

INDIAN ECONOMY

Time Allowed: 3 hrs.

Max. Marks: 250

Q.	Marks	Instructions to Candidate
1.		<ul style="list-style-type: none">• There are 20 questions.• All questions are compulsory• The number of marks carried by a question is indicated against it.• Answer the questions in NOT MORE THAN 200 words each. Contents of the answer is more important than its length.• Answers must be written within the space provided.• Any page or portion of the page left blank in the Question-cum-Answer Booklet must be clearly struck off.
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1. Invigilator Signature

2. Invigilator Signature

Name DEEPAKSHU

Roll No.

366Mobile No. [REDACTED]

Date

4/9/16

Signature

Deepakshu

REMARKS

GS SCORE
GS MAINS TEST SERIES 2016

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Roll No. _____

Q1. What is decentralized currency and comment on its legality in India? Describe its impact on monetary policy formulation and Central Bank's working? (12.5 Marks)

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Remarks

0

Remarks

Q2. Discuss the major features of the crop insurance scheme? In this context, critically analyse the decision by several state governments to do away with compensation system?

(12.5 Marks)

The recent crop insurance schemes like PM Fasal Bima Yojana (PM FBY) Subsidised NARS etc. has following features

- (1) New factors which ruin crop have been added including
- (2) Earlier village was the prime beneficiary, now the farmer has been made
- (3) Use of satellite imaging to capture the lost area
- (4) The rate of insurance ^{premium} has been kept very low at less than 5%.
- (5) Earlier for half of the crop, a farmer could get benefit, now this has increased to realise the full price.

4/2

Remarks

- Second part of question → Answered
- First part not really answered.

The merits of doing away with the Compensation system are:-

(i) ~~It is~~ ~~Comp~~ The system was inefficient to assess the loss of farmer. So assured compensation even to the tune of 20 were given.

(ii) The money would get delayed & farmer's immediate need was never fulfilled.

However, the disadvantages could be :-

(i) The new compensation mechanism has not been implemented yet therefore the farmer has been left in the middle.

(ii) The assessment of present system has not been verified which might lead to increased loss for farmer. Therefore while the new system is welcome for the

Remarks

the existing compensation mechanism should have continued for welfare of farmer.

Q3. Evaluate the new Insider Trading Norms adopted by the SEBI? Analyse their significance in context of rising corporate frauds and stock market scams? (12.5 Marks)

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Remarks:

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Remarks

Q4. What is the extent of Parallel Economy in India as per various unofficial estimates, why government of India has not been able to curb the flow of black money in India, let alone its recovery? (12.5 Marks)

According to various estimates the extent of parallel economy which includes black money, grey market, trafficking trade is around 40% of GDP.

The government has not been able to curb the flow due to various reasons:-

- (1) Lack of political will :- As seen ~~to~~ there have been no strict executive actions like making of regulations. Black money Bill is still pending in parliament. Also, many politicians are themselves involved in activities which involve black money as seen in Panama file.
- (2) Lack of strict implementation of laws :-

Remarks -

- Many other points like Cash economy, inclusion, etc

- Tax is filed by only 5% of population in working age. NSSO estimate more than 20% - 30% popn. working in formal sector. Such huge gap has not been brought under taxation regime leading to creation of black money.
- (3) Traditional & Oldage financial mechanisms
 Lack of digitisation, delay in communication (T+5 bill. Scam by Harshad Mehta.)
 Lack of financial infrastructure makes it easy for creation of black money.
- (4) Role of neighbours :- Counterfeit currency from Nepal, Pakistan. Drug money from golden crescent & golden triangles adds to black money.
- (5) Illiterate (financial) among people :- Citizens do not ask for bills, making of 'kacha' bills etc. lead to disabling of black money market.

Remarks

- International aspects
- Steps by govt. → this failure → by new govt. doing it's bit but various problems obstructing efforts.

