification. Since birth certificates are not provided in all states, ration cards are used as proof of identification and allow the poor to avail government subsidies, access to education and health services. Ration cards are linked to the place of residence and migrants are

required to issue new ones when they move. However, the complex bureaucracy discourages migrants from issuing new cards which prevents them from availing important services in the receiving state. Migrants are also unable to avail financial services, making them vulnerable to theft and cheating. They are forced to turn to informal sources for keeping money safe that charge exorbitant prices. This has further impact on the remittances they send home and on their savings. While the government has money-transfer services, these are barely used due to corruption and inefficiencies. By not being able to go to school, children of migrants are forced into child labour where they face harsh conditions and exploitation. This has strong implications: Poverty is transmitted through the generations leaving little hope for upward mobility of migrant families.

Migrants face exploitation from middle-men who recruit and provide cheap migrant labour. There are no enforceable contracts to ensure that workers are paid by their employers or the provision of regular work. They end up engaging in dangerous jobs at low wages that are generally rejected by the locals. Many also have trouble finding homes in cities due to lack of affordable housing, with 16 million people living in slums in 2011, from where they can be evicted at any time without rehabilitation leading to homelessness.

There are harsh social and political impacts on migrants. They face hostility from locals and are shunned by political parties. Apart from facing language and cultural differences, they end up being accused for putting strains on resources of the receiving state, leading to harassment by the local police. Oftentimes migrants are unable to exercise their basic right to vote. However, political and social exclusion varies from place to place. Two of the biggest receiving states, Maharashtra and West Bengal, have very different experiences of how migrants are treated.

There does seem to be some positive impacts on migrant families. Migrants send back remittances that are then used to repay debt, on consumption, and availing education and health care services. There is replacement of labour by women and children in these states, oftentimes increasing women's participation in the work force. On returning, migrants are less likely to accept low-paying jobs, pushing up reservation wages and making harmful labour practices less acceptable.

There is little infrastructure or legislature provided by the government to support migrants. The Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979 meant to protect the rights of workers is hardly enforced. Such policies are usually ineffective due to lack of data. Census only has one definition for migrants and NSS collects data on the basis of "Last place of residence" and as a result both end up losing out on data on seasonal migrants.

India also receives legal and illegal immigrants, largely from other developing countries like Bangladesh, Pakistan and Afghanistan. Their experience is the same as that of internal migrants- facing racial bias and working in unskilled low paying jobs.

A large number of Indian migrants to Gulf countries are unskilled or semi-skilled workers that return once their contract expires. However, with a fall in employment in these countries, there have been efforts to curb labour migration. Work Visas are mostly granted for menial work the natives are unwilling to do. There has also been an increase in cost of living for migrants. On the other hand, migrants to developed countries are better educated and highly-skilled and try for permanent residence in these countries. In 2015, India received remittances of \$69 billion according

to the World Bank, which are largely used for consumption purposes. India is largest receiver of remittances, but there has been a fall in its volume. This is because migration

causes further migration, with families joining the migrants in developed countries.

The biggest issue with International labour migration is of "brain drain" or loss of human capital to developed countries and the negative impact it could have on economic growth of the sending country. However large number of migrants return to India for reasons of better pay-packages, prospects and education. There has also been a shift in immigration policies in most receiving nations. Countries like the US, Canada and the UK are opting for policies, like the H-1B Programme in the US, that allow temporary migration of high-skilled labour to meet labour-market shortages and facilitate transfer of skills and knowledge. This reduces disparities between developing and developed countries. Studies show that return of migrants after accumulating work experience allows firms from developing countries to better compete in developed markets.

Labour migration has come to be linked with prosperity for the receiving state or country. While the government creates incentives to bring back high-skilled labour from developed countries, it largely ignores the plight of the unskilled and semi-skilled internal migrants. It is imperative for the government to introduce effective schemes to protect the rights of these workers and improve their standards of living.

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## **Festive gifting: Economy booster or a wasteful norm?**

**Prashansa Srivastava**

2<sup>nd</sup> Year

Economics has long been known as a dismal science. However, one would think that when it comes to exchanging gifts during the festive season, not even an economist would have any reason to complain. The healthy effect of spending on the macroeconomy is bound to raise hopes of anyone concerned with India's slumping growth rate.

According to a study conducted last year by ASSOCHAM, a cheerful economy leads Indian consumers during Diwali to spend over Rs 25,000 crore (Rs 250 billion) on festive shopping. However, according to economist Joel Waldfogel, the gifts being exchanged and bought might just be a colossal economic waste.

### **The deadweight loss of celebration?**

In 1993, Waldfogel coined the "deadweight loss of Christmas" theory in a paper published in the American Economic Review. Although one could argue that there are significant differences in celebratory norms and practices when it comes to Christmas and Diwali, Diwali involves purchasing new clothes, special food items, jewellery, decorations etc much like the Christmas tradition of gift-giving. It also involves some gift exchanging between family members, friends and casual

acquaintances. The deadweight loss can thus be defined for any holiday involving such an exchange of gifts and can be understood as the waste that arises from people making choices for other people.

