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Q82

Consider the following statements: 1. Purchasing Power Parity (PPP) exchange rates are calculated by comparing the prices of the same basket of goods and services in different countries (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2 Official key: A.

UPSC Civil Services Prelims 2019 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation**(a) Official key**

(a) 1 only. PPP exchange rates compare the price of a common basket of goods and services across countries (ICP). Statement 2, which ranked India as the sixth-largest economy in PPP dollars, was false: India was already among the top three in PPP GDP. That is the official key.

(b)

(b) 2 only. The sixth-largest PPP ranking was wrong at the time of the paper. Not the key.

(c)

(c) Both 1 and 2. Statement 2 fails. Not the key.

(d)

(d) Neither 1 nor 2. Statement 1 is true, so neither is wrong.

Summary

Official key is (a). PPP is a basket-price conversion, not a market-exchange-rate ranking. In PPP terms India was already the third-largest economy (after China and the United States), not the sixth. Honour (a).

Related possible facts

These can be asked in a future Prelims paper.

ICP

World Bank International Comparison Program; PPP source

Market vs PPP

Market FX understates real output in lower-price countries

India PPP rank (late 2010s)

Third-largest GDP in PPP dollars

Big Mac index

Informal single-product PPP illustration

IMF WEO

Publishes GDP at both current prices and PPP

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