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AUGUST EDITION '22

# Editor's Note

Dear Readers,

With the pandemic coming to a near standstill (if not an end), I hope everyone has been moving towards a normal pre-pandemic lifestyle. In the past few months, several economic issues besides the COVID-induced economic crisis have come up that we have been waiting to address.



This issue of "Thrift" discusses the world-shaking divorce of Bill and Melinda Gates as well as the country's five state elections, which resulted in significant changes to various policies that could ultimately result in scandals. It examines a number of topics, including the seeming abuse of our culture by global trade and the person responsible for the gigantic Tata empire.



This issue of the Thrift isn't just about numbers and formulae but facts and ideas that dominate our lives. The editors have also compiled an infographic on behavioral economics and the Nudge theory which will help enhance your knowledge and will be entertaining.

We hope everyone enjoys reading this magazine and gets more acquainted with many commercial issues, theories on value, economic crisis and more.

**Happy reading!**

Editor- in- chief  
Saamya Malhotra

**HAS INTERNATIONAL TRADE  
COMPROMISED OUR CULTURE ?**

**4**

**5**

**TATA'S INESTIMABLE INCOME**

**THE PARADOX OF VALUE**

**6**

**7**

**NEW GOVERNMENT OR SCOPE  
OF NEW ECONOMIC SCANDALS?**

**THE EVRGRANDE CRISIS**

**10**

**12**

**STRENGTH FROM SCARCITY**

**THE GATES SPLIT**

**13**

**14**

**CHARITY WITH A PROFITABLE CAUSE**

**THE GLOBAL UPDATE**

**15**



# Has International Trade Compromised Our Culture ?

By Tanvi Agarwal

Our culture defines who we are and whom we are meant to be. Listening to some stranger narrate a story your grandmother once told you makes you feel at home even in the strangest places. But what happens when there are no grandmas to narrate the stories anymore? What happens when we forget to carry forward our unique traditions? What happens when we become a legend ourselves?

Globalization opened up a gateway like never before. It connected us in every aspect- cultural, social and economic. In 2021, the global trade value of goods exported worldwide amounted to a whopping 28.5 trillion USD at current prices compared to 6.45 trillion USD in 2000. And according to WTO, the post-pandemic trade recovery is already showing signs of divergence across countries and regions. Merchandise export and import volumes in the first quarter of 2021 rose to new heights in Asia and reverted to pre-pandemic levels in Europe and North America but lagged in poorer, less industrialized regions, such as Africa and the Middle East. Though globalization opened up a huge market for countries, it brought a storm that destroyed us from within. It promoted the 'Western ideal of individualism.

The Western ideal encouraged a homogenous set of values and beliefs. Even the present education system reflects western ideas and philosophies. Hence as people get more influenced by the dominant culture and values of the present, they often forget their roots. The increased availability of global products drowns the local cultural influences on society. When a country opens up its doors to international trade, goods and services designed for a 'global consumer' arrive in the market, raising the material welfare of the people who are responsive to this type of product. Thereby, conversely lowering the incentives of parents to transmit cultural values. Over time, the availability of globalized products further increases to satisfy demand, thereby resulting in a self-sustaining cycle. And once society settles down in this dynamic, it is often difficult to go back to where it started.

So, we come back to where we started, and now it's time to wonder: Is the cost of compromising our own culture for international trade worth it?

