Sciensation Society

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Impact of Demonetization on Farmers

There are two kinds of cash requirements for a farmer- for domestic consumption and as running capital for supplies. The amount of money required for domestic consumption is not very high, but then the money required for buying supplies- seeds, manure, fertilizers etc is much higher and the farmer earns only a fraction of that as a profit.

Let us say a farming family spends about Rs10,000 a month on daily consumption and earns about Rs10,00,000 a year on various processes involved in getting crops out of their fields. The farmer earns only about 10-20% of the total money inflow as a profit, but has to keep rotating this Rs 10,00,000 across various stages of farming. If the money flow stops at any point of time, his fields would not yield any output. If he stops putting fertilizers, his fields are at a threat of pest infection. if he doesn't add manure, his yield may drop down. So the farmer needs the money to be rotating (he gets Rs10,00,000 on his produce and then uses the amount of buy supplies, then sells his produce once again, buys supplies and this cycle or cash rotation continues).

Secondly, the buyer market works on cash- they pay farmers for their produce, in cash. If the farmer is caught in a debt trap, the buyer has traditionally been using this as an advantage to delay or even skip payments for the farmer's produce. This is probably one of the reasons why farming has never been a rewarding profession.

The farmers are affected by demonetization as

1- Cash is required to buy supplies-the market currently doesn't accept digital transactions.

2- The produce is perishable- the tomatoes or brinjals have to be sold fresh- immediately.

3- The buyers don't have cash to pay out the farmers. They may even use this as an opportunity to exploit farmers. as the poor farmer money on a frequent basis as opposed to an affluent farmer.

4- As a consequence of point-3, the buyer gets to dictate his prices. The farmer doesn't get a great margin anyway, when you cut into the prices, the farmer gets a loss. Recently farmers dumped tomatoes on the roads as the prices were too low, too low to even harvest them. They dumped them on the roads to prevent seeds dropping and more plants germinating out of their fields.

Question: How could government solve these two problems- farmers unable to buy supplies and farmers unable to sell produce to the market? How would you pilot that move?

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Homeworks

A smart teacher teaches a class of 40 students. She knows that a few of her students do not do their own home-works, their elder brothers do it. She chooses to call all those homeworks as black- home works. These student's can't be caught as they are smart, given enough time they learn these answers and face exams quite well. There are a few students who put in efforts, but they don't think at all but just copy the homework from various sources, she chooses to call them grey-home works. The students who do grey-homeworks can often not answer cognitive questions around the topic. A few students do their homeworks on their own and she calls them white- home works. These students can usually answer application oriented questions.

The school awards points for home-works and 20% of the marks in the exams are obtained through these points. However the teacher observed that the practice of getting good marks by getting somebody else to do your homework is crippling the learning environment of the classroom.

The students had already submitted 10 home-works in the year. The teachers would want all the students who didn't do their homework to confess and redo their home-works.

How can the teacher ensure that she gets all black-home works to be redone and submitted, with a penalty? Would students confess? Remember the ones who submit black-homeworks are very smart, smart enough to learn answers and face examination, given enough time.

How would you relate this strategy to that of the government- demonetization move, which was known to just six people, which was announced overnight?

BRExit

You are a teacher and you have 40students in your class who get to choose from a variety of assessments- Oral, Written, Debate/Quiz, Drawing/Doodling based Assessments etc. But the students have some internal issues with each other. If two students pick the same assessment, they'd have to interact with each other, to help each other before the assessments.

You see the assessment as a tool to bridge the social gaps between the students. You often carry out group assessments to address this problem. However, some of the students hate each other and realize that assessments would compel to interact with their group-mates, so they prefer choosing those assessments which are not chosen by their enemies. The students start complaining about group assessments and you are forced to revoke this strategy.

You plan to offer it as a choice- the students pick either a group or an individual assessments. You'd like to get as many subscribers as possible for group assessments, how would you achieve that? Can you relate this to the BRexit? If you were appointed as a consultant to EU and were asked to lobby with Britain to convince the people to vote to stay in the EU, what would you do?

BBC Report: Anti Voice:"They said Britain was being held back by the EU, which they said imposed too many rules on business and charged billions of pounds a year in membership fees for little in return. They also cited sovereignty and democracy, and they wanted Britain to take back full control of its borders and reduce the number of people coming here to live and/or work.
One of the main principles of EU membership is "free movement", which means you don't need to get a visa to go and live in another EU country. The Leave campaign also objected to the idea of "ever closer union" between EU member states and what they see as moves towards the creation of a "United States of Europe". The UK renewable energy strategy, which the think-tank says costs £4.7bn a year, tops the list. The working time directive (£4.2bn a year) - which limits the working week to 48 hours - and the temporary agency workers directive (£2.1bn a year), giving temporary staff many of the same rights as permanent ones - are also on the list.