Deadweight loss is the loss to one party which is not offset by a gain to another party. Waldfogel estimated that ill-chosen gifts caused between \$4 billion and \$13 billion a year in economic waste. For comparison, he cited an estimate that put economic costs of income tax at \$50 billion. This loss arises when gifts are mismatched with the recipient's preference due to consumers making decisions on behalf of others. Normally when you as a consumer are given Rs1000 you will buy something that is worth at least Rs 1000 to you. However, when tasked to buy a Diwali gift with the same amount you could end up buying something worthless.

### **Cash or no gift?**

Waldfogel's paper highlights the importance of consumer preference and is based on the most fundamental idea of economics, that individuals are best suited to make their own decisions. This is not a stance against spending but a stance against spending that fails to produce the requisite amount of satisfaction. Since Waldfogel's paper there has been a significant contribution to this literature by Waldfogel himself and many other economists such as Solnick & Hemenway, List & Shogren, Ruffle and Tykocinski among others.

This rejection of a sentimental and long holding tradition for the triumph of individual choice might just be an economist's dream. Waldfogel, who went on to write a book called "Scroogenomics: Why You Shouldn't Buy Presents for the Holidays," suggests usage of cold hard cash or gift vouchers to minimize this wanton wastefulness of gift giving. So, should economists advocate an end to gift-giving or at least press for money to become the gifting norm?

## The economics of happiness

Many economists believe that gift giving is more than a simple economic exchange, involving reciprocity and emotional value. In 2015, members of the IGM Experts Panel at the University of Chicago Booth School of Business overwhelmingly defended gift-giving as an efficient way for people to show that they care about each other. David Autor of M.I.T. pointed to “revealed preference”: If people give and receive so many gifts, it’s presumably because it makes them happy. Alberto Alesina of Harvard said choosing a gift “is a signal of the intensity of search effort.”

Another important aspect most often ignored is that the value of the gift is more than the worth of the gifted item itself. A gift’s worth is thus not only a function of the price of the gift, but also of the giver and the circumstances in which it is given. Moreover, gift-giving can not only add value to the recipient but to the giver as well.

### It’s the thought that counts, right?

Not all presents are bad value for money. Depending on how good people are at anticipating what others want, the lower will be the deadweight loss of the gift and higher will be the efficiency. People who are in close contact with recipients usually do a very good job when it comes to choosing presents. Unsurprisingly, the most efficient gifts (those with the smallest deadweight loss) come from close friends and relations. Extended family relations such as aunts and uncles (or others who are only in occasional contact with the beneficiaries of their festive generosity) tend to give least efficient gifts.

So, before you consume that box of sweets, evaluate whether it matches your preferences. If it doesn’t, remember what economists have studied long and hard to reassure you- it’s the thought that counts.



## The Ig Nobel Prizes

- What are they?

The Ig Nobel Prizes honor achievements in the field of science, medicine and technology- but with a twist. These prizes are a celebration of the unusual and the imaginative- those who have made unusual or illogical inventions or been a nuisance to society through their work. Every year, in a gala ceremony in Harvard's Sanders Theatre, actual Nobel laureates present these awards to Ignitaries.

- Who gives away these awards?

The Ig Nobel Prizes have been organized each year by the magazine 'Annals of Improbable Research' since 1991. They are co-sponsored by the Harvard- Radcliffe Society of Physics Students and the Harvard-Radcliffe Science Fiction Association.

- Here are five of the most interesting winners:

**2007** - Kuo Cheng Hsieh, for patenting a device to catch bank robbers by ensnaring them in a net

**2010** - The executives and directors of Goldman Sachs, AIG, Lehman Brothers, Bear Stearns, Merrill Lynch, and Magnetar Capital for creating and promoting new ways to invest money—ways that maximize financial gain and minimize financial risk for the world economy, or for a portion thereof.

**2014** - ISTAT — the Italian government's National Institute of Statistics, for including revenue from illegal drug sales, prostitution, smuggling, etc., in GDP reporting, in order to meet an EU regulatory mandate.

**2015** - The Bangkok Metropolitan Police, for offering to pay policemen extra cash if the policemen refuse to take bribes.

**2017** - Matthew Rockloff and Nancy Greer, for their experiments to see how contact with a live crocodile affects a person's willingness to gamble.

(and often required) by the international development community, especially by the international financial institutions. The new security environment has increased the global nature of conflicts and supported governments' capacity to repress rebellions, but it has not addressed the underlying economic, social, or political causes.

Indeed, twenty-two out of the thirty-one countries with the lowest human development index have experienced civil war since 1990. It is also widely accepted that underdevelopment is a major cause of conflict, thus giving rise to a vicious cycle in which poverty brings about conflict and conflict brings about poverty, termed as “the conflict trap” by economist Paul Collier. However, the assumption of a straightforward causal relationship between poverty and conflict is too simplistic, as indicated by the middle- and high-income areas that suffer conflict—such as Middle Eastern countries, Northern Ireland, the Balkan countries, and the Basque region of Spain—and by very poor areas that avoid conflict, such as Malawi, Tanzania, and Zambia.

Although some observers associate contemporary conflicts to fundamental differences arising from ethnicity or religion, such differences are, however an insufficient or spurious explanation; many multi-ethnic or multi-religious societies live peacefully—for example, Ghana, India and Tanzania—while others are at peace for decades before experiencing conflict. In fact, the vast majority of multi-ethnic societies are at peace.