# ***TATA'S INESTIMABLE INCOME***

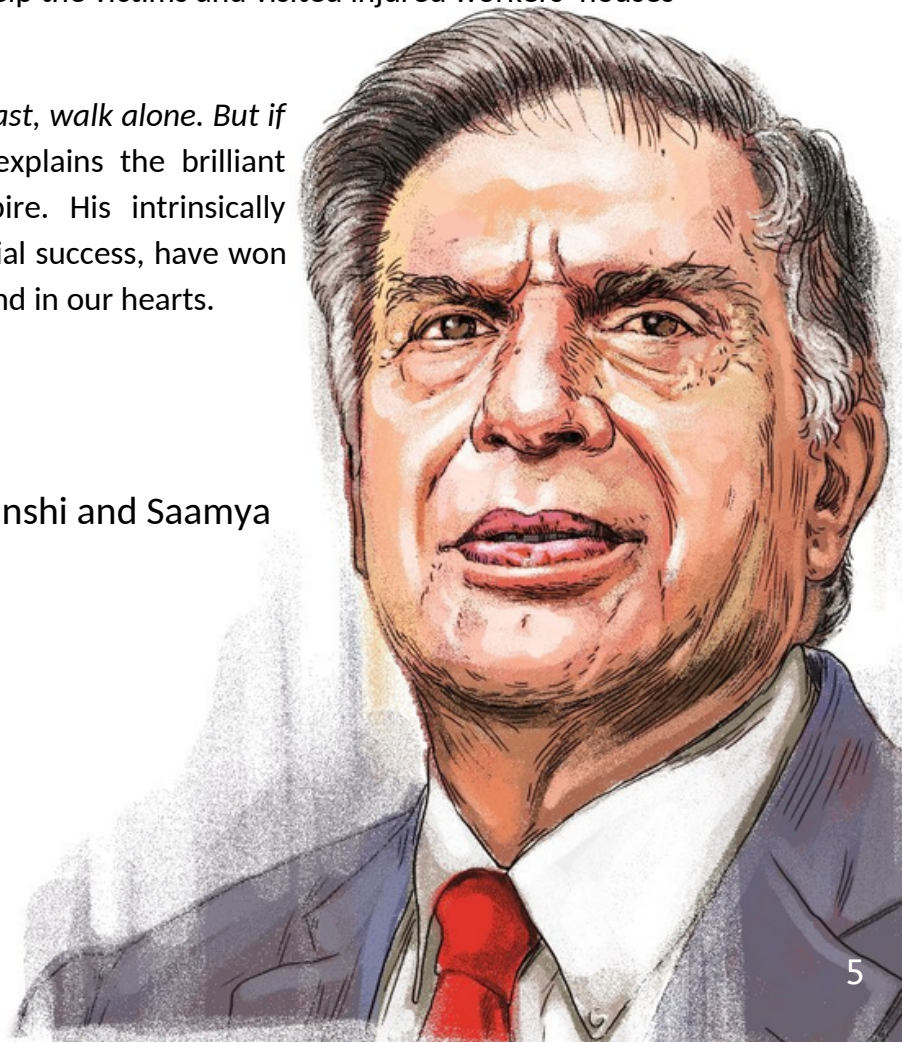
The Tatas are some of the wealthiest and the most successful people to have ever lived in India. The Tata Group is a multinational giant of Indian origin that has many branches like Tata Motors, Tata Steel, Tata Chemicals, Tata Consumer Products, Titan, Tata Power, Indian Hotels, Tata Communications, Tata Digital, and Tata Electronics.

Ratan Naval Tata was the former chairman of the Tata group for a long time and is the current chairman of Tata trust. He is one of the biggest and most well-known businessman, investor and philanthropist not only in India but all over the world. He has been ranked in Forbes and awarded the Padma Bhushan. His humility despite his greatness, his visionary ideas and thoughts as well as his willingness to help his countrymen have made him a source of inspiration for many.

Despite their ever-expanding empire and seemingly limitless resources and fame – the Tatas have never made it to the top of the list of the richest people in India. The primary cause for this is their unparalleled enthusiasm for philanthropy - the Tatas have been far too focused on improving the overall well-being of the nation to enter the rat race for materialistic superiority. According to Economic Times, Ratan Tata's net worth is 291 billion dollars in 2021, but this figure cannot be relied upon with absolute certainty because it fails to capture the complete essence of his wealth. More than 65% of Ratan Tata's shares are invested in charitable trusts. Around 28 million dollars go to the Tata scholarship fund which promotes quality education among the Indian youth. The Tata Group also gave ₹950 million in 2014 to IIT Bombay for a period of five years - the largest donation the institution has received in its history. Not just this, Ratan Tata has often proven to be the epitome of generosity and leadership – he stood outside the Taj hotel and supervised activities to help the victims and visited injured workers' houses during the 26/11 Mumbai attacks.

Ratan Tata's words, *"If you want to walk fast, walk alone. But if you want to walk far, walk together,"* explains the brilliant foundation that grounds the Tata Empire. His intrinsically human qualities, in addition to his industrial success, have won him a constant place in the global forum and in our hearts.