Q5. The high level of subsidies provided to agriculture sector and various welfare programmes by the Indian government is a big leakage from the government exchequer that impairs the abilities of the government for fiscal consolidation on the one hand and create productive assets and infrastructure on the other. Examine. (12.5 Marks)

According to Economic Survey, for every ₹ 3.8 spent on welfare of people only ₹ 1 reaches to the people indicating the leakages present in the subsidies distribution system.

Such pilferages lead to government to spend more on the welfare of the people. If efficiency was of the rate 70-80% (US), the government would have to spend a lot less.

Leading to fiscal consolidation. For eg. the PANAL scheme led to

saving of ₹ 8000 crore

On the other hand such saved

money could be utilised to

build assets like roads, hospitals,

schools, factories which will also

Remarks

benefit the people albeit in medium & long term. However, due to immediate needs being essential to meet such money has to be spent on welfare programmes.

Improved efficiency

Less spending on welfare programmes

welfare of people.

fiscal consolidation
+
asset creation.

Therefore, the need is to improve the welfare distribution mechanism. Aadhaar enabled DBT is a forward step. More steps including correct planning, right targeting and systemic changes need to be done.

Remarks

Q6. The Bali Ministerial Declaration was seen as an ice-breaker for the struck Doha round of WTO, however, it also seems to have failed on the expectations. Critically analyse. (12.5 Marks)

The Bali Ministerial declaration has paved the way for Trade Facilitation Agreement (TFA) on goods which had been stuck for the past many rounds of Doha Development Agenda (DDA). TFA is a breakthrough deal for following reasons:-

(1) The import-export duties will be rationalised leading to improve world GDP by 1-2%. Most countries will benefit.

(2) Dumping activities will be substantially reduced.

Bali agreement also led to the continuation of peace clause on Agreement on Agriculture (AoA) benefiting

4/2

Remarks

developing countries including India to continue their present subsidy regimes. However, the Bali deal failed on:-

- (1) Concluding a final agreement on (A on A) whereby demands from India including change of base year from 1988-89 is still stuck.
- (2) No consensus on TFA in services which is the strong point of countries like India & Philippines. Though the ~~Bali deal~~ world has seen dilution of WTO through regional trade pacts like TPP, the ice-breaker from Bali Declaration shall definitely lay one of the first steps taken for world market unification which is the goal of WTO.

Remarks — Nabha — SSM, LDC —

Q7. What is Pink Revolution? Critically analyse how political developments of recent years coupled with steep inflation in cattle feed prices have impacted the growth of sector?

(12.5 Marks)

Pink revolution basically refers to the meat revolution. As the latest data released by Commerce Ministry, exports in meat especially beef & mutton are ^{going} steady rise.

The political developments of recent years including passage of bill whereby ^{ban on slaughter of cow} killing of cattle has been made illegal as well as vast numbers of abattoirs had to be shut down — has negatively impacted the ongoing march of pink revolution.

The increased cattle feed prices mainly on account of lack of availability has also hindered the

32

Remarks

prospects of such industries -
But even in the wake of such
climate, the meat market has
seen steady growth mainly on
account of cheap labour costs
in India as well as ~~fish~~
products growth.

However, steps need to be taken
to allow legitimate development
of a service industry as it
imparts employment of millions
of people as also provides foreign
exchange. The operation of people
also need to be balanced suit-
ably.

Remarks

Q8. What do you understand by the term, Mossack Fonseca, why it was in news recently? Critically analyse on its working and its impact on global economy including India? (12.5 Marks)

Mossack Fonseca is a ^{financial} organisation based in Panama. It was in news recently as certain documents from Mossack was leaked showing many Indians including Shri. B. B. Bachchan having accounts & money stored in Panama which is regarded as a tax haven.

3

WORKING

Organisations like Mossack Fonseca are involved in banking and investment in which they provide customers ① extreme confidentiality and

if not seen better not to write such details, words whole as

- ② highly subsidised interest rates
- ③ channels to access such money

Remarks

On the other hand, Mossack Fonseca gets this money invested in financial markets to earn money for itself as guaranteed against the port bond. Therefore, making the whole cycle legitimate.

