A New Chapter

The Economics newsletter is back with a bang after a long hiatus, this time with a fresh team that consists of the Economics students of Class XI A Levels who are brimming with novel ideas. It is a truly a pleasure to be the editor of this revived Economics newsletter and I hope to bring you the most relevant updates from around the world. Read on and enjoy!

Yours truly,
Vithiya Ragu
Editor

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World in a Nutshell

By Rishabh K Vaish

Steady growth, high expectations

The chief of Global Economic Unit of UNDESA (UN Departments of Economic and Social Affairs), Mr. Pingfan Hong has said that the global economy is to strengthen over the next two years.

He is expecting a growth of 2.8% in 2014 from a 2.3% growth in 2013, and further in 2015 he assumes the growth percent to rise to 3.2%.

Mr. Hong has said that there has been a rise in the long term unemployment in the developed countries; he assumes that this long term of unemployment could lead to a higher level of structural unemployment.

But for the developing countries like Africa, Asia and Latin America the informal employment has reached an average of 50%.

The UNDESA has concluded that the global employment rate is expected to rise on a slow pace.

GDP Differences

In the Eurozone, Germany is leading the European Union to recover from the recession. The fast pace growth of Germany is bringing the value of euro. The GDP of Germany is rising steadily but France, in contrast, though being the second largest economy in the EU is experiencing a fall in its economy and its GDP has stagnated.

Inflation hits UK

The Inflation rate in The United Kingdom has risen by 1.8% in April this year. It is said that the inflation is due to rise in the fares of transportation.

Swiss wage debate

Switzerland residents have rejected the proposal of increasing the minimum wage rate to 22 Swiss francs (25USD) per hour. This proposal if accepted would have given Switzerland the title of the highest minimum wage rate in the world! The main revolt was from the employers who had to pay the workers 22 Swiss francs per hour.

Fiscal change for India

The Finance ministry of is working on a proposal for the new government to cut welfare spending and rein in the deficit in its first budget to put at rest all concerns about a high fiscal deficit which could increase chances of a sovereign credit downgrade.

Two senior ministry officials said the plan would make it possible for Narendra Modi's incoming government to decrease the current year's fiscal deficit and save 250 billion rupees ($4 billion) in borrowing.
Special: Can Modi Save India?

By Vithiya Ragu

Over 500 million voters have spoken. It was a historical win for BJP (Bharatiya Janata Party) when they captured 284 out of 543 parliamentary seats in the recent Indian General Election, a landslide victory over the ruling Congress party. This is the first time in Indian independent history that a non-Congress party has secured a clear majority in the Lok Sabha. BJP and its allies have 336 seats in total, and while the exit polls predicted the win, no one expected its thunderous magnitude. Some wonder if Congress will ever recover from this crushing defeat.

The media has erupted, spewing article after article about the man behind the success and our newly officiated prime minister Narendra Modi, a man of humble beginnings and tea stalls who has become one of the most influential politicians of today. What makes him tick?

India’s GDP today is the same as China’s three decades ago. While China has progressed at the pace of lightning and remade the world economy, India is still plagued by unemployment, illiteracy, disease and extreme poverty. BJP thought out a slick and expensive media campaign (‘NaMo’) and people rooted for the compelling story of the underdog, a tea seller’s son with a gift of making persuasive speeches.

Modi promises ‘good times ahead’ and vows to replicate the Gujarat model across the nation.

The win has already resulted in soaring stock prices (please refer to the stock market article on page 6). The model follows the ideology of a balance between agriculture and business-friendliness, red-tape reduction, less state intervention and more economic freedom. This model has resulted in the tripling of Gujarat’s per capita income during Modi’s term in office (since 2001).

Although the state boasts 24-hour power supply to 18000 villages, 1 in 3 children are malnourished and a HDI report ranked Gujarat as a ‘less developed’ state (according to official report in 2013). Critics say that the model does not cover social development and that its aim to attract private investment has left much less to spend on essential healthcare and education and that other states such as Kerala and Maharashtra have also been growing quickly. They think this replication could result in the worsening in the HDI indices with no real long-term increase in growth.

Another eyebrow raising matter is Modi’s alleged connection to the Gujarat riots in 2002 although he has been given the clean chit. His Hindu nationalist image has not aided him, and the exit polls showed that only 1 in 10 Muslims nationwide voted BJP.

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To add fuel to the fire, the Ram temple construction project has been undertaken on the site where 1992 rioters destroyed a 16th century mosque, killing over 2000. This project is one of the goals in the new BJP manifesto.