- Himanshi and Saamya





Imagine you're given a choice- diamonds or a water bottle. Naturally, the majority would choose diamonds for they are far more valuable than a mere water bottle. Let's spice up the situation that your cool comfortable setting has turned into a desert.

Well, what would you choose now? Would you choose differently? Why? Have diamonds become less valuable? This is the '*paradox of value*', given by none other than Adam Smith. A classic puzzle in economics, it makes us wonder why daily necessities are considered less valuable than rare objects like diamonds. Well, understanding value is not as simple as it seems.

The main aspects lying under this paradox involve the *exchange value* and the *value in use*. In the first choice, we look at the exchange value of the diamond and calculate our profits for the long run. However, in the desert, we examine the value in the use of the water i.e., how helpful would it be in the current situation?

Another factor that comes under the concept is *marginal utility*, which is the satisfaction one gets from purchasing a particular good or service. It determines how much one is willing to pay for items of both leisure and daily use. In case the choice of water and diamond given once is replaced by a choice given for the same every 5 minutes, we eventually stop choosing the bottles for they become a burden to carry. This leads to another law known as *the law of diminishing utility*. The more we acquire, the less fond we become of it. A way to avoid the following is to invest in our choices only to the point they are useful.

To conclude as Smith says "*the real price of everything, what everything costs to the man who wants to acquire it, is the toil and trouble of acquiring it,*" the worth rises when the man is willing to sacrifice one choice for another.

- Bhavya Sanghal

***Which is more  
valuable?***





# NEW GOVERNMENTS OR SCOPE FOR NEW ECONOMIC SCANDALS ?

*By Tahira Kaur Dhillon*

When elections happen in India, so does economic manipulation. We see reduced taxes, government debt, increased inflation, and reduced economic growth. The government introduces last-minute welfare schemes in a ploy to win mass support – this results in economic disasters but also political benefits. Then there are the reduced taxes; what better way to woo the wealthy than by a tax break and at this point some industrialists avoid making key decisions, in case the party in power loses and economic policies change. Due to this, and financing election campaigns, businessmen take on fewer projects, hence slowing down the credit rate. With increased spending, both inflation and slower economic growth are also seen, which is an overall drain.

The recent Vidhan Sabha elections in Punjab, UP, Uttarakhand, Manipur, and Goa were no different. But hopefully, there is some good too. Leaders feel that BJP's victories in Uttar Pradesh, Uttarakhand, Manipur, and Goa will result in an abundance of pro-welfare schemes. Moreover, the success of schemes like DBT and free food grains – during the pandemic – will result in a further push to undertake pending reforms.

Yes, there was also an outburst of spending on drugs and alcohol in Punjab in an act to win power; with the Aam Aadmi Party (AAP) government being left to manage the economic well-being of India's fourth indebted state – while also managing its highly-political welfarist manifesto. But, AAP's Delhi model has won huge support in Punjab.

Sadly, the other four states don't give us the same hope. The rampant corruption in the Goa government's handling of this election was clear to one and all. And yet again there were fake pro-poor promises made in Manipur. Parties mobilised funds through provocation of religious sentiments in the masses in UP and Uttarakhand. But these are the things that come with elections in India, right?

If we want a secure economy, we need a healthy government. To ensure that sudden and arbitrary decisions regarding taxes are not made, we need a party which supports people-centred ideologies. If we want less bureaucratic red tapism, less corruption, and ensured financial security during elections, we need an opposing party to keep power in check. That is how we can ensure the economic liberty and equality of all the citizens of India.

# About BE

The economics that derives its basis from psychology and insight into human behaviour which eventually helps in making economic decision making.

It helps in understanding the human brain and making decisions regarding one of the most important aspects of a person's life - economics.

Thaler recognized that people are often overconfident in their abilities, more afraid of losing than they are eager to win, and more likely to pursue short-term than long-term benefits.

One of the biggest arguments economists have against behavioural economics is that much of its research comes from small-scale research data, instead of real world sources.