There exist four economic explanations to the initiation of a conflict: group motivation, private motivation, failure of social contract, and green war.

One plausible hypothesis is that conflict occurs where there are significant underlying differences in access to economic or political resources among ethnic or religious groups, providing both leaders and followers with a strong motive to fight. Such

## The Economics of War



**Jasleen Kaur Thukral**

Editor, 3<sup>rd</sup> Year

Civil war continues to be a major feature and issue of contemporary developing countries, and a source of underdevelopment. Although much conflict today seems to be about political, ethnic, or religious differences, but these generally have an economic and political basis.

Policies are situation specific; Many of the policies needed for conflict prevention and for the protection of people during war differ from the policies currently advocated

group differences are termed as “relative deprivation”. Cultural differences that coincide with economic and political differences between groups, often termed as “The horizontal inequalities”, can cause deep hostility that may lead to violent struggles. These inequalities may involve regional differentiation, in which case they often lead to separatist movements (as in Aceh, Indonesia, and the Tamil regions of Sri Lanka), or different identities may occur within the same geographic space (such as in Rwanda, Northern Ireland, and Uganda), where political participation and economic and political rights are at stake.

War grants benefit as well as cost individuals. Political sociologists such as David Keen and Mark Duffield and economists such as Paul Collier and Anke Hoeffler have emphasized private or individual motivation as the fundamental cause of conflict. The private motivation hypothesis has its roots in rational choice economics, arguing that the net economic advantages of war to some individuals motivate them to fight. In this approach, group identities are regarded not as an independent factor but as instruments, created or emphasized to help fulfill the private motives of those who fight (especially leaders). There are many ways in which war confers individual benefit on particular categories of people- it permits people, especially uneducated young men, to gain employment as soldiers; it offers opportunities to loot, to profit from shortages and from aid; to trade arms; and to carry out illicit production and trade. Where alternative opportunities are few, because of low incomes and poor employment, the possibilities of enrichment by war are considerable. Moreover, conflicts may persist because some powerful actors benefit through the manipulation of scarcity. Smuggling, among other war related economic activities (legal or illegal) and have no interest in resolving the conflict. Private motivation seems also to be a predominant factor behind the persistent conflict in the Democratic Republic of

Congo, where abundant natural resources offer big rewards to those who control them.

The social contract fails when the state fails to deliver—in terms of social services, economic opportunities, and physical security. Poverty and underdevelopment are certainly part of this failure. With economic stagnation or decline and worsening state services, the social contract breaks down and violence results. Thus, high (and rising) levels of poverty and a decline in state services would be expected to cause conflict; Afghanistan and Somalia are the major examples. Conversely, political institutions that are able to channel and respond to socioeconomic dissatisfaction strengthen the social contract and thus reduce the risk of conflict. Considerable evidence from econometric studies conducted by CRISE (UK) in 2016 shows that conflict incidence is higher among countries with lower per capita incomes, life expectancy, and economic growth. The usual interpretation of this trend is that “stable” democracies are indeed able to avert violent conflict through a strong social contract, whereas strongly authoritarian regimes can halt the potential conflict. Yet there are poor societies where the state succeeds in providing basic services and sharing the limited opportunities. Low average incomes in a society do not necessarily imply a failed social contract. Some poor states—for example, Tanzania—succeed in delivering sufficient, if minimal, social services and physical security and avoid chronic conflict

The essence of this perspective is that the scarcity and the competition for control over declining natural resources, often intensified by population pressures, is a major cause of violent conflict around the world. Three dimensions of environmental scarcity may lead to conflict: (i) supply-induced scarcity, linked to the depletion and degradation of an environmental resource; (ii) demand-induced scarcity, linked to population growth and the consequent extra pressures on existing resources; and (iii) structural scarcity, which arises from an unequal distribution of a resource that

concentrates it in the hands of a relatively few people.” Some economists like James Fairhead, argue that conflict is associated not with scarcity but with environmental riches, interpreting environmental riches as the presence of valuable natural resources. In fact, both environmental poverty and environmental riches may cause conflict, for different reasons and in different circumstances.

### Economic, Social, and Political Policies Aimed at Preventing Conflict

Although much of contemporary conflict seems to be about political, ethnic, or religious differences, these conflicts generally have an economic and a political basis. Horizontal Inequalities form one fundamental economic and political cause. Others include poor economic opportunities and deficient social services leading to a failed social contract, environmental degradation, and the potential enrichment that accompanies some conflicts. These motives have global as well as domestic dimensions. Appropriate policies depend on the specific situation; notably, which of these underlying causes is most applicable. Economic and social policies may contribute in each of the three stages of conflict: pre-conflict, conflict, and post-conflict. In a pre-conflict situation, where there is no conflict but there is a high probability of one occurring, preventive policies should be aimed at changing the underlying conditions in such a way as to make the outbreak of conflict less likely- Policies to address Horizontal Inequalities (i.e., aimed at group motives) ,policies to reduce the functionality of conflict (i.e., to address private motives), policies to promote equitable and sustainable development (i.e., to address social contract failures and environmental pressures). When a conflict has broken out, economic and social policies for example, through food distribution. After a conflict has ended, policies are needed to help reconstruct the economy.

