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CURRENT AFFAIRS

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GREEDFLATION

This article covers "Daily Current Affairs" and the topic details "Greedflation". The topic "Greedflation" has relevance in the Economy section of the UPSC CSE exam.

For Prelims:

What is Greedflation?

Facts about Greedflation in India?

For Mains:

GS 3: Economy

Impact of Greedflation?

Preventive Measures to be taken?

Challenges in preventing Greedflation?

Why in the news?

There is a growing consensus across the world that corporate greed is the new villain in town, spiking inflation even as workers get doubly penalised by low wage increases and higher interest rates.

What is Greedflation?

Greedflation refers to a situation where inflation is driven by corporate greed rather than by the traditional wage-price spiral. It occurs when companies excessively raise prices to maximize profit margins beyond covering increased costs. This behavior leads to an inflationary pressure that is not solely driven by wage increases but by businesses taking advantage of market conditions to generate excessive profits.

Facts about Greedflation in India?

- In India, there are indications of greedflation based on the surge in net profits of listed companies.
- The net profits of Indian listed companies reached a record high of Rs. 2.9 trillion in March 2023, over 3.5 times the pre-pandemic average.
- Approximately 60% of the growth in net profit can be attributed to an increase in profit margins, indicating companies' utilization of excessive profit margins to drive net profits.
- The remaining percentage of growth is contributed by increased sales, suggesting a combination of factors driving the overall profit growth.

Impact of Greedflation?

- **Reduced Purchasing Power:** Greedflation erodes the purchasing power of consumers as prices rise excessively. This can lead to a decline in living standards, particularly for low-income individuals
- **Income Inequality:** Greedflation exacerbates income inequality by benefiting businesses and shareholders who profit from increased profit margins and asset values, thus widening the wealth gap.
- **Financial Market Instability:** Excessive price increases and speculative behaviors driven by greed can create bubbles and unsustainable market conditions.
- **Negative Impact on Productivity:** When prices rise excessively without a corresponding increase in wages or productivity, it can lead to a decline in real wages and labor productivity.

Preventive Measures to be taken?

- **Regulatory Oversight:** Governments can strengthen regulatory oversight to prevent excessive price increases driven by corporate greed.
- **Anti-Trust Policies:** Effective implementation and enforcement of anti-trust and competition laws can discourage anti-competitive behaviors and foster a level playing field.
- **Consumer Protection Measures:** implementation of consumer protection measures to safeguard consumers from unfair pricing practices. This may involve ensuring transparency in pricing and empowering consumers to make informed decisions.
- **Strengthening Market Competition:** Encouraging market competition through policies that promote new entrants, innovation, and fair market access

Challenges in preventing Greedflation?

- **Identification and Measurement:** Determining the extent of greedflation and differentiating it from regular inflation can be challenging. It requires careful analysis of pricing trends, profit margins, and market dynamics to identify instances where excessive price increases are driven by corporate greed.
- **Balancing Profit Motives and Fairness:** Balancing the need for businesses to generate profits with ensuring fairness and preventing excessive price increases can be a delicate task.
- **Enforcement and Compliance:** It requires strong regulatory bodies with adequate resources, expertise, and authority to monitor and investigate pricing practices. Ensuring compliance from businesses, especially in highly competitive and globalized markets, can also be difficult.
- **Global Nature of Markets:** In an interconnected global economy, preventing greedflation may require international cooperation and coordination. Addressing issues such as cross-border price manipulation and global supply chain dynamics adds complexity to the challenge.

Source:

<https://indianexpress.com/article/explained/explained-economics/explainspeaking-greedflation-inflation-india-explained-8687194/>

Q.1 What is the term “greedflation”?

- (a) An economic phenomenon where inflation is driven by excessive consumer demand
- (b) A situation where inflation is caused by rising input costs for businesses
- (c) A term used to describe a period of deflation in the economy
- (d) A situation where inflation is driven by excessive price increases by corporates

Answer: (d)

Q.2 Which of the following statements regarding greedflation is/are correct?

1. Greedflation refers to a situation where inflation is driven by excessive demand in the economy.
2. Greedflation can lead to widening income inequality and exacerbate the wealth gap.
3. Preventing greedflation requires balancing business profitability with consumer interests.
4. Greedflation is a term used to describe deflationary trends in an economy

Select the correct option:

- (a) 1, 3 and 4 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2, 3 and 4

Answer: (c)

Q.3 Discuss the concept of greedflation and its implications on the economy and society. Also, analyze the challenges faced in preventing and mitigating the effects of greedflation.

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