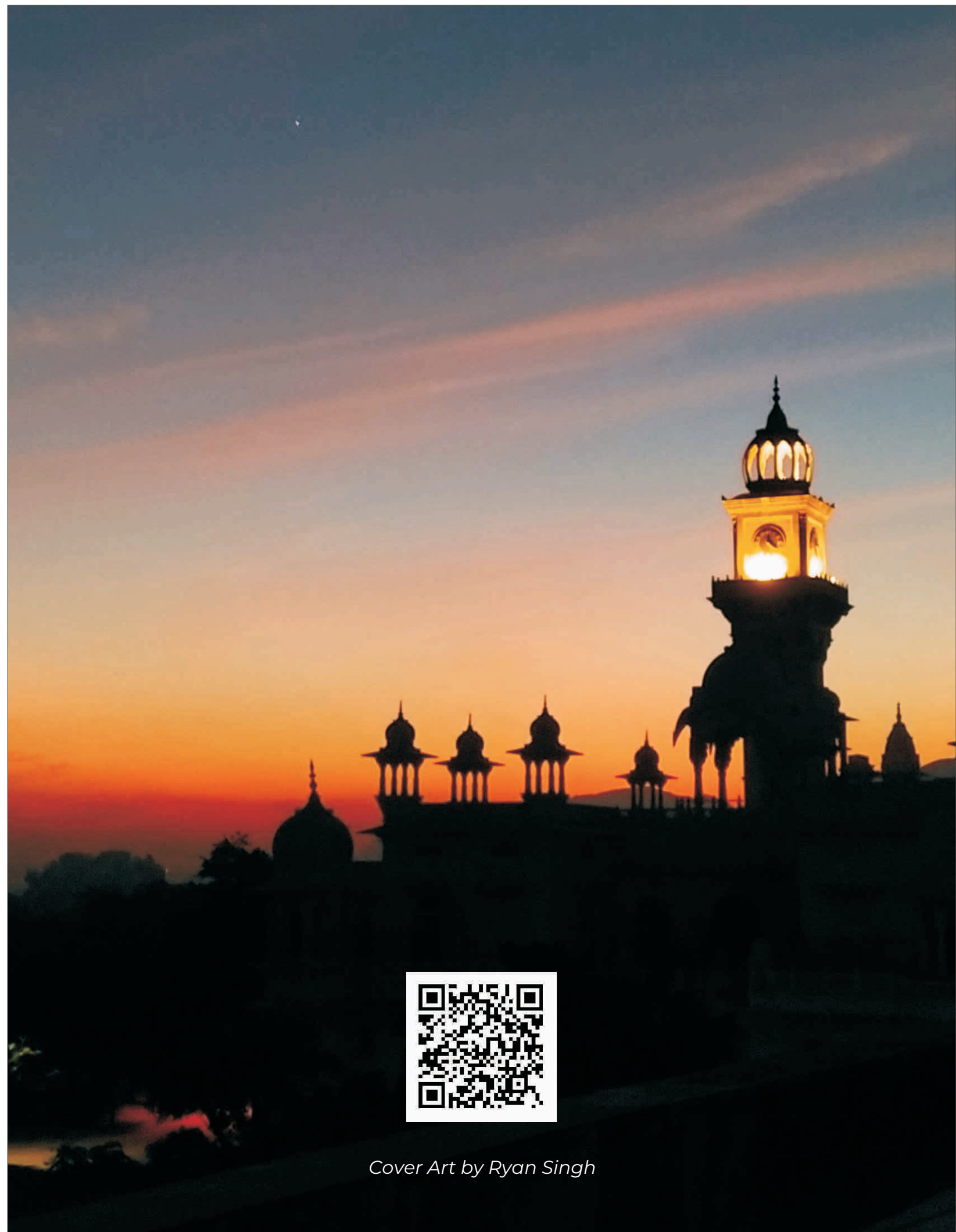




Cover Art by Ryan Singh

# MAYO BUSINESS REVIEW

DISSECTING INTERNATIONAL MARKETS

MAYO COMMERCE AND ECONOMICS SOCIETY

From  
*The Editorial Board*

“



*Vasu Sachdeva - Editor in Chief*

*Business magazines have always amazed me. Having read business reviews of prestigious Firms, starting my own business review was something I wanted to pursue. A business magazine, otherwise structured to present articles specifically on the business world, inherently includes all the creative ideas, social and political issues and sets readers off to achieve a business mind. This year, we aim to touch upon topics that are fundamental to the business environment of the 21st century. Editing the Business magazine has not only helped me understand the modus operandi of a publication but also opened an exciting spectrum of world economics for me. After long hours of discussions and deliberations, we are proud to present to you, “The Mayo Business Review.”*