For the avoidance of civil wars, what matters is sharing resources of all kinds

across all communities; shared poverty and underdevelopment do not lead to conflict. Where a society is poor, but some groups enjoy a disproportionate share of resources, there may be a proneness to conflict; Nepal is an example, where strong caste and geographic inequality have led to acute relative deprivation in a society that is generally quite poor. Moving to the international dimensions of contemporary conflicts, underdevelopment in the Global South is associated with acute North/South Horizontal Inequalities that may be potentially destabilizing. A more specific case is the sharp economic divide between Palestine and Israel.

Hence, careful analysis of the local situation is essential. For prevention, it is imperative to address political as well as economic inequalities. Many of the policies needed for conflict prevention and for the protection of people during war differ from the policies currently advocated (and often required) by the international development community, especially by the international financial institutions. The new security environment has increased the global nature of conflicts and supported governments’ capacity to repress rebellions, but it has not addressed the underlying economic, social, or political causes.

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## Bollywood

## Classroom

Gurleen Kaur

1<sup>st</sup> Year

My high school teacher always used to say "Economics is everywhere. You just need to have an eye for it". I am not sure about the eye, but I certainly have an ear.

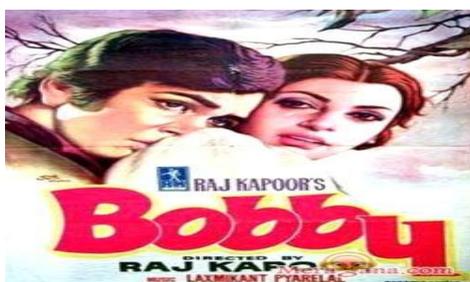
Below are the lines from famous Bollywood Songs. As I hear these lines, I can draw economic interpretations and can relate certain terms of Economics with them.

Mentioned alongside are the economic interpretations. Some readers might find the interpretations intriguing. Others might not agree and might have their own interpretations. That is what the purpose of the article is-"Thinking Economics". The lines are as follows-

1."Bahar se koi andarna aa sake, andar se koi baharna ja sake"

- Bobby (1973)

Term Associated- Freedom of Entry and Exit of Firms. As I read this line, the first thing that comes to my mind- Monopoly Market form.



In a monopoly, there exist strong barriers on the entry and exit of firms. Thus, due to the restrictions, it is not easy for the new firms to enter the market. Thus, the firms in the market earn abnormal profits and losses in the long run. There is no absolute freedom for the entry and exit of firms. In 1973, this was certainly the case with the license raj.

2." Main baarish kardun paise ki, jo tu ho jyemeri."

- De Dana Dan (2009)

Term Associated- Deficit Financing

If you imagine the government as the one singing the song, then it would be easy to relate with this interpretation. The line is a fun explanation of an important tool of fiscal policy- Deficit financing. It refers to the printing of currency by the government to meet for the excess expenditure (over revenue). Printing more currency increases

the money supply in the economy. As a result, money rains in the economy!

3." Idhar chali main udha rchali

Jaane kahan main kidhar chali,

Idhar chali main udhar chali

Jaanekahan main kidhar chali,

Aree main phisal gyi, main tere sang ho gyi"

- Koi Mil Gaya (2003)

Term Associated- Depreciation of Currency



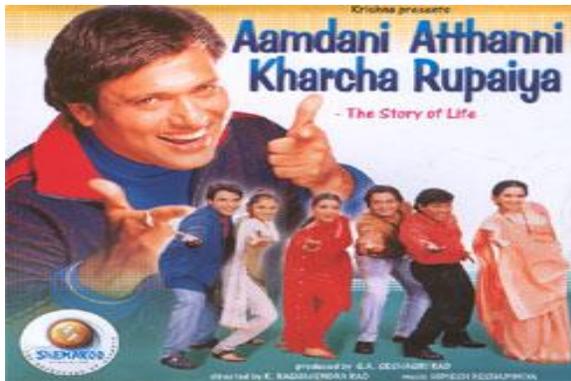
If you imagine that the line is based on currency, then it would be easy to relate to the interpretation. Currency is traded in a foreign exchange market. It consists of thousands of banks, firms and other financial institutions seeking to buy and sell currency for purposes of making transactions in foreign exchange. Currency depreciation refers to the decrease in the value of domestic currency with respect to foreign currency. Hence, the Indian rupee slips down the foreign exchange market!

4."Aamdani atthani kharcha rupaiya

Aamdani atthani kharcha rupaiya"

-Aamdani Atthani Kharcha Rupaiya(2001)

Term Associated – Budgetary deficit



If you again consider that the government is the entity singing the song, it will be easy to understand the interpretation. The line says that the total income/ revenue of the government is less than the total expenditure, hence there will be a budgetary deficit (It is defined as the excess of total estimated expenditure over total estimated revenue).

challenges to the Iranian government in over a decade. The protests which have been the cause of the death of at least 10 people had begun as a relatively small opposition but soon garnered traction and have continued into 2018.

Initial protesters expressed anger over the economy and the shooting prices of necessities like eggs and poultry. The movement was popular with those who suffered the most under international sanctions due to poor economic growth. What is different about these protests is that they were started in the eastern Iran and for once, not by the well-educated and politically active members of the upper middle class.

