

DEPARTMENT OF ECONOMICS, DURGAPUR GOVERNMENT COLLEGE



Economics Quest

The Nobel Prize in Economics 2024: Celebrating Institutional Impact on Prosperity

The Nobel Prize in Economic Sciences, officially known as the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, was awarded in 2024 to three distinguished economists: Daron Acemoglu, Simon Johnson, and James A. Robinson. This prestigious award recognized their groundbreaking research on how institutions are formed and their profound impact on a nation's prosperity.



Source: www.tovima.com



HoD's Message,

Dear Readers,
I am delighted while releasing the fifth issue of Economics Quest by Department of Economics, Durgapur Government College.

Economics Quest highlights important aspects of Economics as a discipline.

I wish best wishes to all the readers of Economics Quest!
Dr Anjan Ray Chaudhury
HoD,
Department of Economics.



The Laureates and Their Contributions

Daron Acemoglu, a professor at the Massachusetts Institute of Technology (MIT), Simon Johnson, also from MIT, and James A. Robinson, a professor at the University of Chicago, have collectively contributed to our understanding of why some countries thrive while others struggle economically. Their research delves into the historical context of institutional development, particularly in regions colonized by Europeans.

The Significance of Institutions

The laureates' work emphasizes the critical role of institutions in shaping economic outcomes. They argue that inclusive institutions, which provide equal opportunities and protect property rights, are essential for long-term economic growth¹. Conversely, extractive institutions, which concentrate power and wealth in the hands of a few, often lead to economic stagnation and inequality.

Historical Context and Modern Implications

One of the key insights from their research is the lasting impact of colonial institutions on contemporary economic development. In regions where European colonizers faced high mortality rates, they were less likely to establish inclusive institutions, resulting in extractive systems that persist to this day. This historical legacy helps explain the vast differences in prosperity between nations.

The Path to Prosperity

The laureates' findings underscore the importance of institutional reform for achieving economic prosperity. They highlight that countries transitioning from extractive to inclusive institutions can experience significant economic growth and improved living standards². However, they caution that such transitions are complex and require sustained efforts to dismantle entrenched power structures.

The Economic Consequences of War

by Oishi Sinha,
Fifth Semester, B.Sc (H) Economics

War, a devastating human phenomenon, can be classified into two types: Civil War and International (World) War. Both types of conflict have profound and far reaching economic consequences that affect not only the nations directly involved but also the global economy. War affects various aspects of economic activity, including production, consumption, distribution and exchange.

Microeconomic Analysis of War:

Microeconomic Analysis of war focuses on the impact of conflict on individual markets, businesses and households.

1. Production and Supply Chain Disruptions:

War damages factories, machinery and infrastructure critical for production. This leads to decreased production capacity. This in turn interrupts the supply chain which results in delays, shortages and increased costs for raw materials and finished products. Simon Kuznets, in his study during World War II concluded that these disruptions caused significant inefficiencies and inflationary pressures contributing to long term economic instability.

2. Labour Market Effects:

Economist Richard A. Easterlin analyzed labour market effects during wartime. His research, particularly focused on the post-World War II period, highlighted how the war led to a significant reduction in the labour force due to military conscription and casualties. Easterlin found that the loss of skilled workers and the disruption of education and training had long-lasting impacts on productivity and economic growth.



Source: cepr.org

1. Change in Consumer Behaviour:
Uncertainty and insecurity during war lead to reduced consumer spending. Households save more and spend less due to fear of future income loss or price increase. Economist John Maynard Keynes found that during World War II, this behaviour significantly altered spending patterns and increased savings and reduced consumption.

2. Black Markets:

In response to shortages and lack of regulation, black markets often emerge, where goods are traded illegally at higher prices. This distorts the official market operations. Economist Friedrich A. Hayek was among the first to research black markets during wartime. His research during and after World War II concluded that black markets arise as a natural response to government-imposed price controls and rationing. Hayek found that these markets, while illegal, often meet consumer demand more effectively than official channels, though they also lead to increased corruption and undermine regulatory efforts.

Macroeconomic Analysis of War:

Macroeconomic analysis of war examines the broader economic impacts and implications of conflict on an economy.

1. Government Spending and Fiscal Policy:

Government typically increases military spending during wartime, which results in larger budget deficits and increased national debt. This shift in spending means less funding is available for essential public services like education and healthcare. Economist John Maynard Keynes argued that increased government spending could stimulate economic activity and reduce unemployment in the short term, but warned of long-term inflation and instability. In contrast, economists like Friedrich Hayek and Milton Friedman argued that such spending distorts market mechanisms, crowds out private investment, and leads to inefficiencies. Empirical studies by Robert Barro and Charles Redlick found that while military spending can boost short-term economic activity, it often results in higher interest rates, slower long-term growth, and detrimental effects on human capital development.

2. Reduced Investment:

The uncertainty associated with war discourages investment, both domestic and foreign. This reduction in investment hampers economic growth and development. Studies have shown that war-induced risks lead to lower levels of capital formation, which slows economic growth. Research has also demonstrated that conflict significantly reduces foreign direct investment (FDI) due to decreased investor confidence. Additionally, findings indicate that wars disrupt global trade and investment flows, leading to prolonged periods of economic stagnation. Consequently, war-induced uncertainty has a profound negative impact on investment, which in turn undermines long-term economic growth and development.