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# Preface

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The Covid-19 pandemic has taken a huge toll on the world economy. We have witnessed record high inflation rates, huge gaps in society and high unemployment rates. People with low income were the most affected since they could not claim government aid. However, we can always take a recourse to the past to find answers to our present questions. Behavioral Economics is the best example with reference to the above statement. Concerned with the bounds of rationality of economic agents, Behavioral Economics attempts at understanding how Market decisions are made including mechanisms driving public choice. Through the subprime mortgage crisis of 2008, we try to show how sometimes the indefinite greed of making money can lead to exploitation of marginalized sections of society, thus causing a huge downfall of the economy. Another shock in global affairs is the Taliban leadership taking control of the Afghan state. Through an in-depth analysis of Afghanistan's resources and current economic situations, we attempt to foresee how the measures of the Taliban can impact the already crumbling economy of Afghanistan.

The recent takeover of Air India by the Tata Group made us revisit an old but not forgotten love and passion of Tata Group for airlines. We have presented detailed research that shows the status of Air India and what buying the airlines means for the Tata Group. Referring to the Keynesian concept of Economics, we try to examine the various scenarios through which stagflation can emerge. We have presented this through a real life example of the US stagflation of the 1970s.

Last but not the least, the need for a Sustainable and Green Economy has never been so pressing as it is today in this ever-developing world. Through our piece, we emphasize and stress the importance of pursuing a Green Economy. The topics chosen highlight the diverse concepts that come under the branch of Commerce and Economics. They also illustrate how each problem may require a different and unique approach.



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## THE SUBPRIME MORTGAGE CRISIS 2008

### What is a Subprime Mortgage?

Prime mortgages are named after the borrowers who are eligible for the mortgage. If the prime mortgages are offered to people with good credit ratings and long-standing credibility, subprime mortgages are for those who are struggling to meet these criteria. People who are approved of subprime mortgages historically have low credit scores and problems with debt.

### Sowing the seeds of the crisis

The seeds of the financial crisis were planted during years of rock-bottom interest rates and loose lending standards that fueled a housing price bubble in the U.S. and elsewhere.

After the bursting of the dot com bubble, the stock market was down. Investors assumed the US housing market to be a low-risk investment and hence, they started throwing their money into it.

It began as usual with good intentions. Faced with the bursting of the dot com bubble, the Federal Reserve lowered the Federal fund rate from 6.5% in May 2000 to 1% in June 2003. The aim was to boost the economy by making money available to businesses and consumers at bargain rates.

People thought of taking advantage of this green signal to fulfill their dreams of having their own house which led to an upward spiral in house prices. Even the subprime, those with poor or no credit history, were able to realise the dream of buying a home. Credit rating agencies provided these securities with AAA ratings stating these were safe investments but unlike the actual AAA ratings these were filled with risky loans.

### Signs of trouble

Eventually, interest rates started to rise, and home ownership reached a saturation point. The Fed started raising rates in June 2004 and two years later the Federal funds rate reached 5.25%, and it remained the same till August 2007. There were early signs of distress. By 2004, U.S. home ownership had peaked at 69.2%. The truth was yet to unfold because now the subprime borrowers were not able to cope with the rising interest rates so they started defaulting. This put more houses in the market for sale but there were no buyers. Supply went up, which was not accompanied with the required increase in demand. This caused real hardship to many Americans. Their homes were worth less than what they paid for them. They could not sell their houses without owing money to their lenders. The most endangered subprime borrowers were stuck with mortgages they could not afford in the first place. It became apparent by August 2007 that the financial markets could not solve the subprime crisis and that the problems were reverberating well beyond the U.S. borders. The Fed had 14 meetings between 2007 to 2008 to solve the problems rather than a usual 7 to keep the economy moving. By the winter of 2008, the US economy was in a full-blooded recession. As financial institutions' liquidity struggles continued, stock markets all over the world were at their lowest lows since September 11, 2001.



**The fall of Lehman Brothers (September 2008)**

By the summer of 2008, blood was spreading across the financial sector. IndyMac Bank became one of the largest banks ever to fail in the U.S., and the country's two biggest home lenders, Fannie Mae and Freddie Mac were seized by the U.S. government.