The protest started when an outbreak of bird flu forced authorities to kill millions of chickens. This caused a shortage of eggs which resulted in a price hike. Protests started in villages and towns that are generally conservative and supportive of the current leader. They spread quickly across the country through a messaging app named Telegram- which has now been blocked along with Instagram. Anger over the state of the country came on top of years of pent-up frustration over a sluggish economy. When the government announced recent price increases and released an austere budget bill, it ignited at-times violent protests that spread rapidly to dozens of cities nationwide.

Demonstrators turned to the streets to with an outcry for the country's Supreme Leader Ayatollah Ali Khamenei to step down. About 50 percent of Iran's population is under the age of thirty. For this age group, unemployment is at between 20 to 40 per cent. Protesters are seen yelling their grievances in the street. The working class are not paid, and unceremoniously removed from jobs. The young see their education qualifications amount to nothing due to the astronomical unemployment rates.

On coming to power in 2017, president Hassan Rouhani promised to make major



## Iran Protests: A call for change

source:STR/AFP/Getty Images

Urvashi Saxena

2<sup>nd</sup> Year

The month of December saw the onset of public protests throughout the country of Iran and marks one of the most extreme

legislative reforms that improve the economy and eradicate corruption. He gave himself a hundred days deadline, but the deadline came and went with no concrete results. His voters feel betrayed by his lack of follow-through on his promises.

When Rouhani released his budget proposal for the Iranian fiscal year starting March 21, it sparked fiery debate. The budget envisioned steep cuts for cash subsidies to the poor, while increasing fees for fuel, vehicle registration and traveling abroad. Rouhani’s budget was notable because it was the first time the government made public the funds allocated to Iran’s wealthy religious foundations — as well as its powerful military and paramilitary forces. While it was a step towards transparency; it upset his conservative rivals.

Recent protests have shifted focus, objecting to Iran’s strict dress code and mandatory hijab laws. The hijab protests quickly spread across social media as an online movement. At least 29 women have been arrested in Tehran for removing their headscarves in public. The central idea behind this movement is that people, especially women, should be free to choose the clothes they wear, and practice their faith as they desire. Depriving individuals of this choice undermines their autonomy and dignity.

The protests, although small in number, are extremely significant as a rare public sign that dissatisfaction with the Iranian laws and government may have reached a tipping point. The question remains, are these protests a sign of change or will the status quo prevail?



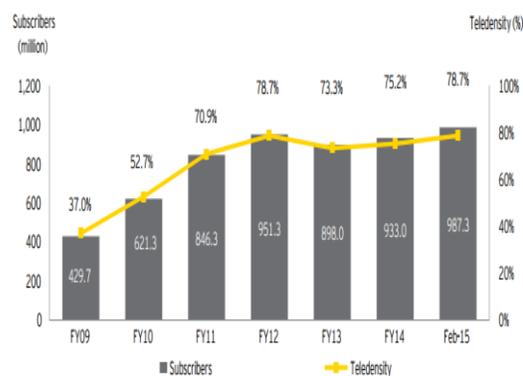
## Goods and Service Tax: Telecommunications

Gaurika Singh

3<sup>rd</sup> Year

The Telecom Sector is one of the core economic drivers of growth in the Indian Economy. Being the chief communications service provider, this sector also provides multitude of value added services in today’s time. India is only second to China in terms of numbers of subscribers and connections. It is also one of the top 5 employers in India, employing 22 lakhs directly and 18 lakhs indirectly. The sector contributed 6.5% to India’s Gross Domestic Product (GDP) (FY 2015-16).

Figure 7: Overall subscriber base and teledensity



Source: TRAI

The GST council increased tax rate to 18% for the sector – a move bound to adversely impact the struggling sector, which is much higher than the Singapore’s, Malaysia’s and Australia’s GST in this sector.

### **Impact on Users:**

Before the GST regime, telecom services were taxed at 15%. The 3% increase after GST has reflected in the bills of the postpaid users; i.e. if a subscriber has a postpaid bill of Rs 100 with an earlier tax rate of 15%, the subscriber had to pay Rs.115. Now with the introduction of GST, the final bill pay will be of Rs.118.

For the prepaid users, there has been a deduction in the effective talk time. If a subscriber recharges a number with Rs.100 prepaid voucher, talk time will be Rs.81.75. Before GST, the talk time was Rs.83.96.

### **Areas of Concern:**

- **Mandatory Annual Audit Compliance:** Previously, most telecom companies had obtained organization service tax registration certificate and undertook organization compliances. However, under the GST Law, separate registration is required in each State from where the services are rendered, leading to increased compliance requirements as compared to the current regime. With the merger of both goods and services under one authority, mandatory audit provisions would apply to both goods and service providers alike. As a result, telecom operators will need to engage with at least two entities, one for compliance and another for audit, failing which a possibility of conflict of interest may arise. Such dual engagement with tax firms and management services providers will further lead to an adverse hike in compliance cost

- **Mobile Wallets:** Telecom companies have evolved from being providers of communication services to provision of value added services, internet services, advertisement services etc. The recent inclusion under this category is that of Mobile wallets, such as Airtel's 'Airtel Money' and Vodafone's 'M-Pesa' – which can be used for recharging a mobile account, gaining access to value added services etc. The indirect tax implication on

mobile wallets remains clouded with differing opinions on the points of taxation. Under the GST regime, it is expected that a clear inclusion of this service within the service ambit or clear exclusion of this service as a transaction in money needs to be distinctly defined, thus ending the debate over its taxability.

