Topic 1: Economy – Inflation Dynamics, CPI vs. WPI, and Flexible Inflation Targeting

1. Recent Trends in Retail Inflation

Current Data: Retail inflation reached **5.54% in September**, up from **4.83% in August**, staying above the Reserve Bank of India's (RBI) legal target of 4% for four consecutive months.

Key Drivers:

Food Inflation Jump: Food inflation surged from **5.97% to 7.74%**, driven mainly by sharp price increases in vegetables, fruits, and sugar-related commodities.

Contribution: Food and beverages accounted for **62 out of the 71 basis points** rise in headline inflation.

Input Costs: Costlier inputs such as cooking gas pushed inflation in the 'restaurants and cafes' category from 2.73% in February to 9.39% in September.

Generalisation of Inflation: Inflation escalated across **11 out of 12 major CPI categories**, indicating a broader spread across the consumption basket rather than an isolated food shock.

2. Headline Inflation, Core Inflation, and Base Effect

Headline Inflation: Measures the overall annual price increase across the complete consumption basket, including volatile components like food and fuel.

Core Inflation: Excludes food and fuel items to measure underlying, persistent inflationary pressures. Core inflation rose from **4.1% to 4.3%**, signaling that price pressures require monetary policy intervention.

Base Effect: Refers to the influence of the price level in the corresponding period of the previous year. A lower base in the previous September contributed to an unfavorable base effect, inflating current year-on-year figures.

3. Statutory Framework of Flexible Inflation Targeting (FIT)

Origin & Mandate: Established under the **Monetary Policy Framework Agreement (2015)** and formalized via a statutory amendment to the **Reserve Bank of India Act, 1934** in 2016.

Inflation Target: Section 45ZA obligates the Central Government, in consultation with the RBI, to fix the inflation target every five years. The current target is **4% with a tolerance band of 2% to 6%** (valid through March 2031).

Monetary Policy Committee (MPC): A **six-member committee** determines the policy Repo rate to maintain price stability while keeping in mind the objective of growth.

Statutory Accountability Clause: If average inflation remains outside the 2%–6% tolerance band for **three consecutive quarters**, the RBI is statutorily required to submit a report to the Central Government explaining:

Reasons for failure to achieve the target.

Remedial actions proposed.

Estimated time frame within which the target will be achieved.

4. Comparison: CPI vs. WPI

Food Weightage: The weightage assigned to food items in the Consumer Price Index (CPI) is significantly **higher** than in the Wholesale Price Index (WPI).

Services Sector: WPI captures price changes only at the wholesale level for goods and **does not capture services**, whereas CPI includes price changes in consumer services.

Key Policy Benchmark: The RBI officially adopted **CPI** (and not WPI) as its key headline inflation metric for determining policy rates.

Topic 2: Polity & Governance – Electoral Reforms & RPA

1. Representation of the People Act (RPA) & Electoral Reforms

"One Nation, One Election" Debate: Involves conducting simultaneous elections for the Lok Sabha and all State Legislative Assemblies.

Arguments in Favor: Reduces massive electioneering expenditures, minimizes policy paralysis caused by repeated Model Code of Conduct (MCC) enforcement, and saves administrative time.

Challenges: May overshadow regional issues with national narratives, impact federal equity, and reduce the mid-term accountability of elected governments.

Electoral Integrity & Trust: Addressing institutional challenges regarding Electronic Voting Machines (EVMs), Voter Verifiable Paper Audit Trail

(VVPAT) verification, and political funding transparency under the purview of the Election Commission of India (ECI).

Topic 3: Social Issues & Macroeconomics – Care Economy vs. Monetized Economy

1. Conceptual Framework

Monetized Economy: Refers to economic activities where goods and services are exchanged for money, directly contributing to GDP calculations.

Care Economy: Encompasses both paid and unpaid care work, including childcare, elder care, and household management. Unpaid care work is predominantly undertaken by women and remains excluded from national income accounting.

2. Bringing Care Work into the Formal Monetized Economy

Women Empowerment: Policies promoting formal employment opportunities, equal wages, and legal recognition of care work enable transition into the monetized economy.

Gender Budgeting: Allocating targeted public funds to alleviate unpaid care burden (e.g., affordable childcare infrastructure, elder care facilities).

Skilled Workforce: Developing specialized training programs for elderly and healthcare assistance to convert informal domestic care into recognized wage employment.

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Topic 4: Economy – Digital Infrastructure & Public Payments

1. Digitalization in the Indian Economy

Status: Rapid expansion of Digital Public Infrastructure (DPI), unified payment interfaces, and financial technology applications across urban and rural sectors.

Challenges: Structural hurdles including digital illiteracy, cyber security risks, infrastructure access gaps, and digital divide.