The fall of the Wall Street bank Lehman Brothers (4th largest wall street bank in the US back then) on September 15 marked the largest bankruptcy in U.S. history, and for many it became a symbol of the wreckage caused by the financial crisis.

The same month financial markets plummeted with the major U.S. indexes suffering some of their worst losses since September 11, 2001. The Fed, the Treasury Department, the White House, and the Congress struggled to put forward an out and out plan to stop the bleeding and restore the economy.

**Effects and Aftermath of the Crisis**

In 2012, the Federal Reserve Bank of St. Louis estimated that after adjusting for inflation during the financial crisis, US households' net worth fell by about \$ 17 trillion, resulting in a 26% loss. In a 2018 study, the Federal Reserve Bank of San Francisco found that 10 years after the financial crisis, U.S. gross domestic product was about 7% lower than what it would have been without the crisis and each American's lifetime income fell by \$ 70,000. Between 2007 and 2009 about 7.5 million jobs were also lost.

**Impacts of the US Financial Crisis on India**

Indian authorities initially denied the impact of the US crisis on the Indian economy, but the government later had to admit that the US financial crisis had minute effects on the economy. The US crisis that shook the world had a minor impact on India due to strong Indian fundamentals and diminished exposure of India's financial sector to global financial markets. This prevented the Indian economy from being immediately disrupted.Unlike the capitalist-dominated United States,the Indian market is tightly regulated by the government.

**Impact on Stock Market**

The direct impact of the US crisis was felt when Indian markets began to fall. On October 10, RS. 250,000 wiped out in a single day. The Sensex lost 1000 points on that very day.

**Impact on India's Export**

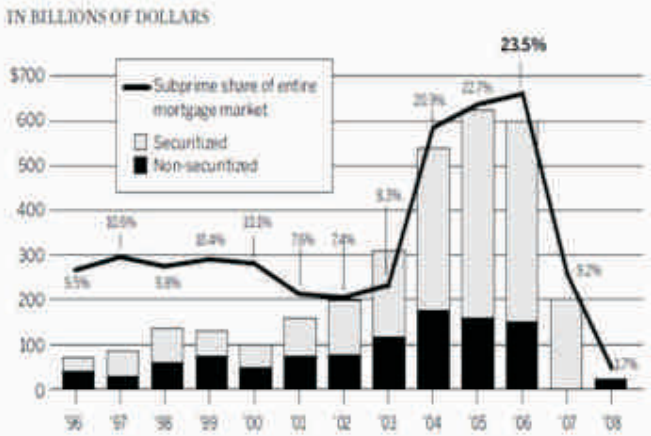
The Indian economy is highly integrated with the US economy so the effects of the financial crisis were felt on India's exports. Manufacturing sectors like leather, textile, gems, and jewelry were hit hard because of the decrease in the demand in the US and Europe. Further, as India enjoyed trade surplus with the USA and about 15 percent of its total export in 2006-07 was directed toward the USA, Indian exports fell by 9.9 percent in November 2008.Official statistics,released on the first day of the New Year,showed that exports had dropped to \$1.5 billion in November this fiscal year, from \$12.7 billion a year ago, while imports grew by \$6.1billion to \$21.5 billion.

Briefly, it was the greed of making more money that led to the collapse of the economy.Wall street banks were taking billions of dollars of loans to buy mortgages and sell them as Collateralized Debt Obligations (CDOs). While commercial banks were giving out mortgages to people having poor credit history, credit rating agencies were giving these financial instruments AAA ratings.

**So, what is your point of view?Can such an upsurge of human emotions like greed and fear lead to another financial crisis?**

**Subprime Mortgage Originations**

In 2006, \$600 billion of subprime loans were originated, most of which were securitized. That year, subprime lending accounted for 23.5% of all mortgage originations.



NOTE: Percent securitized is defined as subprime securities issued divided by originations in a given year. In 2007, securities issued exceeded originations.  
SOURCE: Inside Mortgage Finance

**TATA-AIR INDIA LOVE AFFAIR**

There are several well-known and respected global conglomerates holding companies around the world, but the Tata Group comes to mind first, especially when considering the Indian setting. The organization believes in the long-term development of value for all its global stakeholders, guided by the motto "Leadership with Trust." The company's main objective is to 'improve the quality of life in the communities by providing long-term value for its stakeholders.