- **Self-Supply:** The present IT systems are aligned with Telecom Service Areas (Telecom Circles) and not States. As a result, telecom operators do not have the ability to identify various services such roaming, interconnect, termination etc, performed in one state and provided to a subscriber in another of the same multi-state Circle. Additionally, it is also not possible to identify when such transactions take place between circles involving such multi states. Also, for carriage services of carrying calls from one Circle to another, provided by NLD, it is not possible to split the revenue earned for every call between the call originating state, intermediate states and termination state. Under the GST regime, taxes have to be paid on self-supplies. As such self-supplies are revenue neutral since an equivalent amount of credit is passed to the telecom operator in the other state, it doesn't really help in revenue generation for the Centre or the State, it only puts complex compliance burdens on the industry.

- **Change in the system of taxation:** Previously, selling of recharge vouchers to agents/distributors was exempt from service tax. The liability to pay service tax on the Maximum Retail Price (MRP) (which includes the agent's/ distributor's margin) was on the telecom industry. As the GST law currently reads, in the absence of MRP-based valuation for the telecom and specific exemption to the distributors, it appears that each leg of the sale of SIMs would be subject to GST. This would mean that the distributors and all retailers in the supply chain would get taxed.

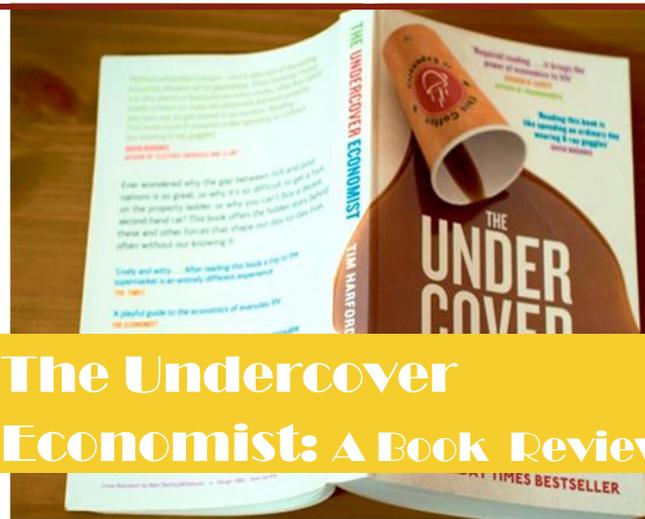
- Another key challenge for the telecom sector is the dependency on IT

infrastructure. To move to the GST regime, telecom operators would require re-designing and reframing complex IT and billing systems, which will take a significant amount of time. The complexities are made worse due to the fact that there are 22 telecom service areas or circles, but under GST the country will follow the 29 states and seven Union territory divisions.

The Cellular Operators Association of India, with Bharti Airtel, Vodafone, Idea Cellular and Reliance Jio as members - has been pushing for lowering GST rate, for telecom services to 5% in sync with essential services. The debt-ridden industry has been saying that benefit of input credit is not enough to fully compensate the higher tax incidence in the new regime, and that telecom services are bound to become expensive for consumers under the new rates.

### Conclusion

The Telecom Industry is currently laden with debt of about 5 lakh crore rupees. The increase in the service tax rate from 15% to 18% will certainly prove to be a challenge, both for the telecom companies and the consumers (who will face an increase in the billing amount). Power and Fuel comprise about 5% - 10% of total expenses incurred by the sector (needed for running telecom towers), the fact that petroleum and its derivatives continue to remain outside the ambit of GST and cannot be claimed for availing Input Tax Credit is likely to add to the cost burden of the telecom companies. At the same time, some relief has been given in terms of usage of credit on payment of service tax for spectrum allocation by government (in 2016) – which, initially could only be availed over 3 years, now, under GST it can be used within a year itself. service tax for spectrum allocation by government (in 2016) –which, initially could be availed over 3 years, now, under GST it can be used within a year itself.



## The Undercover Economist: A Book Review

Swati Mathuria

1<sup>st</sup> Year, .

‘The Undercover Economist is so good, you don’t even have to be an economics student to enjoy it!!! No complicated economics terms, beta!’, the uncle at the bookstore said. No complicated terms in a book with ‘economist’ in its title? That seemed unlikely.

Tim Harford has hardly used any baffling, academic terms in his quest to make economics more reachable to the average reader. He beautifully explains concepts like demand and supply side economics, market failures, international trade and globalisation with relevant situations from real life. The language of the book is straightforward with no unnecessary embellishments in the prose.

That is what appeals most to the reader: the book answers your 3 a.m. questions with logic coupled with the data to back it up.

Ever thought who profits the most off of a Starbucks coffee? Is it the franchise owner, or the CEO? Ever thought why the rich keep getting richer and the poor poorer? Or how and why China seems to be on unending growth streak? Are you curious about the best strategy for shopping at a supermarket? Or the best strategy to avoid rush-time traffic?

Well, The Undercover Economist has got your back. It will help condition your mind to think rationally and arrive at logical solutions to your problems. At times you might not agree with Harford’s views on different topics (he argues that sweatshops

are not completely evil), and he makes the unrealistic expectation of his readers to look at the world as a cost/benefit analysis. However, if you are starting out with Economics or are just a curious being, this is the book for you. It does not condescend by over explaining nor does it assume that you know more than you do.  
Happy Reading!



