

# ECONSCIENCE

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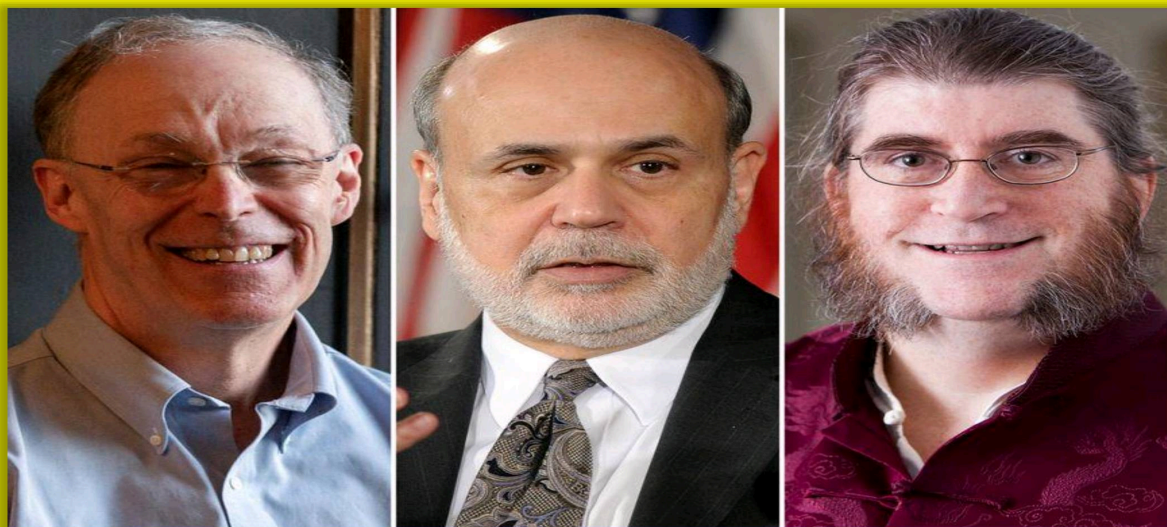
# *NOBLE PRIZE IN ECONOMICS 2022*

The 2022 noble prize in economics was rewarded to Ben S. Bernanke, Douglas W. Diamond, and Philip H. Dybvig for their research on banks and financial crisis. So, what did they do? they found out that although banks and other financial intermediaries play an important role for allocation of capital but at the same time can be associated with devastating crisis and poses a critical challenge to policymakers.

Bernanke (1983) studied the great depression and found that the key reason behind the depth and in particular the length of the depression was bank failures and the fear of bank run. During the time of distress people think that the bank will fail and go broke, so many depositors run to the bank and withdraw all their money, but bank doesn't have all the money with them as they have given some of them as a loan, as a result bank is unable to pay and hence fails.

The solution to this problem shown by diamond and Dybvig and Diamond (1983) is deposit insurance or central bank promising to stand in as a lender of last resort in any failure of the bank. Another solution is the use of demand deposits to finance long term lending to satisfy the conflicting needs of savers and borrowers. Another solution by Diamond (1984) is the debt contract between lenders and the bank, it provides diversification and provide the bank with the right incentive to monitor.

At last , the findings have proven to be extremely valuable for the central banks and financial regulators around the world in confronting the recent major crisis – the great recession and the economic downturn that was generated by the COVID-19 pandemic.



# WILL RUPEE REACH 100 PER USD

Before answering that question, we should first look at the cause of falling Indian rupee. The no.1 cause is that the Indian economy is still recovering from the damages of covid-19 pandemic more over there is threat to global recession from the Ukraine Russia war. India's Consumer Price Index (CPI) inflation in September rose to five months high of 7.41% which is above the RBI's upper tolerance threshold of 6% for nine consecutive months.

Secondly, the US federal reserve is trying to fight inflation and is ramping up the interest rates faster than most global economies in the world. So, most investors are now flocking to invest in US government debt. the two-year government bond has reached from 0.25% yield to 4% yield.

Thirdly, the Indian foreign exchange reserve for us dollar have fallen from 642.45 billion dollars a year ago to 532.87 billion dollars now.

Lastly, the trade deficit is growing in India which means we are importing a lot more than we are exporting. The trade deficit has widened to usd 25.71 billion as there is 61.51 billion of imports in India.

These causes will greatly affect the price of oil and more over the Indian companies that have borrowed money overseas during low-interest rate regime will now have to shell out more money to service their interest cost. In fact, the companies have stopped borrowing for the longest time for 13 years. Now you decide who will win the rupee or dollar.



# ***BIG INITIATIVE TAKEN IN INSURANCE SECTOR***

India is the fifth largest life insurance market in the world's emerging insurance markets, growing at rate of 32-34% each year but insurance penetration is still low in India at 4.2% in FY21 (premiums as % of GDP). On the bright side, insurance registration has increased 11.7% from 2019-20 and most of the premiums (insurance density) is reported to be consistent at around Rs. 500 during 2019-21.

Promoting the insurance sector, the IRDAI (Insurance Regulatory and Development Authority) took some major initiatives in 2022, some of them are:

- (1) Before, to start any insurance company one had to have a minimum capital of 100 crores so there was a big barrier to entry for niche insurers to penetrate tier 2 and tier 3 towns. That's why, IRDAI lowered the minimum requirement to 10 crores for certain categories.
- (2) IRDAI increased the FDI (Foreign Direct Investment) limit in insurance sector from 49% to 74% to increase competition and make insurance affordable for common people.
- (3) IRDAI has issued the "Use and File" procedure for most of the life insurance products which means that the insurance companies can launch their products without prior filing in IRDAI unlike before where it would take at least 10 to 12 months to get the approval of their products from IRDAI.
- (4) Insurance Repository (IR) is to provide and empower the policyholders with a facility to keep insurance policies in electronic form at one place and undertake changes, modifications in the insurance policy and bring transparency and efficiency.

At last, the government is expecting the insurance penetration to rise to 7-8% till 2027. So, if you don't have a life insurance maybe it's time to get you one.



# *G20 Leaders' Summit 2022*

The 17th Group of 20 (G20) Heads of State and Government Summit will take place in October 2022 in Bali, Indonesia. Under the Indonesian Presidency, the G20 in 2022 will focus on the theme, 'Recover Together, Recover Stronger'.

The Leaders' Summit is the climax of the G20 process and the intense work carried out over the year through Ministerial Meetings, Working Groups, and Engagement Groups.

Recognizing the impact of the COVID-19 pandemic on every aspect of society and many countries' lack of capacity to address the crisis, the Indonesian Presidency will focus on three main pillars for its G20 2022 Presidency:

- global health architecture;
- sustainable energy transition; and
- digital transformation.

Through these pillars, Indonesia aims to continue leading on ensuring equitable access to COVID-19 vaccines, promoting sustainable and inclusive economic development through participation of micro-, small and medium-sized enterprises (MSMEs), and digital economy.

The G20 is made up of 19 countries and the European Union. The 19 countries are Argentina, Australia, Brazil, Canada, China, Germany, France, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the UK, and the US.