It all began in 1868 when the entrepreneur and philanthropist,Jamshedji Nusserwanji Tata founded the Tata Group as a private trading entity.1904 witnessed the passing away of Jamshedji Tata, with his son, Sir Dorab Tata, taking over as the chairman of the group. Under Dorab's leadership, the company grew quickly and entered a variety of industries including Steel, Electricity, Education, Consumer Products, and Aviation.

With an initial capital of Rs 2 lakh, JRD Tata and his colleague Neville Vincent, a fighter pilot in the British Royal Air Force, founded Tata Airlines. JRD established the airline in 1932 after obtaining a contract to transport mail for Imperial Airways.

In the year of 1946, Tata Airlines was internalized and became a public company, and it was renamed Air India. The Airlines was launched with the government holding of 49%.

Post-independence,Tata decided to fly overseas. Over the next few years, the airline's reputation flourished.The airline was fully nationalized in 1953 by Jawaharlal Nehru when the Indian government used the Air Corporations Act to acquire a majority ownership in the airline from the Tata Group despite resistance from JRD Tata.Yet, in tribute to JRD Tata's contribution and passion for the carrier, two airlines were formed namely Indian Airlines and Air India, and the government appointed him as Chairman of the company. Using asset-minus-depreciation math, in the following years ,the government evaluated the airline at Rs 2.8 crore. The Airlines received its first plane, a Boeing 707, in 1960, and its first 747 in 1971. JRD continued to head Air India till 1977. In 1978, Prime Minister Morarji Desai replaced Tata as the chairman. Under chairperson Yogi Deveshwar, both national carriers continued to soar, with Air India posting a record profit of Rs 333 crore in 1991-92. There was Rs 2,000 crore in cash reserves and no working capital debt.

Then came the mid-to-late 1990s, when leasing contracts became expensive and problematic. The first effort to privatize Air India was made by Atal Bihari Vajpayee's government with proposals made by Tata Group in collaboration with Singapore Airlines and the Hinduja NSE 0.26 percent Group which became a two-horse race. However, there was criticism inside the cabinet, notably from Sharad Yadav's aviation ministry. The competition became very fierce.



In 2018, the government attempted but struggled to sell 76 percent of Air India. The Airline had been witnessing a great degree of uproar and disturbance as its debts rose substantially. The government had opted for privatizing the carrier through auction in 2020 with the Tata Group being the sole bidder for the same, absolving the bidder of Air India's debts to airports and vendors, as well as expensive real estate and working capital loans accumulated to cover losses. Those interested in buying it could bid on enterprise value, with 85 percent of the profits going toward debt repayment and the remainder going to the government. The privatization was a success this time and the Tata Group placed a winning bid of Rs 18,000 crore, of which Rs 2,700 crore would be paid in cash and the remainder Rs 15,300 crore to be adjusted from the Airline's debt of over Rs 60,000 crore as of August 31, 2021. In terms of physical assets, the Tata Group acquired ownership of 4,400 Domestic and 1,800 International landing and parking spaces at domestic airports, as well as 900 slots at foreign airports.

However, the road ahead is not without its obstacles. The Tata Group is acquiring a firm that has a total loss of Rs 83,916 crore as of the end of FY21. Air India's most recent annual loss is a record Rs 10,000 crore, while the company's debt is Rs 61,562 crore. Adding Air India will give Tata a combined share of about 27% of the country's domestic aviation market, second only to Indigo. Air India presently has the third largest traffic share in the domestic markets (9.4 percent). In comparison to the Tata Group-owned airlines – AirAsia, Air India and Vistara - were fifth and sixth largest holders with 7.1 percent and 6.4 percent market share respectively, despite being around for 5-6 years.

The Covid-19 epidemic disrupted air travel in FY21, resulting in a two-month stoppage of flights and significant losses. Domestic aviation traffic fell to a seven-year low last year, and due to state-wide restrictions and testing the recovery has been slow. It was a year of difficulties for the Tata Group airlines. Vistara's net loss decreased from Rs 1,814 crore in FY20 to Rs 1,612 crore in FY21 owing to foreign currency gains. AirAsia's revenue dropped by 63% because of the Covid-19 interruptions and gradual rise in operations. Its income fell from Rs 3,682.91 crore in FY20 to Rs 1,358.72 crore in FY21. On the other hand, Vistara's revenue dropped by 52 % to Rs 2243.49 crore in FY21.