The then-ruling party Congress tried to woo support with its outreach to the poor but surprisingly didn’t work. It tried to persuade the people with rehashed promises and perhaps was a little too complacent and didn’t weigh the gravity of the threat.

The people wanted to rid the nation of hereditary hierarchies and messy democracy.

The people wanted change and economic prosperity, not just secularism. Congress has now been forcefully abandoned on a long road to recovery and we have to wait and watch if it’ll find its way. Meanwhile, now that India’s new PM has taken office; let’s hope that Modi can overcome the red-tape of individual state governments and work his magic again.

Can Modi Save India? (Continued)

Gary Becker’s Rotten Kid Theorem

By Rahul Datta

Gary Stanley Becker (December 2, 1930 – May 3, 2014) was an American economist. He was professor of economics and sociology at the University of Chicago and at the Booth School of Business. He made important contributions to the family economics branch of economics. Neoclassical analysis of family within the family economics is also called new home economics.

Becker received the Nobel Prize in 1992 "for having extended the domain of microeconomic analysis to a wide range of human behaviour and interaction, including nonmarket behaviour" and received the United States Presidential Medal of Freedom in 2007. He was a Rose-Marie and Jack R. Anderson senior fellow at the conservative Hoover Institution, located at Stanford.

Photo Courtesy vdare.com
Becker was one of the first economists to branch into what were traditionally considered topics belonging to sociology, including racial discrimination, crime, family organization, and drug addiction. He was known for arguing that many different types of human behaviour can be seen as rational and utility maximizing. His approach included altruistic behaviour by defining individuals' utility appropriately. He was also among the foremost exponents of the study of human capital. Becker was also credited with the "rotten kid theorem."

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Gary Becker's theorem of social interaction, colloquially known as the rotten kid theorem, suggests that family members, even if they are selfish, will act to help one another if their financial incentives are properly linked. The theorem is one of the most famous theorems within family economics.

Becker creates a hypothetical situation in which children will receive gifts of money income from a wealthy, altruistic parent in order to make them happy. One of the children is a selfish, "rotten", child who would take pleasure in harming his sibling. The theorem is that the rotten boy has an incentive to avoid hurting his sister and will in fact behave in such a way as to increase her happiness because her happiness has a direct effect on the amount of money he will receive.

Without creating any formal incentive structure, the altruistic parent can induce the rotten child to behave benevolently by making his welfare contingent upon the welfare of his sibling.

The theorem suggests that parents should delay gifts of money to their children until they are older, or possibly until after they die. If parents plan to will their children money in accordance with their needs, each child will have an incentive to help his siblings maximize their income because higher earnings by the other siblings will mean that more of the money will be given to the rotten sibling.

Gary Becker has played an important role in the study of economics and has helped us better understand the economic world and the working of the human mind better. He will be remembered and his work will live on for the ages to come.

Indian Stock Market in Top 10

By Grace Harper

The election or Mr. Narendra Modi as India's next Prime Minister provided a confidence boost that was reflected in share trading on the countries benchmark Sensex bourse (market).

This increase took the Bourse over the threshold to become the world's 10th largest market - with stocks leaping 30% since last September (2013) and suggesting that India's economy is emerging from the fragile state it was in over recent years where it's growth has fallen from 10% to 5% annually. Some international banks have now upgraded their forecasts for Indian stocks.

As the third largest Asian economy its position in the top ten trading markets will require clear action by the incoming administration. Mr. Modi's Hindu nationalist Bharatiya Janata party (BJP) has work to do. Restructuring around Labour Law, land purchase and resuming investment in stalled projects as well as improving the decision making process in New Delhi are all desirable if these financial improvements are to be sustained. India's market capitalisation at position at number 10 is just half of the 5th placed China - with a market capitalisation of 3.18 trillion dollars.
### Exchange Rates

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### Humour

A recession is when your neighbour has lost her job. A depression is when you lose yours.

A physicist, a chemist, and an economist are stranded on an island with nothing to eat. A can of soup washes ashore.

The physicist says, "Let's smash the can open with a rock."

The chemist says, "Let's build a fire and heat the can first."

The economist says, "Let's assume that we have a can opener."

### Credits

- Rishabh K Vaish (Headlines: World in a Nutshell)
- Vithiya Ragu (Election Article, Newsletter Designer & Editor)
- Rahul Datta (Gary Becker & The Rotten Kid Theorem Article)
- Grace Harper (Stocks, Exchange Rates, Humour Column)