# INTRODUCTION BEHAVIORAL ECONOMICS



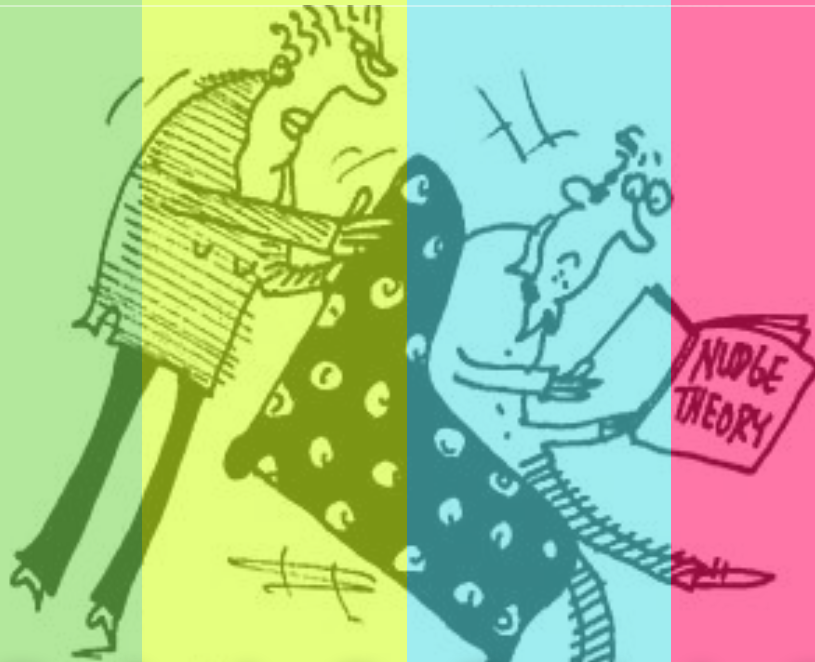
# the nudge

The nudge theory suggests that well-placed 'nudges' can reduce market failure, save the government money, encourage desirable actions and help increase the efficiency of resource use.

It is a category under BE that makes positive reinforcement and indirect suggestions effect a persons attitude.

In behavioural economics, a "nudge" is a way to manipulate people's choices to lead them to make specific decisions.

For example, putting fruit at eye level or near the cash register at a high school cafeteria is an example of a "nudge" to get students to choose healthier options.



## A P P L I C A T I O N S

# BEHAVIORAL ECONOMICS

# THE REAL ESTATE SCAM IN CHINA: THE EVERGRANDE CRISIS

Published in 'The Hansraj Finance Gazette'

By Avani Jindal

The escalating debt crisis that has engulfed China's largest commercial property dealer, the Evergrande Group, has been making headlines in the international financial media for quite some time now. Reminiscent of the September 15, 2008, bankruptcy case that hit the Lehman Brothers, some have dubbed it as "China's Lehman Brothers moment", while others predict it as the beginning of the end for the debt-ridden behemoths of the Chinese economy.

The turmoil continues to brew as Evergrande, the largest real estate company in China, turns into the largest real estate borrower in the world, with an accrued liability that exceeds 300 billion dollars. Earlier in the year, Evergrande's shares plunged by nearly 80% and witnessed severe downfalls that caused a ripple effect in the stock market. Unless Beijing initiates urgent measures to resolve the crisis the potential time bomb that has been ticking for a while now is bound to burst, and the domino effect will impact the world at large. Just as the collapse of Lehman brothers exemplified the chinks in the armoury of the US economic policy, Evergrande has come to symbolize the malaise that is threatening to smother the Chinese economy.

According to the Institute of International Finance, the overall debt of China stands at ninety-two trillion dollars and the debt to GDP ratio stood at 353% by the end of this June sector. This huge ratio is a spill over caused by the property company's default, and it has positioned China in a tough spot and left them with much lesser room for economic manoeuvring. The company owns more than thirteen hundred projects worth 1 trillion dollars out of which 780 are under construction in approximately three hundred Chinese towns, and it has stakes in different agencies such as sports, groceries, media, theme parks, bottled water and electric powered mobility.

The Lehman moment that reflects the excesses of the 2007- 08 financial crises, was induced by the big defaults on mortgage payments via American asset consumers. It helped to uncover the questionable, credit score practices pursued by the US lenders. Analysts fear that the Evergrande crisis may turn into another Lehman moment, as it may cause a similar spill over damage in the global market.



