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Q67

Consider the following statements: 1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI). 2. The WPI does not capture changes in the prices of services, which CPI does. 3. Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates. Which of the statements given above is/are correct? (a) 1 and 2 only (b) 2 only (c) 3 only (d) 1, 2 and 3 Official key: A.

UPSC Civil Services Prelims 2020 · General Studies · 2 marks · Economy

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

Explanation**(a) Official key**

1 and 2 only. Food weighs more in CPI than WPI; WPI skips consumer services. RBI's target is CPI, not WPI.

(b)

2 only. Under-counts the food-weight fact.

(c)

3 only. The false limb - Urjit Patel / 2016: CPI is the target.

(d)

All three. Statement 3 fails.

Summary

Official key is (a) 1 and 2 only. CPI is food-heavy and includes services; WPI is at wholesale and omits most services. The RBI's inflation target is CPI, not WPI.

Related possible facts

These can be asked in a future Prelims paper.

Flexible inflation targeting

4% CPI $\pm$ 2%; MPC.

WPI

Manufactures-heavy; used for some contracts, not the repo trigger.

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