GREAT LAKES CAMPUS UPDATE

Latest news from BPR

5 November 2019

EVENTS & ANNOUNCEMENTS

Dean Suresh Ramanathan addresses Madras Management Association (MMA)

Dean, Dr Suresh Ramanathan addressed the members of the Madras Management Association on 5th November 2019 on "Reimagining Management Education in a Dynamic World". In his speech, he addressed a few issues that an Indian B School faces in terms of development. He mentioned, Relentless press towards commoditization, an inordinate focus on short-term outcomes, lack of resources and lack of support for knowledge creation are the growth affecting factors and mentioned the ways to solve them. Dean Ramanathan's speech was well-received by all the members and dignitaries who attended the event. In the Q & A session that followed, Dean Ramanathan elaborated on various other aspects of management education such as the need for soft skills, removal of examination process & need for industry-academia collaboration. Click here to watch the complete video.

Swami Mukundananda's 7 Mindsets for Success, Happiness and Fulfilment

Swami Mukundananda, a renowned teacher of Spirituality, Yoga, & Meditation, founder of Jagadguru Kripaluji Yog (JKYog) and best-selling author addressed the students of Great Lakes On 2nd November 2019, about seven mindsets for a better living. He said being happy and positive even at a tough situation, being inspired by positive people and their actions, purity of thoughts and intention, Knowledge, Priorities, Self-Control, and Ability to face problems in life are the 7 mindsets for success, happiness and fulfilment.

GREAT LAKES' RESEARCH SERIES

As a part of the **'Great Lakes' Research Series, o**n 31st October 2019, yet another session was organised. The session witnessed two stimulating presentations on 'Product market competition, earnings management and ownership structure' by **Dr Ranjita A** and 'A Morphological Study on Digital Urbanism' by **Dr Sriram R**.

An article authored by student **Muhammed Arf (PGDM 2019 - 20)** has been published by **The Market Oracle**. The article titled **'2%: A Magic Number or an Obsession'** discusses the 2%'s relatedness to Inflation Targeting.

2 %: A Magic Number or an Obsession?

Oct 30, 2019

The Market Oracle

Click here, to read the article online

Inflation Targeting (*IT*) was first adopted in New Zealand in 1990 with a primary goal of price stability. They were going through years of high inflation and slow growth. Initially, they set a target of between 0 to 2 percent. In 1991, the Inflation rate was down to 2.60% from 6.10%. *Although there is a cost of disinflation and the Real GDP fell, it recovered*. As of August 2019, there are about 71 Central Banks which has adopted an IT Monetary Policy. It can be seen that the authorities are most likely to adopt this policy when their inflation rate is high – to bring it down. Argentina adopted IT in 2016 while the inflation rate was 35.5%, Uganda in 2011 with an inflation rate between 16%-17 %.

The anchor that the policymakers use to control the price levels in an economy evolved from currency peg to floating exchange rate to inflation targeting. IT gets an edge over the other montery policy frameworks as its easy to communicate the target and be understood by the public. It puts the Central Bank in the limelight, making them more accountable which results in an increased public confidence. Over the last 3 decades, IT has helped economies control extreme volatility of inflation and large price fluctuations for oil & commodities.

How does it work?

The Central Bank forecasts the inflation rate and compares it with the rate deemed appropriate for the economy by the fiscal policymakers. If the target is not sufficiently credible, the policymakers have the instrument of Interest Rate Policy to adjust the difference. When this forecasted rate is higher than the target, to suppress the growth (*disinflation*), policymakers may increase the nominal interest rate. *One could argue that this could be biased towards one group. The interest income earners get better off at the cost of the lender and vice-versa in a low inflation forecast.* On the contrary, Central Banks are willing to accept a recession (*lower output than natural*) in the short term if they deem the inflation in the economy is above the target. IT is set for a specific timeframe and the Central Banks try to keep the inflation close to this target on average. Meeting this target every quarter isn't feasible and volatility isn't very concerning unless the rates have been consistently over or below the target.

James Bullard, St. Louis Fed explains why setting an inflation target is important as "Firms and households take into account the expected rate of inflation when making economic decisions, such as wage contract negotiations or firms' pricing decisions. All of these decisions, in turn, feed into the actual rate of increase in prices". Hence, there should be transparency in informing the IT to the market and there should be credibility in maintaining it over the time horizon – to help make businesses and households planning more conducive.

The 2% standard

Most countries have a low single-digit IT. A target of 2% is seen as an ideal rate for price stability. It should mean that the price level should double in about 36-37 years. When true price stability is the target, ideally the rate should be 0, but Reifschneider and Williams in their paper on setting inflation target provides support for what should be a 1% cushion in a very low inflation environments, and 1% is generally added as a measurement error. 2% sort of became an international standard from the '90s since the Fed began planning around it. The US has been averaging a 2% since 1995, but only announced this as a target in 2012. European Central Bank targets a below or close to 2% over the medium term. Bank Of England has historically kept the rate at 2%.

Most economies target a positive IT and not zero or minus as a positive IT drives individuals and businesses to make advance purchases, and should hence boost output and economic growth. Also, a higher inflation rate would mean higher interest rates. This gives Central Banks enough room to cut rates upon recession (*contraction in output for 2 consecutive quarters or more*). While a low-interest rate is expected to result in increased borrowing and spending, hence boost economic growth, the Neo-Fisherian theory suggests that a low Monetary Policy Rate could result in low inflation, as the inflation expectation would fall once the interest rate is set low. Also, when there is a suppressed interest rate the low performing or barely profitable businesses get access to cheap capital and this doesn't always result in better growth, rather an opposite effect leading to potential bad loans, symptoms of an impending debt crisis.