Impact on global economy:-

- (1) Wealthy people try to evade taxes in home countries leading to loss of revenue. In U.S. it is estimated all around 13% of GDP.
- (2) Leads to nefarious activities whereby arms dealer, traffickers also earn money which leads to war & destruction which has negative impact on the global economy.
- Therefore, the need is to prevent development of tax havens. The recent World Press on Panama to reveal

Remarks

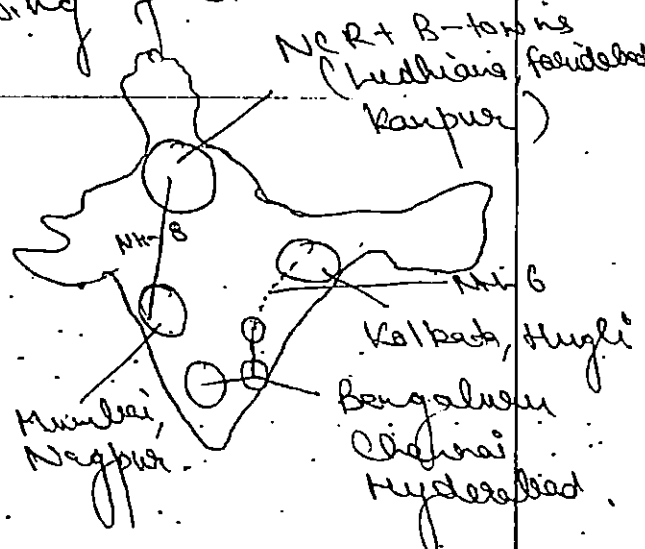
Various sources is a positive step which is already yielding results.

Q9. Given the geography and climate of India, which regions are most suited for the establishment and growth of food processing industry in India, considering the upstream requirements? What are the problems in establishing industry in those regions? (12.5 Marks)

The upstream requirements will include the ^{both domestic} consumers as well as international. The regions suitable should have following factors:-

Upstream is closer to source

- (1) Cheap electricity.
- (2) Abundant labour both skilled & unskilled.
- (3) Infrastructure like roads etc.
- (4) Cold chains.
- (5) Mechanised equipment.



Considering these factors the regions suitable would be

for some type of units

- (1) NCR
- (2) Mumbai
- (3) Bengaluru-Chennai-Hyderabad
- (4) Kolkata-Huzli
- (5) B-towns like Nagpur, Lucknow which are well connected

2/2

Remarks

Info
Supply
chain
(1)
etc.

The problems in establishing industry in these regions include:

land acquisition (most important)

pressure on land is increasing with average density of 428 / sq. km and in urbanised region more than 1000.

(2)

Water availability :- More than 50%

of underground water in India has become saline which makes it difficult to use for food processing.

(3)

labour laws :- Strict labour laws

& inspector raj leads to massive development of MSME'S.

(4)

lack of capital :- Though new funds have been started but their availability

is an issue.

With initiation of schemes like

Remarks

Shri Jagdish Chandra, NIF, the prospect

for developing food processing industry, looks good.

Q10. Traditional mode of land reforms won't work anymore; the need of hour is to understand the legal complications of land acquisition and modern farm technology. Critically analyse the National Land Records Modernization Programme (NLRMP) in this context?

(12.5 Marks)

The National Land Records Modernization Programme (NLRMP) is aimed to digitise the land records to prevent their duplication, reducing the lengthy of patwari in such setup, etc. The traditional mode of land reforms included into

- (1) Abolishing zamindars
 - (2) Ceiling Acts.
 - (3) providing land to the tenants
- Such modes have not been successful as seen in various studies where by even after 70 years of independence most states have not been able to introduce land reforms in more than 1% area (12th B.P.)
- Therefore, the need of the hour is to understand the above 2 facts.