Jittery investors are keeping a close watch on the crisis because Evergrande's business is humongous, and it contributes to almost 2% of China's GDP, but what worries them more is that the cascading effect may also be felt across other economies. For instance, approximately 50 percent of sales in the European luxury goods industry come from China and Germany's exports to China, and accounts for more than 10% of its total export. Thus, for the frail and aging European economy, this could sound the death knell because any slowdown in China will make its economic recovery even more challenging. China also serves as the biggest trading partner for most Asian countries, as it imports a wide variety of goods, for example, semi-chips from Taiwan, food from Brazil and shipping services from Singapore; so an economic meltdown in China is bound to inflict pain on the rest of the world.

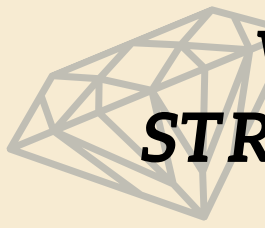
China imports goods worth 16.3 billion USD that include cotton, iron ore and other raw material and basic commodities. The Evergrande crisis is likely to exacerbate an economic slowdown in China which will result in a fall in the stock prices of the Indian steel, and iron ore companies (like Vedanta, NMDC, Coal India), as the country's real estate sector is a major consumer of steel. Tata Steel was recorded as the highest return provider in the NIFTY Index in September however; its performance has sharply plummeted since then. It has also been observed that stocks of India's best performing companies including Jindal Steels, Tata Chemicals and DCW witnessed a 10-15% downturn.

However, some analysts have also predicted that this may have a positive impact on the Indian economy. They suggest that a devaluation of the Yuan would result in China becoming a great competitor for India in the international market in a wide range of sectors, such as textiles, chemicals etc. Due to the COVID-19 pandemic and the Trump-Xi war, global enterprises are trying to seek alternatives for the Chinese companies, which may in fact assist in the progress of the Indian economy in the long run.

Thus, whether the messy collapse of the Evergrande has a global impact beyond some market turbulence in the already broken post Covid economy is a wait and see story for now.







# **WHEN LESS IS MORE : STRENGTH FROM SCARCITY**



*By Khwaish Aggarwal*

Scarcity appeals to all, for example, humans have been attracted to the rarest of jewels and crystals since the prehistoric era.

Can you think of a situation where the lack of infinite goods forced someone to make a choice? Further, think about what the world would be like if it were possible to solve the problem of scarcity altogether so that limited resources were no longer a problem?

This hypothetical scenario is depicted in utopian science fiction. For example, in the television show 'Star Trek, the Next Generation' economic scarcity is no longer an issue, that's because in the future they have things like replicators that provide unlimited food, clothing, tools and any other material goods on demand. It's kind of like being able to ask Siri for a bacon cheeseburger.

David Ricardo a British economist published an economic model in 1817. In his book, Ricardo gives an example of a wild frontier which has plenty of fertile land available and only a few settlers. Landlords can't charge too high because there are few settlers. However, when more aspiring farmers arrive to reside on the land, landlords may be able to raise the price. When there is absolutely no land remaining, the price can skyrocket because settlers will pay anything to get a piece of property. This is an example that illustrates the bargaining strength and scarcity.

Tim Harford, author of 'The Undercover Economist' addresses people being ripped off by big businesses, and stresses the topic of competition, two things that are very much present and somewhat inevitable in today's economy. Harford explains thoroughly in his book that bargaining strength comes through scarcity.

The theory of 'Strength from Scarcity' explains that if the country is low on people who have certain skills, or degrees, then they will be paid rightly so for the skills they have. It provides you with 'scarcity power'. It may sound odd but in the economic world, scarcity works for your benefit.

# not just another divorce: THE GATE'S SPLIT

By Myrah Sahni

On paper, this divorce sounds like any other - time passes, the kids grow older, the couple ultimately drifts apart, and the marriage starts being referred to as 'irretrievably broken'. But that is where the familiar outlines of an ending of a marriage end because this breakup involves Bill Gates and Melinda French Gates.