For Voice: They say it gets a big boost from membership - it makes selling things to other EU countries easier and, they argued, the flow of immigrants, most of whom are young and keen to work, fuels economic growth and helps pay for public services. They also said Britain's status in the world would be damaged by leaving and that we are more secure as part of the 28 nation club, rather than going it alone.

There is nothing to stop a future UK government reproducing these regulations in British law following the decision to leave the EU. And the costs of so-called "red tape" will not necessarily disappear overnight - if Britain opted to follow the "Norway model" and remained in the European Economic Area most of the EU-derived laws would remain in place.

Monetary System/Policy

The Evolution of International Monetary System- Bank of Canada Article

The Gold Standard- 1870-1914: Under the classical gold standard, from 1870 to 1914, the international monetary system was largely decentralized and market-based. There was minimal institutional support, apart from the joint commitment of the major economies to maintain the gold price of their currencies. Although the adjustment to external imbalances should, in theory, have been relatively smooth, in practice it was not problem-free. Surplus countries did not always abide by the conventions of the system and tried to frustrate the adjustment process by sterilizing gold inflows. Deficit countries found the adjustment even more difficult because of downward wage and price stickiness. Once the shocks were large and persistent enough, the consequences of forfeiting monetary independence and asymmetric adjustment ultimately undermined the system.

The gold standard did not survive World War I intact. Widespread inflation caused by money-financed war expenditures and major shifts in the composition of global economic power undermined the pre-war gold parities. Crucially, there was no mechanism to coordinate an orderly return to inflation-adjusted exchange rates. When countries, such as the United Kingdom in 1925, tried to return to the gold standard at overvalued parities, they were forced to endure painful deflation of wages and prices in order to restore competitiveness. Though this was always going to be difficult, it proved impossible when surplus countries thwarted reflation.

Bretton Woods-1945-1971: The Bretton Woods system of pegged, but adjustable, exchange rates was a direct response to the instability of the interwar period. Bretton Woods was very different from the gold standard: it was more administered than market-based; adjustment was coordinated through the International Monetary Fund (IMF); there were rules rather than conventions; and capital controls were widespread.

Despite these institutional changes, surplus countries still resisted adjustment. Foreshadowing present problems, countries often sterilized the impact of surpluses on domestic money supply and prices. Like today, these interventions were justified by arguing that imbalances were temporary and that, in any event, surpluses were evidence more of virtue than "disequilibria." In contrast, the zero bound on reserves remained a binding constraint for deficit countries, which eventually ran out of time.

The Bretton Woods system finally collapsed in the early 1970s after U.S. policy became very expansionary, its trade deficit unsustainable, and the loosening of capital controls began to put pressure on fixed exchange rates. Once again, all countries suffered from the aftershocks.

The Current Hybrid System- 1971- present: After the breakdown of the Bretton Woods system, the international monetary system reverted to a more decentralized, market-based model. Major countries floated their exchange rates, made their currencies convertible, and gradually liberalized capital flows. In recent years, several major emerging markets adopted similar policies after experiencing the difficulties of managing pegged exchange rate regimes with increasingly open capital accounts. The move to more market-determined exchange rates has increased control of domestic monetary policy and inflation, accelerated the development of financial sectors, and, ultimately, boosted economic growth.

Steve Forbes interview: "Many people misunderstand that money is just a measure of value, the same way that scales measure weight or thermometers measure temperature. Money is nothing more than a creation to measure those values, and it was borne out of logistical necessity.

Going back thousands of years ago, there was a barter system. The goat farmer needed eggs, so he would trade goat milk for a dozen eggs. Maybe the goat farmer needed building materials, so he would trade a few goats to the lumber supplier. The lumber supplier would then take a goat to the textile merchant to get a roll of fabric to make clothing from, and so it would continue.

Back when our needs were simpler and there were fewer suppliers and products, the barter system worked very well. As we became more advanced as a society, we needed to standardize our marketplaces and the exchange of value.

Can you imagine going into the Apple Store to get your iPhone and you walk in with a sheep? Except they don't want sheep today, they need eggs and goat milk. Money was created to standardize the buying and selling of goods – and it's only a measure of what people are willing to pay for certain goods or services.

Bottom line, money makes buying and selling easier. It's a claim check that is based on trust. If we can't trust the money, we can't trust each other, and that creates serious social issues – which we are facing today."

Money can be understood at a national level with the help of the rupee and at an international level through the International Monetary System. Money is a measure of value and governments try and create this formal system to ensure ease of trade between people. But whenever there is a transition in the system, there will be issues as we get used to the system.

Now that there is a cash crisis in India, with the Rs500 notes and Rs1000 notes which comprise over 86% of the cash circulation being recalled, what would be the immediate short term and long term solutions which people would come up with? What would be the problems associated with it?