## Understanding Non-Performing Assets

source: Minnesota Historical Society

Prachi Tamta

2<sup>nd</sup> Year

### Understanding Non-Performing Assets

Imagine, I am a bank. I give a businessman ₹1 crore to invest in his business. I added an asset in my books. The asset, by definition, would be a source of income for me in the future. (That's why I gave him the money in the first place) I am happy. The businessman invests the money I gave him, but he is not able to generate returns from the amount. Consequently, he is not able to pay me my interest (and principal). This continues for 90 days.

The businessman was supposed to perform well on my behalf, becoming a source of my

future income. But, he has not performed as per my expectations. The bank is unable to recover its investment. But all I can do is to add an adjective in front of the accounting entry. I add 'non-performing' before 'asset' and that's that.

Non-Performing Assets or NPAs have performed outstandingly when it comes to troubling some of shrewdest bankers and economists of the country. Their existence is not necessarily bad- just the extent which can be terribly bad. Any bank that lends money to a business assumes some risk of the business going bust. However, in business (and in life), the progress of an individual is related to the tendency to take risks. Though the real problem comes when the rewards are not commensurate with the risks that are undertaken.

### NPAs in numbers

Indian Public Sector Banks (PSBs) are sitting on the stressed asset pile of about ₹10 lakh crore. The NPA ratio (Net NPA/Total Advances) for Indian banks is at 9.1%. Brazil, South Africa and China have NPA ratios of 3.8%, 3.2% and 1.7%. Since PSBs account for close to 70% share in the bank lending, their dismal condition is particularly worrisome. Banks sitting on such a huge pile of bad debts would be suspicious of any and every potential borrower. Even the good ones. 'The Problem of lemons' takes effect and banks miss out on the opportunity to lend to the capable borrower. This stagnates investment which is detrimental to growth. The Government, as a result has devised a solution to address this issue. In the parlance of 'financial engineering', what the government does is called Recapitalization.

### Recapitalization

Government will issue something called 'Bank Recapitalization Bonds' amounting to a total of ₹135,000 crore. PSBs may well be the only buyer of these bonds. The government would use the amount received from banks to buy equity stake in the same banks. Borrowing money from a company to

buy equity stake in the same company. The Government would channel funds of ₹18,000 crore from its budget to buy a direct equity stake in public sector banks. This is simple. PSBs would raise the remaining ₹58,000 crore from the market themselves. The government would have infused enough capital in the banks by then. Banks ought to take care of themselves. Summarizing, Indian PSBs need recapitalization. In absence of that, they would be hesitant to book further losses and lose the ability to provide further credit. Reducing the capitalization ratio, mainly debt-equity ratio, is not an option as the banks across the world follow standard Basel norms which prescribes use of better risk management techniques by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.

#### **Effects of a ‘government bailout’**

There are no official comments, as of now, on what the government plans to do after recapitalization. But the story would not end with the government recapitalizing the banks and banks in turn becoming audacious enough to recognize their losses. Yes, the losses have to be recognized on the books. But the banks can still try to get the most out of the defaulting companies. The Bankruptcy law can be of great help when banks start liquidating the assets because the banks would then be legally protected to sell the assets in an open auction. All that which is recovered then, will but add to the capital by way of increase in Net profits.

#### **Implications on the Indian economy**

With a clean-up of this scale, there are bound to be several side effects. With banks finally freeing up to lend more to the private sector, there will be more liquidity in the market. This can result in inflation at least in the short run. The Reserve Bank of India might eventually have to increase the interest rates, ending the low-interest-rate cycle. Growth would be driven by more sustainable factors such as private investment and consumer spending.

At the same time, this mega recapitalization is likely to raise some eyebrows from the credit rating agencies. The capitalization would push up the debt and the Debt to GDP ratio. Higher debt levels of the government often results in higher yields in the bond market.

The path ahead becomes extremely crucial. The recapitalization plan needs to be followed by banking reforms. Otherwise the banks, flushed with fresh capital, would again start lending poorly, the classic ‘moral hazard’ phenomenon. There are a myriad of structural issues in the banking system which include but are not limited to poor lending decisions, misaligned incentive structure for top managers and lack of legal and project evaluation expertise. Without addressing these issues, it might turn out that the government is just providing a bandage when, in reality, a surgery is required!



## **Challenges facing financial services in India**

*Source: Xinhua Financial Agency*

### **Aditi Khanna**

3<sup>rd</sup> Year

It is commonly acknowledged that banking is a trust-based relationship. The banks form the pivot of the entire financial system of our country. A well-functioning customer

protection regime in the financial sector provides effective safeguards for retail financial services customers, while on the other hand it empowers customers to exercise their rights and fulfil their obligations.

Standard and Poor's Global Financially Literate Survey 2015 has reported that three out of four Indians are not financially literate. Nearly 22 crore bank accounts have been opened under the Prime Minister Jan Dhan Yojana (PMJDY) but it was found that the knowledge of this scheme and ensuring deposit operations in these accounts is a challenge. Poverty and illiteracy are the two major hurdles for why the benefits of banking have not reached all of society.