1. Inflation and Currency Depreciation:

War-induced disruptions in production and supply chain often leads to inflation, as the scarcity of goods drives prices up. Additionally, increased government spending and borrowing can lead to currency depreciation, reducing the purchasing power of the population. The concept of inflation was significantly advanced by John Maynard Keynes. Keynes, in his work "The Economic Consequences of the Peace" (1919), analyzed the post-World War I economic environment, highlighting how war-induced economic policies and reparations led to hyperinflation in Germany. His insights into the relationship between wartime expenditure, monetary policy, and inflation remain influential in understanding the macroeconomic impacts of war.

Disruption of International Trade due to War:

War disrupts international trade by damaging infrastructure, creating trade barriers and increasing economic uncertainty. Conflicts can disturb supply chains, which lead to imposition of tariffs or sanctions and cause volatility in currency exchange rates. The redirection of resources to military needs can reduce exports, while post-war reconstruction can boost trade in the short term but strain resources.

Some Case Studies

ECONOMIC CONSEQUENCES OF THE RECENT CIVIL WAR IN BANGLADESH

Bangladesh spiralled into a crisis after nationwide protest over a job quota bill. Following the agitation, Sheikh Hasina resigned as Bangladesh's prime minister. This whole war situation has affected the Bangladesh's economy immensely. Various reports include:

1. The Foreign Investor's Chamber of Commerce and Industry (FICCI) said that the recent shutdown significantly impacted the Bangladesh's economy with over \$10 billion and expected estimated losses to increase.
2. Bangladesh Textile Mills Association (BTMA) reported \$58.8 million losses in the primary textile due to factory closures
3. E-Commerce Association of Bangladesh(e-CAB) noted that 95% of e-commerce transactions were suspended, leading to approximately TK 1,700 crore losses during the internet disruptions.

ECONOMIC CONSEQUENCES OF WAR BETWEEN UKRAINE AND RUSSIA

The world has witnessed numerous conflicts over the years, each leaving profound economic repercussions. The recent war between Russia and Ukraine, which began in February 2022, has not only devastated the involved nations but also disrupted the global economy. This conflict has led to severe economic consequences for Russia and Ukraine, as well as rippling effects across the world.

1. GDP CONTRACTION:

Ukraine's GDP shrank by an estimated 30.4% due to the ongoing conflict, reflecting the significant destruction of infrastructure, loss of business confidence, and disruption of economic activities. On the other hand, Russia's economy contracted by about 2.5% in 2022 as a result of Western sanctions, decreased energy exports, and reduced foreign investments and technological import.

2. INFLATION AND CURRENCY DEVALUATION:

Ukraine experienced an inflation rate of approximately 26.6% in 2022, and the Hryvnia lost around 25% of its value against the US dollar, exacerbating the economic strain on its citizens.

3. HUMAN DISPLACEMENT AND LABOUR MARKET IMPACT:

Over 14 million Ukrainians were displaced, leading to a severe humanitarian crisis and a significant loss of labour force.

Russia faced a significant brain drain, with estimates suggesting over 500,000 people, particularly skilled professionals, left the country, impacting its long-term economic prospects.

4. TRADE IMPACT:

Ukraine's exports dropped by nearly 40% in 2022, severely affecting its agricultural and industrial sector.

Russia's imports fell by approximately 20% due to sanctions, disrupting supply chains and leading to shortages of goods.

The Pitfalls of Mystification and Rationalization in Society

by Jayshree Mukherjee,
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Source: tracingcurves.wordpress.com

Rationalization often leads us to explain away or justify inappropriate behavior in ways that make it seem more acceptable or appealing, frequently with logical-sounding arguments. This natural human tendency can result in deflecting blame or shifting responsibility to others. These are some of the natural virtues in the human mind but In each case we find an indomitable tendency to deprive someone or to put everything on another person's shoulder .Today, society is deeply entrenched in "mysterification," where certain topics are cloaked in mystery. For example, when children are told not to do something, their curiosity grows, and they are often more driven to uncover what is being hidden. That means, the content of the subject that we want to hide or suppress by using rhetoric or by applying decorative elements which will only create an irresistible attraction to that subject. I think people are well aware of this tendency. It's like those number of Indian celebrities who endorse alcohol, tobacco brands by saying they bad for health and cause of cancer which runs into several dozen , the way this negative publicity is an iconic hypocrisy In the same way it is wrong to keep this matter as a mystery .

Women, in particular, are subjected to a harmful mystique, being simultaneously covered and objectified as symbols of sexuality. This double standard, which is supported by cultural standards that are neither universal nor logical, encourages contempt and aggression. Even in this evolved civilization, unreasonable expectations and behaviors persist, which breeds dissatisfaction and a rise in marital violence. These problems are further highlighted by the commoditization of relationships and love, which frequently falls short of idealized expectations.

To address these problems, transparency is crucial. By removing unnecessary mystique and presenting issues clearly, we can shift the focus from superficial judgments to meaningful contributions and productivity.

This transparency need to penetrate every sphere of society, tearing down barriers and power structures established by secrecy and needless separation. "My Life, My Choice" ought to be a call for honest communication and personal accountability rather than a justification for unreasonable action. More beneficial solutions and a more positive social climate will result from placing an emphasis on openness and dealing with society problems head-on.

DEPARTMENTAL NEWS

“Au Revoir”

Farewell program for the passing batch

Some unforgettable moments!



Memories to cherish

JOB FAIR AND FOOD FESTIVAL

Nurturing the hidden potential



THANKS FOR READING