

Q-1 -Short selling has been a controversial practice in the stock market .how does short selling impact the value of a currency , and what are the possible implications of the short selling for a country's economy ? Explain with the help of suitable example .

Approach -

A simple straightforward question where candidates need to write about how does short selling impact the value of a currency , and what are the possible implications of the short selling for country's economy give some examples.

Introduction -

Short selling is a strategy used in the financial markets where an investor borrows shares of a stock or other security and immediately sells them on the open market, with the intention of buying them back later at a lower price and returning the borrowed shares to the lender.

Body -

Short selling impact on value of currency -

- Short selling is a trading strategy where an investor borrows a security, such as a currency, and sells it with the expectation of buying it back at a lower price to make a profit
- Short selling of a currency can put downward pressure on its value, as the increased supply of that currency in the market may lower demand and its exchange rate.
- This can make it more expensive to buy that currency, which can have negative consequences for businesses and individuals who rely on that currency for trade or investment purposes.
- Short selling can also increase volatility in the currency market, as it introduces additional uncertainty about the future direction of the currency's value.
- However, the impact of short selling on currency value is influenced by a variety of factors, including market sentiment, economic fundamentals, and the actions of other market participants.
- Governments and central banks may also intervene in the currency market to counteract the effects of short selling, which can limit its impact on currency value.
- Overall, while short selling can have an impact on the value of a currency, it is just one of many factors that can influence exchange rates, and its effects are not always straightforward or predictable.

Implications of short selling on country's currency give me ten sentences

- Short selling of a country's currency can have significant implications for its economy and financial stability.

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- Short selling can put downward pressure on the value of the currency, which can lead to higher inflation and decreased purchasing power for consumers and businesses
- A weakened currency can also make it more expensive for the country to import goods and services, which can negatively impact the balance of trade and the overall health of the economy.
- Short selling can also increase volatility in the currency market, which can create uncertainty and instability for investors and businesses.
- In extreme cases, short selling can trigger a vicious cycle where a weakening currency leads to more short selling, further depressing the currency's value.
- Governments and central banks may intervene in the currency market to counteract the effects of short selling, which can involve using their reserves to buy the currency and support its value.
- However, such interventions may not always be effective, and can themselves have unintended consequences.
- Overall, short selling of a country's currency can have far-reaching implications for its economy and financial system, and is closely monitored by policymakers and investors alike.

Some examples of short selling in recent past-

- GameStop: In early 2021, a group of individual investors organized on social media platforms like Reddit to drive up the stock price of struggling video game retailer GameStop, while simultaneously short squeezing hedge funds that had bet against the company's stock.
- Tesla: In 2020, several high-profile investors, including Jim Chanos and David Einhorn, announced that they were shorting electric car maker Tesla, citing concerns about the company's valuation and profitability.
- Wirecard: In 2020, it was revealed that German payment processing company Wirecard had been inflating its revenue and profits for years. Short sellers, including Carson Block's Muddy Waters Research, had been warning about the company's accounting practices for some time and profited when the stock price eventually collapsed.
- Lehman Brothers: In 2008, several hedge funds made large short bets against investment bank Lehman Brothers, which was heavily exposed to the subprime mortgage market. When Lehman Brothers collapsed and filed for bankruptcy, the short sellers made significant profits.
- Hindenburg Research, a short-selling research firm, released a report accusing Adani Group, an Indian multinational conglomerate, of a variety of fraudulent activities, including overvaluing its assets, evading taxes, and siphoning money to offshore tax havens.

Conclusion -

Short selling is a controversial practice in the stock market because it involves profiting from a decline in the price of a security, such as a stock or a bond. Despite these concerns, short selling can also play a valuable role in the market by promoting price discovery, exposing fraud and misconduct, and providing liquidity. Ultimately, the value of short selling depends on its proper use and regulation.

2. Air India's recent order of 470 aircrafts is a testimony to India's growing soft and hard power in the global arena. Comment. How does this massive investment in air travel infrastructure impact India's standing as a global economic player? Discuss.

Approach

Candidates can start the answer with basic idea about recent order by aviation company highlight how its testimony of growing power and how it will lead India to become global economic player.

Introduction

Tata Group-owned Air India (AI) placed two mega orders, adding up to a staggering 470 aircraft for 250 planes with Europe's Airbus consortium, and 220 with Boeing Co. of the United States.