It was also found that many users do not realize that they should keep their PIN's and passwords secret and are unaware of the right place to visit in case they seek redressal. There have been cases where a consumer's problem has not been successfully handled by the bank instead being needed about credit cards, debit cards, online transactions and banking loan.

Financial services play a key role for the development of any economy. Over the recent years, India has witnessed a giant leap in providing financial services from the days of standing in long bank queues for several hours to a world of online services. The extensive use of technology, innovative products and outsourcing of functions have enabled efficient conduct of various operations of banks and other financial institutions, providing greater access to consumers.

But the growth of the financial sector largely depends upon the confidence of consumers in the fairness, transparency, accountability, responsiveness, accessibility and adaptability of service providers. In present times, customers are treated as king and utmost importance is given to consumer empowerment. The regulatory environment also ensures that users of financial services are protected.

The significance of treating customers fairly and empowering them is now well

recognized world over. It is imperative that the consumers of financial services have trust in it and receive fair treatment.

Despite this, we increasingly come across complaining customers, who do not know the course of redressal in when they face problems. Almost every year, higher number of complaints is reported by the Banking Ombudsman. According to RBI data, banks incurred a loss of more than Rs 12,000 crore in 2014-15 on account of banking frauds. The Banking Ombudsman Annual Report 2014-15 also states that they have received 85,131 consumer complaints which are 11% higher than the previous year. The total expenditure of RBI on running the Banking Ombudsman in the Year 2014-15 was Rs 387 million and the cost per complaint amounted to Rs 4541. Thus, a huge governmental expenditure is involved if consumers' problems are not addressed by the internal banking mechanism. It is in the banks best interest to become proactive and constantly monitor and solve the complaints of the consumers. Nonetheless lack of financial literacy is the major cause for consumers being cheated. This leads to distrust amongst customers, which results in lower investments and higher financial loss.

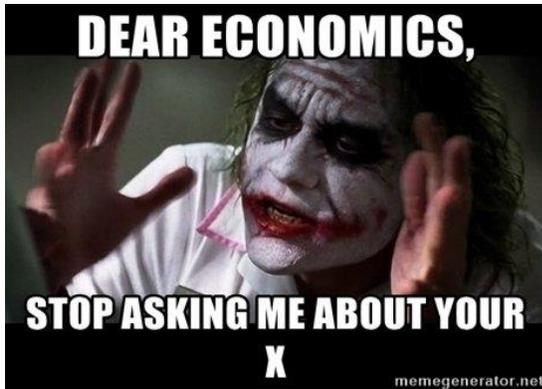
## Are you a true Economist?

Mickey Jindal

1<sup>st</sup> Year

Answer the following questions to see if you are a real economist or just an average human who doesn't think about fantasy worlds with just two people trading goods.

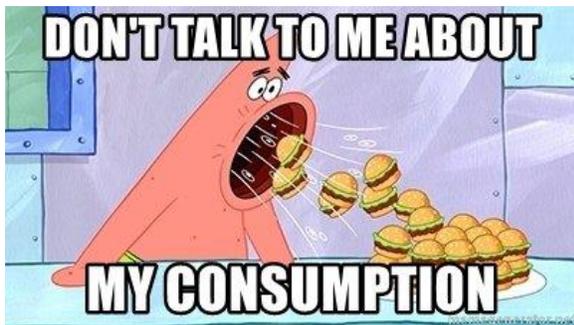
Q1. What does "X" signify?



A): It signifies the 24th character of the English alphabetical series. It also symbolizes the multiplication sign, which is a mathematical operation taught in 2nd standard. At the same time it can be translated to incorrect or danger when used in different situations.

B)The point of intersection signifies the point where market is in equilibrium. The x coordinate of the point is the equilibrium quantity and its y coordinate is equilibrium price. its also showcases the validity of law of supply and law of demand. We also learn that supply and demand are inversely related.

Q2. How much do you consume daily?



A): You know I just consume 600 kcal/day. I know, we girls have to take so much pain to be in shape. I consume 1500 carbon footprints a day. I consume approx. 100\$ per day.

B)I consume a good either till its price becomes equal to the satisfaction I gain or my budget left constraints me from buying another unit of that product. Whichever happens earlier is my stopping point. Yes, I

prefer ordinal approach over cardinal as it is more practical and efficient.

Q3. Do you think government should increase taxes?

A): No way, I don't understand why the government takes our hard money and distributes it to people who don't work. How illogical. I think a beggar would be richer than me because he doesn't have to pay taxes.

OR



Yes of course, I believe in the development of the whole country. In fact it should be 50% of our salaries that these underprivileged can get all the facilities that I can get. Yes, I am a true Indian. Thank you.

B) The government should increase taxes of some products. All the products whose demand curve is less elastic than supply curve should be highly taxed. The products that do not have less elastic demand curve should have relaxed taxes in the next tax policy by government.

If your answers were mostly B), then congratulations! you are an economist and you can collect your certificate from DSE (Disney school of Economics). It's clear that you have Mankiw and Pareto efficiency on the brain at all times.

If you answered mostly a), you have managed to avoid Economics altogether. To you, perfect competition sounds like a monotonous nightmare and Vilfredo Pareto is a type of pasta. Count your blessings!