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Practice MCQs

Question 1

Consider the following statements regarding inflation metrics in India:

1. The weightage of food items in the Consumer Price Index (CPI) is higher than that in the Wholesale Price Index (WPI).
2. The WPI captures price changes in both goods and services, whereas CPI captures goods only.
3. The Reserve Bank of India (RBI) uses CPI as its primary headline measure to set monetary policy interest rates.

Which of the statements given above is/are correct? (a) 1 and 2 only
(b) 1 and 3 only
(c) 3 only
(d) 1, 2, and 3

Question 2

With reference to the statutory framework of Flexible Inflation Targeting (FIT) in India, consider the following statements:

1. The current statutory inflation target is 4% with a tolerance band of 2% to 6%.
2. The inflation target is determined by the Reserve Bank of India independently every three years under the Banking Regulation Act, 1949.
3. If inflation remains outside the target band for three consecutive quarters, the RBI is required to submit a report to the Central Government giving reasons and remedial steps.

Which of the statements given above are correct? (a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2, and 3

Question 3

Which of the following best describes the term **'Core Inflation'**? (a) The overall increase in prices of all goods and services in the economy, including food and energy.
(b) The rate of inflation calculated strictly based on imported capital goods.
(c) Inflation measure that excludes volatile items like food and fuel to show underlying price pressure.
(d) The rate of inflation recorded during a period of zero economic growth.

Question 4

Consider the following statements regarding the **Monetary Policy Committee (MPC)**:

It is a six-member committee mandated to set the repo rate to achieve the target inflation rate.

Section 45ZA of the Reserve Bank of India Act, 1934 provides the statutory basis for fixing the inflation target in consultation with the Central Government.

The current inflation targeting mandate set by the Centre and RBI runs until March 2031.

Which of the statements given above are correct? (a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2, and 3

Question 5

In macroeconomic discussions, what does an "**unfavourable base effect**" imply?
(a) A high price level in the corresponding period of the previous year that artificially lowers current inflation figures.
(b) A low price level in the corresponding period of the previous year that inflates current year-on-year inflation figures.
(c) A sharp drop in interest rates by commercial banks due to excess liquidity.
(d) The complete exclusion of food items from the Wholesale Price Index.

Question 6

When economists refer to the "**Generalisation of Inflation**", what do they mean?
(a) Inflation caused exclusively by external global supply shocks.
(b) The rise in prices spreading broadly across the majority of categories in the consumption basket.
(c) An increase in inflation restricted strictly to seasonal food items.
(d) A condition where Wholesale Price Index growth matches Consumer Price Index growth exactly.

Question 7

With reference to simultaneous elections ("One Nation, One Election") in India, consider the following statements:

It refers to conducting elections for the Lok Sabha and State Legislative Assemblies together in a single cycle.

Proponents argue that it significantly reduces electioneering costs and administrative disruptions caused by the Model Code of Conduct.

Critics contend that it could weaken federalism and diminish government accountability to voters between five-year terms.

Which of the statements given above are correct? (a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2, and 3

Question 8

Which of the following options correctly distinguishes between the **Care Economy** and the **Monetized Economy**? (a) The Care Economy includes only paid manufacturing jobs, while the Monetized Economy includes agricultural output.
(b) The Care Economy comprises both paid and unpaid care work often excluded from formal GDP, whereas the Monetized Economy comprises market transactions evaluated in monetary terms.
(c) The Care Economy is governed by the Reserve Bank of India, while the Monetized Economy is regulated by the Ministry of Social Justice.
(d) The Care Economy consists entirely of foreign direct investments in healthcare infrastructure.

Question 9

How can the 'Care Economy' be effectively integrated into the formal monetized economy?

> Through targeted gender budgeting and public investments in care infrastructure.
>
> By formalizing and certifying skill development for healthcare and elderly care workers.
>
> By encouraging higher female labor force participation through paid maternity leave and affordable child care.

Select the correct answer using the code given below: (a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2, and 3

Question 10

Consider the following statements regarding Retail Inflation (CPI) trends in India:

1. Headline inflation measures the change in prices of the whole consumption basket, including food and fuel.
2. If headline inflation exceeds nominal bank deposit interest rates, real returns for savers become negative.
3. Month-on-month momentum in CPI reflects current inflationary pressures without the influence of base effects.

Which of the statements given above are correct? (a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2, and 3

Question 11

Which of the following measures can the government take on the supply side to cool down food-driven retail inflation?

1. Buffer stock releases of key food grains into the domestic market.
2. Imposition of higher import duties on scarce essential food commodities.
3. Raising the repo rate to curtail consumer demand for essential food grains.

Select the correct answer using the code given below: (a) 1 only
(b) 1 and 2 only
(c) 2 and 3 only
(d) 1, 2, and 3

Question 12

Consider the following statements regarding Digital Public Infrastructure (DPI) and Digital Payments in India:

> Digital infrastructure expansion aims to enhance financial inclusion across rural and urban segments.
>
> A major constraint facing full economy-wide digitalization is the prevalence of digital illiteracy and cyber security vulnerabilities.