The combined fortune of the Gates exceeds the size of Morocco's annual economy, combines the value of Ford, Twitter, and Marriot International, and is triple the endowment of Harvard. In financial terms, this divorce is like no other. Untangling almost \$145 billion is a colossal task- a split for the ages. There are mansions and private jets involved. Vast land, a hotel brand and investments are just the tip of the iceberg when it comes to splitting their assets. There is no doubt that the main source of income was Bill's shares in *Microsoft* but there is so much more to the story than we can fathom. Melinda French Gates has also amassed a huge chunk of money through her investment and incubation company, *PivotalVentures*.

Though not a part of their fortune, one of the couple's biggest assets is their foundation-The Bill and Melinda Gates Foundation which is the largest philanthropic organization of its type in the world. It has near \$50 billion in assets and more than 1.6k employees and offices globally. It has funded vaccine initiatives amid the pandemic worth \$1.75 billion and has spent \$5 billion on programs around the world. The Gates have played such an excessive role in philanthropy that questions about the future of their foundation have arisen instantly after their divorce.

However, the couple has given reassurances that they will put their personal differences aside and continue to work alongside Warren Buffet on their joint philanthropic cause. Regardless, it is interesting to note how such a private matter can lead to a ripple effect amidst the public and cause shockwaves in the field of philanthropy. It is startling to know that two individuals with an exorbitant amount of money play such a monumental role in how the world works.





# CHARITY WITH A PROFITABLE CAUSE

By Meehika Mohan

With the world developing at a rapid pace and the popularization of capitalistic economies, companies have started creating inferior quality products to increase annual sales. As a result, the strain on resources has increased. To compensate for their effect on the environment and society, companies adopt a Corporate Social Responsibility policy (CSR). By adopting CSR they work more ethically - considering human rights as well as social and economic impact when they make decisions on how they should conduct their business.

When one comes across the concept of multinational corporations wanting to give back to society they often interpret it to be a non-profitable scheme for the companies, however, in actuality, studies have proven that fully integrated CSR is expected to bring good financial returns on the company's investments. CSR can be beneficial to companies by improving their brand image by encouraging them to opt for more sustainable ways of production. As more and more people realize that our resources are depleting at an increasing rate, they become more likely to invest in companies which have a sustainable approach. A business with integrated Corporate Social Responsibility will attract more potential investors because of the method of conducting the business.

Large corporations around the world such as Ben & Jerry's Foundation and Tata Motors have adopted CSR which has proved to be very beneficial for them. They developed a dairy farm sustainability program in their home state of Vermont and developed a hiring program specifically to employ ex-convicts in their bakery, *creating employment and thus helping the economy grow*. The company is also known for speaking out on social issues and has funded 7.5% of its annual pre-tax profits to community organisations across the country. Such measures taken by the company have won over consumers and increased the demand for Ben & Jerry's products, creating cash inflow in the business.

Corporate Social Responsibility is an extremely ethical and sustainable approach and it helps corporations give back to society by being the largest consumers of natural resources.



# THE GLOBAL UPDATE

By Mahi Chandra

## 1. The deglobalisation debate continues

Many argue that the rise of populism is ushering in a new era of globalisation. Others believe that the pandemic and conflict in Ukraine are the final nails in the coffin. Despite this, global trade continues to grow- but it isn't reflected in official statistics.

## 2. Eurozone inflation accelerates

The high pace of inflation in the United States appears to be catching up with European inflation. Consumer prices in the 19-member Eurozone rose 7.5 per cent year over year in April. Inflation in the U.S. was 7.9%. The main cause seems to be the rise in energy prices caused by the war in Iraq.

## 3. Chinese manufacturing activity weakens

China's manufacturing industry saw a drop-in activity in April. According to market reports, China's manufacturing PMI declined from 50.4 in March to 48.1 in April. This was the lowest purchasing Manager's Index (PMI) reading since the outbreak began, indicating considerable drop-in activity.

## 4. Ruble returns to pre-crisis value

The value of the Russian currency has roughly returned to where it was before sanctions, partly due to the Russian government's strict capital controls. In addition, the central bank's benchmark interest rate was doubled, giving savers an incentive to save. The rise in oil and other commodity prices have allowed Russia to continue generating foreign currency revenues. Russia requires energy exporters to convert 80 per cent of their foreign revenue into Ruble, thus increasing its demand.



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