Thus, the ability to optimize costs, and streamline operations will be a formidable challenge and the key to profitability. If an improved Air India can win back even 20% from other global carriers it would be a big boost for the Airlines and the Indian Airlines Industry.

With its phenomenal growth and tremendous expansion throughout the decades, the Tata group has undoubtedly served as an inspiration to many aspiring young entrepreneurs who hope to make a name for themselves in the future. The organization continues to be a source of national pride and a shining example of future success for new business people and entrepreneurs.



# STAGFLATION

## What is stagflation?

As the name suggests, stagflation is a combination of two concepts: stagnation and inflation. This economic phenomenon occurs when economic growth is stagnant and both inflation and unemployment are high.

Normally, slow economic growth prevents inflation. As consumer demand declines, so does the price. This makes stagflation an unusual economic event caused by destructive government policies which impede normal market functioning.

## History of Stagflation

Stagflation has long been considered impossible because the economic theory which dominated academia and politics was removed from the model by construction. In particular, the Phillips curve economic theory, developed in the context of Keynesian economics, presented macroeconomic policy as a compromise between unemployment and inflation.

### Causes

So, if stagflation violates some of the most widely used principles of macroeconomic theory, what is the cause? One factor contributing to this is the government's action of overprinting currencies and increasing the country's money supply. Another situation arises when central banks generate credit for their policies. Both actions lead to inflation due to an increase in the money supply. If these measures are pursued in parallel with other growth-inhibiting measures, it can lead to stagflation. An example would be raising taxes and interest rates to slow down growth.

Another theory is that stagflation is caused by a supply shock or a sudden increase or decrease in supply. For example, if the price of a commodity such as oil rises unexpectedly, the price will rise accordingly, and the profit will decrease. The conflict between rising prices and falling profits leads to stagflation.

Those who argue that unemployment and inflation are inversely related believe that a slowdown in the economy will increase unemployment but decrease inflation. The belief in inflation and unemployment was based on Keynesian economic thought, named after the 20th century British economist John Maynard Keynes. According to this theory, the growth of the money supply can increase employment and promote economic growth.

In the 1970s, Keynesian economists had to re-examine their ideas. The 1970s US Economy was characterized by High oil prices, Unemployment, and Inflation.

The beginning of the stagflation of the 1970s was blamed on the US Federal Reserve's unsustainable economic policy during the growing years of the late 1950s and 1960s. The unnaturally low unemployment triggered something called wage price spiral (a vicious cycle in which high inflation leads to demand for higher wages which in turn increases production cost leading to more inflation and more demand for increase in wages and it continues to go on).

The OPEC (Organization of the Petroleum Exporting Countries) embargo in 1973 also contributed to unwanted economic events in the US. Industries across the country suffered from excessively high oil prices and shortages.

## What is the cure for Stagflation?

There is no specific cure for stagflation. The agreement among economists is that productivity must be increased to the point at which it would lead to higher growth without any further increase in inflation. This would then allow for the strengthening of monetary policy to control the inflation component of stagflation (that is easier said than done, so the key to preventing stagflation is to be extremely careful in avoiding it).

### Why is stagflation Bad?

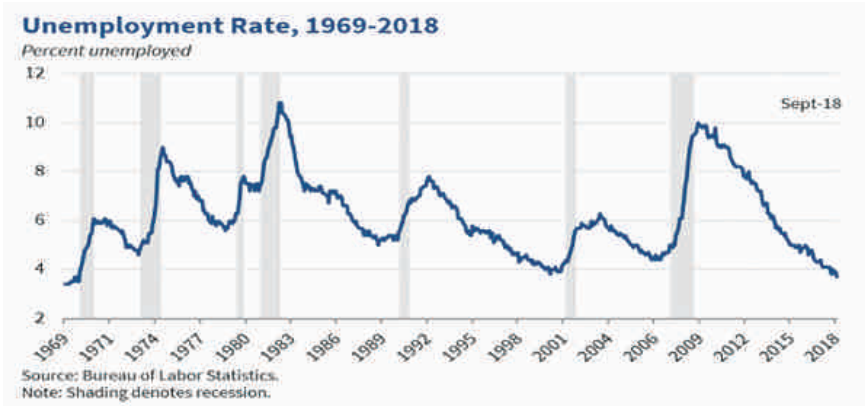
This phenomenon is considered bad because an increase in the unemployment level results in a decrease in consumer spending power. If you tack on runaway inflation, it means that what money consumers do have is losing value as time goes by. With every day passing, there is less money to spend, and the value of the money is in decline.