Which of the statements given above is/are correct? (a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

Question 13

What happens if headline retail inflation remains above the upper tolerance threshold of 6% for three consecutive quarters in India? (a) The Cabinet dissolves the Monetary Policy Committee automatically.
(b) The RBI Governor must submit a statutory explanation report to the Central Government under the RBI Act, 1934.
(c) The Finance Ministry assumes direct control over the Repo Rate determination.
(d) The Reserve Bank of India is legally required to peg the Rupee against the US Dollar.

Question 14

With reference to statutory provisions for inflation targeting in India, the current five-year period set by the Centre in consultation with the RBI runs up to: (a) March 2026
(b) March 2028
(c) March 2030
(d) March 2031

Question 15

In the context of Indian polity microthemes, under which GS Paper and Subject category does the topic of "Representation of the People Act and Electoral Reforms" fall in the UPSC Mains syllabus? (a) GS Paper 1 – History and Culture
(b) GS Paper 2 – Governance, Constitution, and Polity
(c) GS Paper 3 – Economic Development and Environment
(d) GS Paper 4 – Ethics and Human Interface

Answer Key and Detailed Explanations

Answer Key

Q. No.	Answer	Q. No.	Answer
1	(b)	9	(d)
2	(c)	10	(d)
3	(c)	11	(a)
4	(d)	12	(c)
5	(b)	13	(b)
6	(b)	14	(d)
7	(d)	15	(b)

8	(b)	–	–

Explanations

Q1 Answer: (b)

Statement 1 is correct: Food carries a higher weightage in CPI than in WPI.

Statement 2 is incorrect: WPI does NOT capture prices of services, whereas CPI does.

Statement 3 is correct: The RBI officially adopted CPI as its key benchmark for inflation and monetary policy decisions.

Q2 Answer: (c)

Statement 1 is correct: The flexible inflation target band is 4% ± 2% (i.e., 2% to 6%).

Statement 2 is incorrect: The target is determined by the Central Government in consultation with the RBI every five years under Section 45ZA of the Reserve Bank of India Act, 1934 (not the Banking Regulation Act).

Statement 3 is correct: Failure to meet the target for three consecutive quarters triggers a statutory report to the Centre detailing reasons and remedies.

Q3 Answer: (c)

Core inflation excludes volatile components such as food and fuel prices to show the underlying persistent price pressures in an economy.

Q4 Answer: (d)

Statement 1 is correct: A six-member MPC sets the repo rate to meet the inflation target.

Statement 2 is correct: Section 45ZA of the RBI Act, 1934 provides the statutory mandate for fixing the target.

Statement 3 is correct: The current five-year target period runs until March 2031.

Q5 Answer: (b)

An unfavorable base effect occurs when a unusually low index value in the corresponding month of the prior year raises the current year-on-year percentage rate.

Q6 Answer: (b)

Generalisation of inflation refers to price increases spreading across the majority of categories in the consumer basket (e.g., in 11 of the 12 CPI categories).

Q7 Answer: (d)

All three statements accurately reflect the definition, advantages (cost savings, less disruption), and criticism (federalism concerns, reduced mid-term accountability) of the "One Nation, One Election" proposal.

Q8 Answer: (b)

The Care Economy covers both paid and unpaid domestic, elder, and child care (often excluded from national accounts), while the Monetized Economy covers market transactions accounted for in GDP.

Q9 Answer: (d)

All three listed measures—gender budgeting, professional skill certification for care workers (like elderly care), and labor policies supporting female workforce participation—help transition care work into the formal monetized framework.

Q10 Answer: (d)

Statement 1 is correct: Headline inflation measures price changes across the entire consumption basket.

Statement 2 is correct: If headline inflation exceeds nominal deposit interest rates, real interest returns turn negative, eroding purchasing power.

Statement 3 is correct: Month-on-month percentage changes measure current momentum without year-on-year base effects.

Q11 Answer: (a)

Statement 1 is correct: Releasing buffer stocks increases domestic availability and lowers prices.

Statement 2 is incorrect: The government cuts import duties (not raises them) to make imported essential foods cheaper.

Statement 3 is incorrect: Raising the repo rate is a monetary policy measure by the RBI, not a direct supply-side measure by the government.

Q12 Answer: (c)

Both statements are correct: Digital public infrastructure promotes financial inclusion, but faces challenges from digital illiteracy and cyber security issues.

Q13 Answer: (b)

Under the statutory framework of the RBI Act, 1934, if inflation stays outside the 2%–6% band for three consecutive quarters, the RBI must submit a report to the Central Government stating the reasons for failure and remedial action plans.

Q14 Answer: (d)

Under Section 45ZA of the RBI Act, 1934, the five-year inflation targeting framework is set through March 2031.

Q15 Answer: (b)

In the UPSC CSE syllabus, Representation of the People Act (RPA) and Electoral Reforms are microthemes categorized under GS Paper 2 (Governance, Constitution, Polity)