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Q22

Correct the following statements: Statement-I: In the post-pandemic recent past, many Central Banks worldwide had carried out interest rate hikes. Statement-II: Central Banks generally assume that they have the ability to counteract the rising consumer prices via monetary policy means. Which one of the following is correct in respect of the above statements? (a) Both Statement-I and Statement-II are correct and Statement-II is the correct explanation for Statement-I (b) Both Statement-I and Statement-II are correct and Statement-II is not the correct explanation for Statement-I (c) Statement-I is correct but Statement-II is incorrect (d) Statement-I is incorrect but Statement-II is correct Official key: A.

UPSC Civil Services Prelims 2023 · General Studies · 2 marks · Current Affairs and GK

Current events, government schemes, miscellaneous GK - Prelims GS Paper I.

Explanation**(a) Official key**

Both correct and II explains I. Post-COVID inflation led to a global hiking cycle because central banks treat demand-side price rises as a monetary-policy job.

(b)

Both correct but II does not explain I. The hiking cycle is exactly that assumption at work.

(c)

I correct, II incorrect. Central banks do use rates against inflation.

(d)

I incorrect, II correct. The hiking cycle did happen.

Summary

Official key is (a). After the pandemic, many central banks raised policy rates. They did so because the standard model says tighter money can cool inflation. Statement-II is why Statement-I happened.

Related possible facts

These can be asked in a future Prelims paper.

Policy rate

Repo (RBI), federal funds (Fed), Bank Rate (BoE) - the hiking tool.

Inflation targeting

RBI's 4% CPI target with a $\pm 2\%$ band.

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