Dollar Index : DXY : USDX ↑

(i) Base Year — 1973

(ii) Base Value - 100

(iii) Currencies included -

- └ Euro
- └ Pond
- └ Canadian Dollar
- └ Swiss Franc
- └ Swedish Krona
- └ Japanese Yen

→ $

Dollarisation

↓

Substitution of American dollar for domestic currency.

De - dollarisation

$\downarrow$

The progressively less use of American dollar in the world trade & various global financial transactions.

Vostro A/c

↓

A Foreign bank's account in a domestic bank in the domestic currency.

Nostro A/c

↓

A domestic bank's account in a foreign bank in a foreign currency.
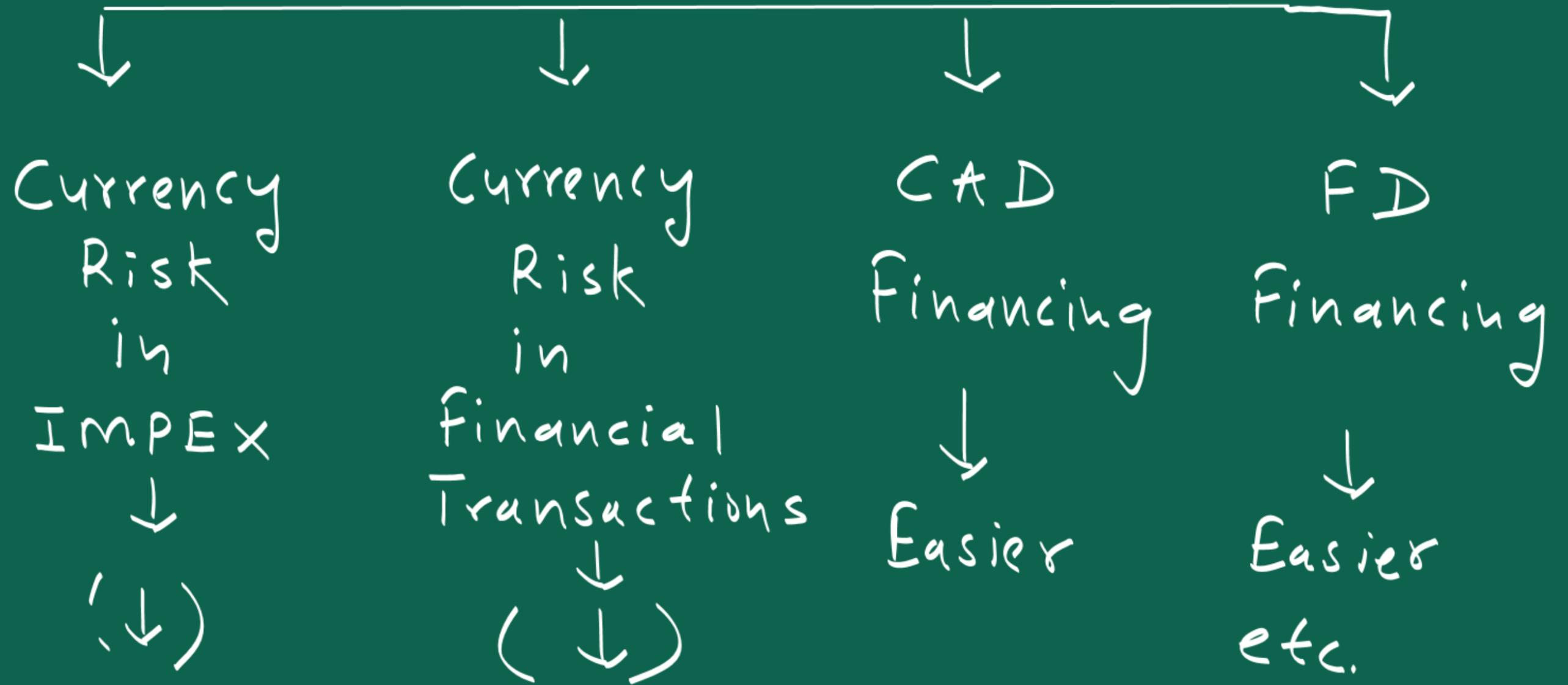
___

(i) Meaning -

Increased use of Indian Rupee in cross-border transactions.

(ii) Inter-Departmental Group (RBI) on this topic

↓

(a) Chairman — Radhashyam Ratho

(b) Const. — Dec. 2021

(iii) Benefits :

Currency Risk in IMPEX
↓
(↓)

Currency Risk in financial Transactions
↓
(↓)

CAD Financing
↓
Easier

FD Financing
↓
Easier etc.

Some Important Facts

(i) The largest export commo.

↓

Petroleum Products

(ii) Top export destination

↓

USA

(iii) The largest import commo.