Effects

There were 5 quarters during 1973 - 1975 where GDP growth rate was negative.

| GDP Growth | Q1    | Q2   | Q3    | Q4    |
|------------|-------|------|-------|-------|
| 1973       | 10.3% | 4.4% | -2.1% | 3.8%  |
| 1974       | -3.4% | 1.0% | -3.7% | -1.5% |
| 1975       | -4.8% | 2.9% | 7.0%  | 5.5%  |

Unemployment peaked at 9% In May 1975, two months after the recession ended, inflation tripled from 3.6% in January to 8.7% in December in 1973. From February 1974 to April 1975, it reached a range of 10-12%.



The resulting stagflation was a dreadful dream for homes and businesses and shattered old economic thinking. It eventually led to innovative ideas that gained influence, and governments and central banks (especially the United States and the United Kingdom) were inspired by economist Milton Friedman to reduce government intervention and focus on controlling inflation.

The new system helped revitalize growth, but laid the foundation for many novel issues, especially the growing inequality and housing and financial crisis of 2008.



GREEN ECONOMY

An alternate vision for growth and development?

Green Growth and Sustainable Development have a long history dating back to the 1972 United Nations Conference on Human Environment in Stockholm, Sweden. The Conference adopted the Stockholm Declaration and Action Plan which lays out the principles of conserving and improving human ecosystems, as well as recommendations for global action. The United Nations Environment Program (UNEP) was established two decades later at the historic World Summit in Rio de Janeiro, Brazil in 1992. The United Nations sought to help governments retrace the path to economic development, find ways to end planet pollution and to bring down the use of natural resources. The two-week "World Summit" culminated in a process that began in December 1989, with planning, education and dialogue between all United Nations member states leading to the adoption of Agenda 21- a global consensus on development and environmental cooperation.

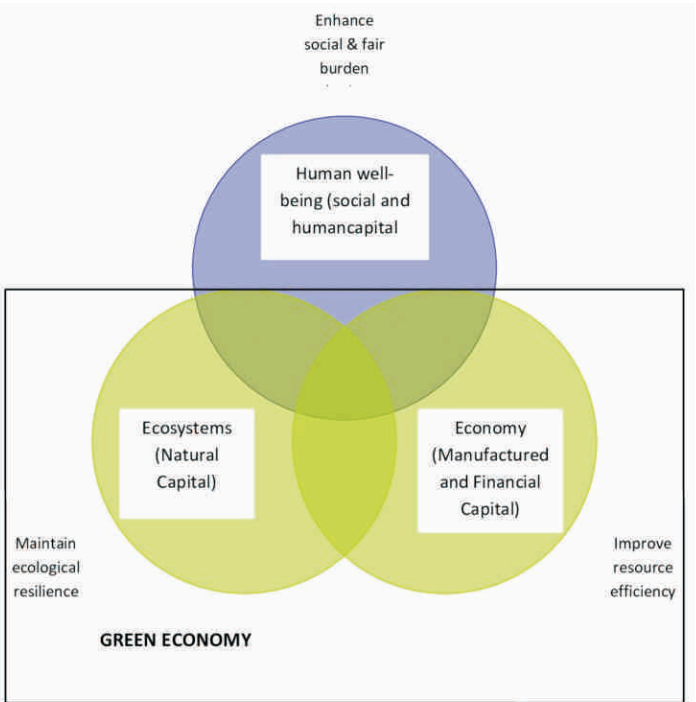
In 2011, the United Nations Environment Program (UNEP) described the Green Economy vision as one that leads to improved Human Development and social equity.



The negative effects of climate change and environmental degradation on the global economy and labor markets will make Green Restructuring necessary. The transition to a Green Economy is likely to lead to a decline in jobs in the mining sector such as Coal Mines. This situation will affect both businesses and workers in the regions where the Crude Oil Industry operates.

