Q12

With reference to Indian economy, demand-pull inflation can be caused/increased by which of the following? 1. Expansionary policies 2. Fiscal stimulus 3. Inflation-indexing wages 4. Higher purchasing power 5. Rising interest rates Select the correct answer using the code given below (a) 1, 2 and 4 only (b) 3, 4 and 5 only (c) 1, 2, 3 and 5 only (d)1, 2, 3, 4 and 5 (d) 1, 2, 3, 4 and 5 Official key: A.

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

Explanation

(a) Official key

1, 2 and 4 only. Expansionary policy, fiscal stimulus and higher purchasing power pull demand. Inflation-indexed wages are more cost-push; rising rates cool demand.

(b)

3, 4 and 5 only. Rates up are disinflationary.

(c)

1, 2, 3 and 5 only. Mixes push and a rate rise.

(d)

All five. Rising interest rates do not cause demand-pull inflation.

Summary

Official key is (a) 1, 2 and 4 only. Demand-pull inflation is too much spending: expansionary policy, fiscal stimulus, higher purchasing power. Indexed wages are a cost channel; higher rates restrain demand.

Related possible facts

These can be asked in a future Prelims paper.

Demand-pull
Too much money chasing goods.

Cost-push
Wages, oil, tax - supply-side price rise.