Body

Testimony of power in global arena:

- Aspirational Air India: It has put Air India in the league of “aspiring” global airlines. The debt-ridden carrier, which was taken over by the Tata Group in early 2022, plans to turn into “a world-class proposition”. Experts say the bulk order indicates Air India’s intent to reclaim its “pole position” in the domestic aviation market, as well as expand its presence in international routes.
- Global allies: Order goes far beyond Air India and India’s aviation sector. This was underscored by the lead taken by global leaders Prime Minister Narendra Modi, French President Emmanuel Macron, and US President Joe Biden in making the announcement. British Prime Minister Rishi Sunak also weighed in.
- Political signals: “India is also sending a strong political signal that it wants to remain attached to the West at a time when it has appeared ambiguous on Russian sanctions,”

Impacting Indian standing as global economic player:

- Largest order: This is the largest order placed by an airline in one go anywhere in the world, beating the 2011 order by American Airlines for a combined 460 aircraft.
- Potential to become the 3rd largest international market: The government and the industry say India could become the third largest international not just domestic aviation market given the huge gap between potential and current air travel penetration.
- Improves India’s global Standing: the deal is “important for the industry because, given the recent turbulence in the China market, the alternative growth market in India,”
- Help enter markets like the US: The purchase of wide-bodied aircraft like the A350s will allow Air India to enter markets like the US and Australia directly by offering non-stop flights from India to these places.

- Indian companies' intent: The message seems to be that India and Indian companies are open to business with the world, irrespective of the region and geopolitics. The fact that the announcement has come in the year of India's G20 presidency adds strategic value to the order.
- Global employer: Major Western economies are in the midst of an economic slowdown, and are looking to spur economic activity and support employment. After irking the West by ramping up its purchase of Russian crude, it is good optics for India to be seen as creating jobs in Europe and the US through the AI order.

Conclusion

Overall, India's growing soft and hard power in the global arena is a result of a combination of economic, demographic, cultural, and military factors, as well as effective diplomacy. India's continued growth and influence in these areas will be key to its ability to play a more significant role on the global stage in the future.

3. India's recent policy focus on infrastructure development in the northeast region is aimed at improving connectivity, boosting economic growth, and addressing regional disparities. How does this policy align with India's broader development goals, and what are the potential challenges in implementing such a large-scale infrastructure push in the region? Analyse.

Approach

Candidates can start the answer with basic idea of connectivity and regional level infrastructural development of NER and highlight several challenges also suggest some measures.

Introduction

The NER has been relatively underdeveloped in terms of infrastructure and has long suffered from a lack of connectivity with the rest of the country. The new infrastructure push is aimed at addressing these issues and bringing the region into the mainstream of economic development.

Body

- Improved infrastructure in the northeast region will enhance the region's competitiveness, increase investment opportunities, and provide a basis for sustained economic growth.

- The development of the northeast region is also important from a strategic perspective, as the region shares borders with China, Bangladesh, Bhutan, and Myanmar.

Some of the key challenges of infrastructure development in the Northeast region of India include:

- **Geographic barriers:** The region's rugged terrain, with its high mountains, dense forests, and large rivers, presents a formidable obstacle to the construction of roads, railways, and other infrastructure. This makes it expensive and time-consuming to build and maintain infrastructure, and also creates difficulties in accessing remote areas.
- **Limited connectivity:** The Northeast is a landlocked region with limited connectivity to the rest of India, and inadequate transportation infrastructure makes it difficult to move goods and people in and out of the region. Poor connectivity also impedes the flow of investments, technology, and talent into the region.
- **Insurgency and security challenges:** The region has a history of ethnic and insurgent conflicts that have hindered economic growth and development. Ongoing violence and instability in the region pose security challenges and create an environment that is not conducive to infrastructure development.
- **Limited resources:** The Northeast region is economically backward, with limited resources and low levels of industrialization. This makes it difficult to generate the revenue required for large-scale infrastructure projects.
- **Environmental concerns:** The region is ecologically sensitive, with a rich biodiversity and complex ecosystems. Infrastructure development could have negative impacts on the environment, such as deforestation, soil erosion, and pollution.
- **Social issues:** The Northeast region is home to diverse ethnic communities, each with its own distinct culture and identity. Any development projects must take into account the concerns and aspirations of these communities, and ensure that their rights and interests are protected.
- **Administrative challenges:** The region is characterized by a complex and multi-layered governance structure, with overlapping jurisdictions and regulatory frameworks. This can create administrative hurdles that slow down the process of infrastructure development.

Wayforward:

- The government could explore the use of renewable energy sources for power generation, such as solar and wind power.
- Additionally, the government could adopt innovative financing models, such as public-private partnerships, to mobilize resources and ensure efficient project implementation.

Conclusion

To mitigate these challenges, the government must work closely with local communities to gain their support for infrastructure projects. It must also take steps

to ensure that infrastructure development is sustainable and environmentally friendly.

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