Indian Economy · GS - III

“Persistent inflation combined with a low-hire, low-fire labour market creates a dilemma for monetary policymakers.” Discuss with reference to the US Federal Reserve.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 15/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Low-Hire Low-Fire Labour Market, Inflation, Monetary Policy, Interest Rates, Employment Generation, Purchasing Power, Consumer Spending, Borrowing Costs, Economic Growth.

Model Answer

Introduction:

The US economy faces a policy challenge as hiring remains subdued while inflationary pressures are increasing. This combination complicates the Federal Reserve’s decisions on interest rates.

1. **Key Issues:**
   A low-hire, low-fire labour market means employers are reluctant to recruit but are also avoiding large-scale layoffs. Consequently, existing workers may retain their jobs, while unemployed people and job changers face fewer opportunities. Low job mobility can weaken wage growth and household confidence.
2. At the same time, rising fuel, transport and other input costs can push up prices. Cutting interest rates may support borrowing, investment and demand, but could also intensify inflation. Keeping rates high may help contain price pressures, yet increase borrowing costs for households and businesses and weigh on economic activity.

Way Forward:

The Fed must assess inflation trends, employment data, wage growth and inflation expectations together, while communicating its decisions clearly.

Conclusion:

A balanced, evidence-based monetary policy is essential to control inflation without unnecessarily weakening employment and economic growth.

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