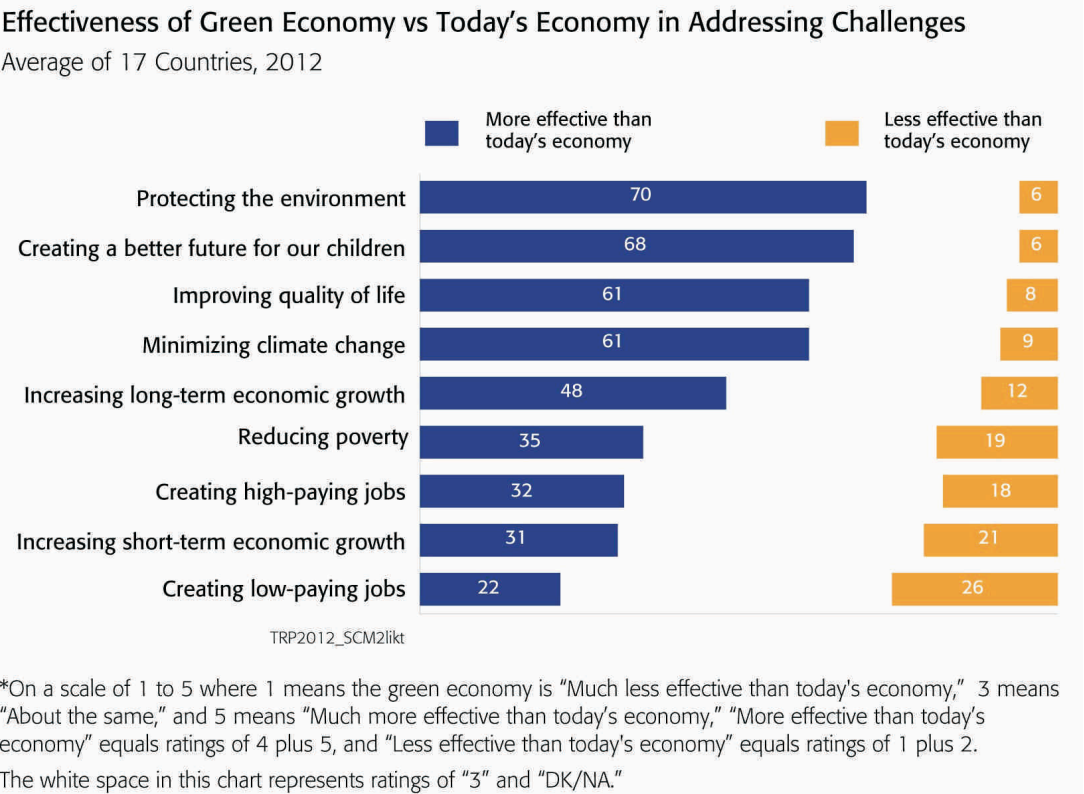
Proper investment in energy for Buildings, Transport and Industry may reduce energy costs. In addition, the Green Economy could also improve working conditions in many industries such as Agriculture, Waste Management and Recycling sectors.

The transition to a Green Economy could create 24 million new jobs worldwide by 2030 if appropriate policies are put in place. New technological advances and new Green industries (wind turbines, solar photovoltaics, fuel cells, biofuels, etc.) will encourage new Green Jobs. The new jobs will be created by taking sustainable measures in the energy sector, using Electric Vehicles, and increasing energy efficiency in existing and future buildings.



Green Economy is one of the ways to rebuild the world in the face of all this. Covid-19 has been instrumental in changing the game by accelerating the transformation of clean energy into the energy sector. We must push industrial diversity into low-carbon technologies such as concentrated solar thermal in hot water, hydrogen, or ammonia for the industry to emit carbon. Subsequently to move the oil industry from fossil fuels, we must increase efforts to electrify buses and cars, as well as the capacity to charge 100 percent renewable energy.

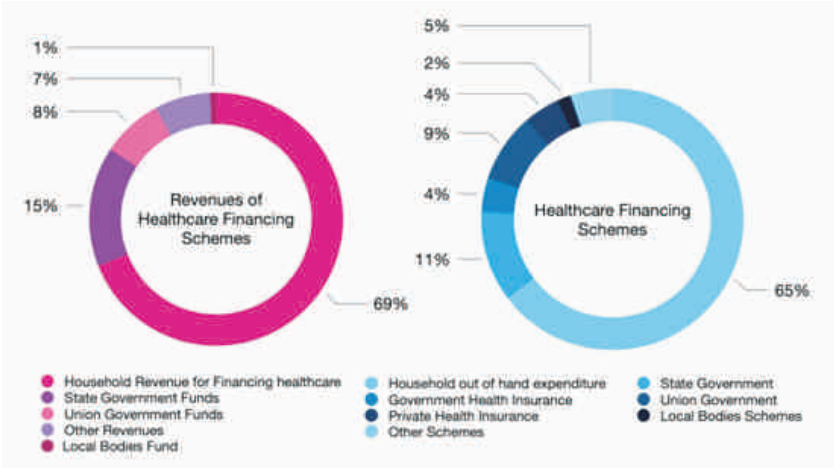
Green growth strategies should be adapted to the circumstances of each country. Although the Green Economy is producing limited results now, the potential for growth is staggering.