↓

POL

(iv) Top Import Source → China

Ref.

↓

Eco. Survey 22-23

(v)   Highest Trade Surplus with
                    ↓
                  USA

(vi)   Highest Trade Deficit with
                    ↓
                  China

(vii)   Largest Food Import
                    ↓
                  Edible Oil

Ref.
↓
Eco.
Survey
22-23

(viii) Largest FDI inflow from

$\downarrow$

Mauritius

(Cumulative, 2000-2023)

(ix) Sector attracting largest FDI

$\downarrow$

Services

(Cumulative, 2000-2023)

(x) State Attracting largest FDI

$\downarrow$

Maharashtra

DPII

INFLATION

Meaning –

The sustained increase in the price level of the selected commodities, particularly essential commodities, is called inflation.

$$
\begin{array}{l}
\checkmark ₹25 \\
\checkmark ₹20 \\
\checkmark ₹30 \\
\checkmark ₹20 \\
\checkmark ₹5 \\
\hline
\dfrac{₹100}{5} = \underline{\underline{₹20}}
\end{array}
$$

100   110   125

₹20   ₹22   ₹25

Measurement of Inflation

For the measurement of inflation various price indices are used like -
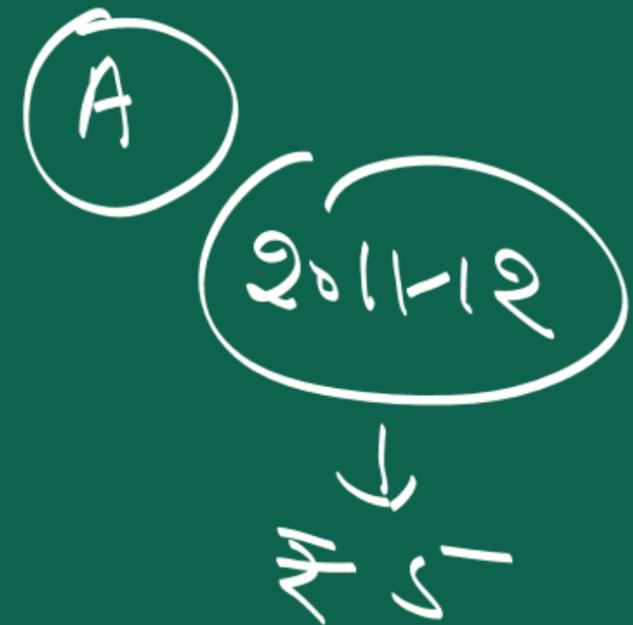
(i) WPI = Wholesale Price Index

(ii) CPI = Consumer Price Index

(iii) PPI = Producer Price Index etc.

The prices of commodities are converted into price indices by using the following formulae -

$$\frac{P_1}{P_0} \times 100$$

(A)

२०११-१२

↓

₹ ५

Here —

$P_1 =$ Current Price

$P_0 =$ Base Price

	$\underline{\dfrac{2011-12}{Price}}$	$\underline{\dfrac{2011-12}{Price\ Index}}$	$\underline{\dfrac{2020-21}{Price}}$	$\underline{\dfrac{2020-21}{Price\ Index}}$
A	₹5 $\rightarrow$	$\dfrac{₹5}{₹5}\times 100 = 100$	₹6	$\dfrac{₹6}{₹5}\times 100 = 120$
B	₹10 $\rightarrow$	$\dfrac{₹10}{₹10}\times 100 = 100$		
C	₹7 $\rightarrow$	$\dfrac{₹7}{₹7}\times 100 = 100$		
D	₹8 $\rightarrow$	$\dfrac{₹8}{₹8}\times 100 = 100$		

Measurement of Inflation in India

The following two indices are used at the policy level in India -

(i) WPI → 2011-12 = 100

↓

Office of Economic Advisor
(Ministry of Industry & Comm.)

(ii) CPI – NS (New Series) → 2012 = 100

↓

National Statistical Office

Combined

CPI-Rural   CPI-Urban   CPI-C

Point to Point Method

Under it, if the inflation rate of Oct. 2023 is to be calculated, then the value of CPI/WPI of this month is compared with the value of CPI/WPI of Oct. 2022 and the percentage of change is calculated. This percentage change will be the inflation rate for Oct. 2023.

$$\underline{2012 = 100}$$

→ Tomat
    Pric

$$\frac{₹20}{₹20} \times$$

2023

2022

Jan

Feb.

Jan

Feb

}

Sept

Oct.   440 (₹80)

Oct   400 (₹80)

Nov.

Nov.

Dec.

Dec.

The Base Effect

Sometimes, inflation rate seems to be quite higher or lower. This is due to a statistical impact. This is called the base effect.