Another reason often cited is to avoid deflation. When deflation happens, the asset prices decline - which may be followed by a debt crisis. Furthermore, there will be a delay in consumption and investment as people forecasts further price falls. The cost of a negative movement of prices in an economy would be far higher than the cost of positive movement.

Shortcomings of a low target rate

It is widely known that the 2% target the economies around the world sees as the magic number has no theoretical justification. Although there is no one size fits for all, the 2% is highly debatable for some of the economies considering how there is little room for rate cuts during a recession since nominal interest rates shouldn't ideally be zero. With a low interest rate, increased money supply should ideally generate inflation as more money is chasing the same quantity of goods, but once the nominal interest rate hits zero the opportunity cost of holding cash is also zero and the increased money supply in the economy translates to more savings and not spending. When the inflation is maintained very low or between 0 to 2, there's a risk of falling into the negatives (*deflation*). The case for a higher IT is that it allows further decreases in interest rates until zero. A higher target could have prevented interest rates from hitting the zeros during the Great Recession. And could prevent the same in the future recessions.

Alternative

According to the IMF, a global recessions may occur over a cycle which lasts between 8 to 10 years. To create enough room for interest cuts during that recession, the IT could be raised to a 3% or even a 4%. There are obviously costs, but not as much as one would incur in lost output and employment if the rates has to go to zero. If the calculation is wrong, the economy could end up with a marginally higher inflation, but if proved right, the economy is left with enough cushion to respond to the recession.

By Arf Badeckandy

BLOG

7 Mindset for better living by Swami Mukundananda

Authored by Shyam Sundar, PGDM 2021

Click here, to read the article online

Swami Mukundananda, a renowned teacher of Spirituality, Yoga, & Meditation, founder of Jagadguru Kripaluji Yog (JKYog) and a best-selling author visited Great Lakes Institute of Management on 2nd November 2019 to enlighten the young leaders about '7 Mindset for Success, Happiness and Fulfilment.' We the student community felt that the session allowed us to think in several new perspectives which were inculcated in our minds by Swami Mukundananda, who is an alumnus of IIT Delhi and IIM Calcutta.

In this speech, he listed seven mindsets for better living; one of the 7 Mindsets was **being happy and positive** with what we have. Swami looked at the students seated and said all were blessed with a healthy mind and body, a pair eyes to see this beautiful world, ears to listen to all the harmonious music, a tongue to taste the flavours of the world and the ability to express our thoughts and feelings. He considered all of these senses were an amazing event for which all of us should be happy. At any point in time, even in the worst and in good situation, we can always choose to be positive. The choice remains with us to be content with what is given to us.

The second Mindset that he mentioned was **being inspired by positive people and actions**. He narrated the inspiring life story of Mr Honda, a founder of an automotive components manufacturing company Tokai Seiki who created the first motorcycle. When Tokai Seiki won a contract to build parts for Toyota, Mr Honda built a factory to meet his market needs, and the very same plant got destroyed during the world war. Later following this tragedy, he built another factory that got levelled in an earthquake. But none of these calamities stopped him from making the world's first motorcycle. With this narration, he explained how a man solved and persisted through multiple failures to achieving success. Such stories of inspiration should keep us motivated towards achieving the goal.

Even when success inspires one, they must possess good intentions, which lead to the third mindset, which was **the purity of intention**, derived from a popular expression 'The road to hell is paved with good intentions.' Swami shared his thoughts about invention and technology, which can end up being good or bad, so the purity of intentions matters for any success. In his own words, 'Our actions must be for the greater good' inspired us to be the best fit for the society.

In addition to good intentions, the mindset of having **good knowledge** is necessary to reach our goal. He explained this with an example. A traveller followed the path of Holy River Ganga with a map that showed how the river flowed and turned. As he followed the map, he reached a point where the river turned left, and his map showed right. The traveller was annoyed at this difference and complained that the river is flowing in the wrong direction. The traveller lacked the wisdom to understand that the river came first and not the map. Knowledge is vital to understand and create the correct roadmap for one's life.

Next comes the Mindset of **Priority**. A person who chooses to study over spending his time in movies and games would perform better academically. Similarly, someone who wants family overwork would have better familial relationships than work. Whichever aspect in one's life, one chooses to give more importance to would be better, and he/she would grow in that. There is always a trade-off that one must remember.

Similar to the previous was the sixth mindset, **Self-Control**. We are all human, and our mind keeps jumping from one thought to another. There is no dearth of distractions in the 21st century. To overcome this, Swami recommends us to practice meditation. Meditating by merely focusing on breathing has been scientifically proven to improve concentration and memory.

Last but not least, the final Mindset is to develop the **ability to face problems** in life. In school, we might fight with a friend or argue with a teacher. At home, one might have issues with a loved one. At work, you might not like your boss or your coworkers may irritate you. In all these circumstances, one cannot always run away from problems. Thus, one must learn to face challenges as they are lead to growth. We must pray to the almighty, not for a life without obstacles, but to grant us the strength to face any obstacle in life. Swami concluded by saying that for one to evolve as a person, he must challenge himself. Following this, Swami took a few questions from enthusiastic PGPM and PGDM students.

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