## HEALTH INSURANCE IN INDIA

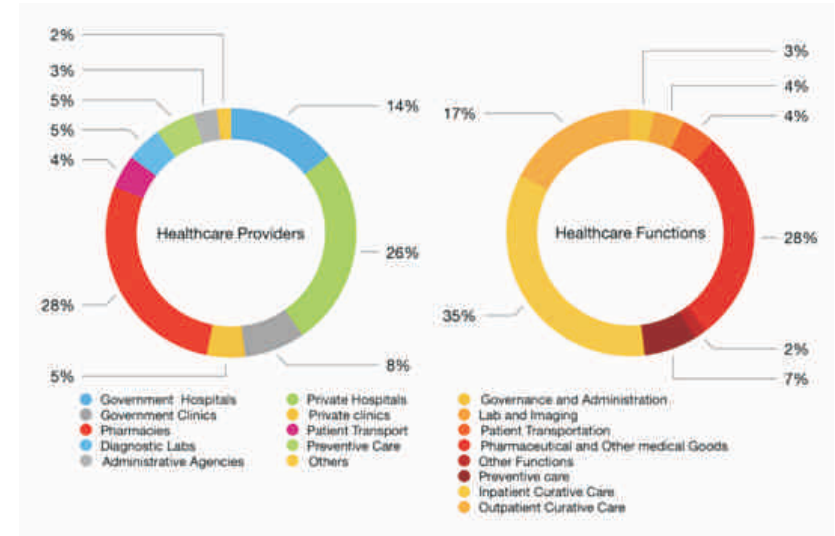
Insurance is a very local phenomenon. Since the start, Indians have been reluctant to this idea of Insurance and particularly Health Insurance. It is now in recent years that people, only in urban areas, have started getting Health Insurances. The Rural sector is still enormously dependent on loans when it gets worse regarding Health issues.

Data suggests that only 500 million people in India are covered under Health Insurance schemes. The Health Insurance penetration in India as of 2018 was 26.6%. Some people give the reason that the settlements are not paid by people regularly, however refuting all the claims, data suggests that the claims are paid, and the settlement ratio is quite high. One of the main reasons for low penetration rate in India is the lack of competition in this market. It was only in the year 2000 that the Indian Government allowed private players in the market. The primary reason for such low Insurance density is the unawareness among people about Health Insurance policies. Since the people in rural areas highly depend on the unorganized sector for most of their loans, where rates of borrowing are as high as 35%, the surplus income is mostly consumed in paying pre-existing debts thereby not allowing them to enroll themselves in Health Insurance Schemes.



When Health Insurance was privatized in the country, it mostly attracted people who had a preexisting morbidity and taking a cue from this trend, the companies knew that they would have to inevitably cover the health costs of these people, therefore, they charged exorbitant rates, and this led to less umbrella coverage of beneficiary under various schemes. Despite all of this, Health Insurance in India is not mandatory. And with more than 25% of the population still under BPL, 30% people with extremely low defined income, making it necessary for people to get Health Insurance would just intensify the issue at hand.

The problem at hand is not only the significantly low rates. Since these people do not have any sort of health insurance, 98% of their medical expenses, during catastrophic conditions, are met by their savings which further pulls them below poverty line. This further intensifies the problem at hand and leaves the government in a perplexed state.



## ***ECONOMICS AND COMMERCE SOCIETY REPORT***

The world was going through uncertain times, but that did not stop Mayoites from proving their mettle. In 2020-21, Mayo College participated in over 10 events across the country, bagging several accolades. Students took part in a variety of events including Business Quizzes, Conclaves, and Pitch Presentations. Raising the benchmarks, Mayo College organized an Inter House Economics Debates for the first time ever, where Ajmer House emerged as the Inaugural Winners.

To highlight a few, Mayo College also sent a delegation for the Cosctach Conclave organized by Mayo College Girls' School wherein we bagged the First Position in the Quiz and Auction Nation. We hosted Mr. Pankaj Karna (Old Boy, batch of 1988) for an interactive online seminar on the basics of Financial Literacy. Students also participated in the Young Entrepreneurs Conclave organized by The Doon School where Mayo College was adjudged the overall Second Runners up.

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