Remarks

— need to give NLRMP provisions & their analysis for reforms.

in line with NLRMP as follows :-
Legal complications

In the village setup, Patwaris become the final authority to decide the ownership of lands. However, the issues arising are:-

- (1) Collusion among upper caste members
 - (2) illiteracy among lower caste leading to exploitation.
- Both these lead to duplication, fraud & illegal encroachment of land.

NLRMP with digitisation will be able to solve

Modern farm tech :-

Involving soil health, large mechanical equipment is favourable for extensive agriculture (Jean Pierre). NLRMP can provide such usage by transferring in ownership who can jointly decide on cooperative usage.

Remarks

Q11. Elaborate the importance of small-scale savings in India. Critically examine the steps taken by government to promote small-scale savings in India. (12.5 Marks)

The importance of small-scale savings include PF, PPF, EPF etc. in which people put in money which is not large compared to what companies & businesses put in.

Importance of small-savings scheme is as follows:-

(i) Security net for people in case of accidents etc. Also to meet important needs like marriage fund, etc.

(ii) Keeps the bank plum & healthy with investment. Therefore, beneficial to economy.

The various steps taken by the govt. can be examined as follows:-

Mostly goes to govt.

Remarks

PROS =

CONS

(i)	Since 2002 NPS has been introduced	→ people have flexibility to earn more on their savings	→ No pension
(ii)	The base rate for banks have been rationed	→ In line with international practices	→ lack of transmission by banks to customer
	used with MSF.	→ Dynamically changes, rather based on bi-annual RBI policy.	
(iii)	Zero credit linkage out/centre setup.	→ Improves financial expansion → Financial Inclusion → People become more inclined to save	→ Many accounts without any money - BHODY ACCOUNT

The recent issue where P.F. norms were changed & roll back was taken highlights the fact that a lot more needs to be done. A balance between fiscal spend & people's desperation is needed to have

Remarks

hour ✓

Q12. What are the factors that have pushed pulses prices upward in India in recent times? What steps have been taken by the government for supply side management of pulse prices? Suggest long term measures to make India self sufficient in pulse production. (12.5 Marks)

The factors that have pushed pulses prices are:-

- (1) limited production by farmers in the wake of MSP being provided on the cereals which makes assured income in the wake of assured irrigation facilities.
- (a) Since cereal production is more than double this translates to more income.
- (2) Increased demand as people use it as protein supplement in a vegetarian country.

The steps taken by the govt for supply side management are:-

- (1) MSP for pulses is raised on yearly basis recently increased
- (2) provision of National Pulses Programme Subsidy sections from 120PDM

Remarks

- (3) provision of cheap seeds etc.
- (4) import from world market
- (5) ^{or} subsidy supports
- (6) Recently, hoarders & arbiters were laded illegally storing pulses
- long term measures required would include:-

- (1) proper estimation vis a vis population growth and demands in long term.
- (2) attractive MSP for farmers keeping the constraint in mind of low productivity of pulses - will lead to increased production
- (3) improving irrigation facilities in areas like eastern UP, MP, Chhattisgarh where pulses productivity will be improved.
- (4) Sustainable mechanisms like organic weedicides, introducing drip irrigation etc. are important.

Remarks

Q13. What are the elements of major shift in the approach of the 14th Finance Commission in devolution of resources from the central divisible pool of taxes as compared to earlier Finance Commission? (12.5 Marks)

The 14th Finance Commission has led its major changes in following ways:-

(1) The central divisible pool of taxes to states has been increased from 32% to 42%.

(2) The earlier policy of special category of states has been done away with. A new criteria for devolution of central sector schemes has been envisaged based on the Rangarajan Rajan panel Report. For the first time forest cover has also been given weightage thereby indirectly benefiting backward states.
 MP - forest cover 3%
 Haryana - forest cover - 4%

2 1/2

Remarks

The increased devolution will lead to improved fiscal capability of states to determine its future. This is also significant as states are more efficient in utilisation of public money as seen from the report of 14th Finance Commission itself. This is in line with on going Centre-State devolution of power.

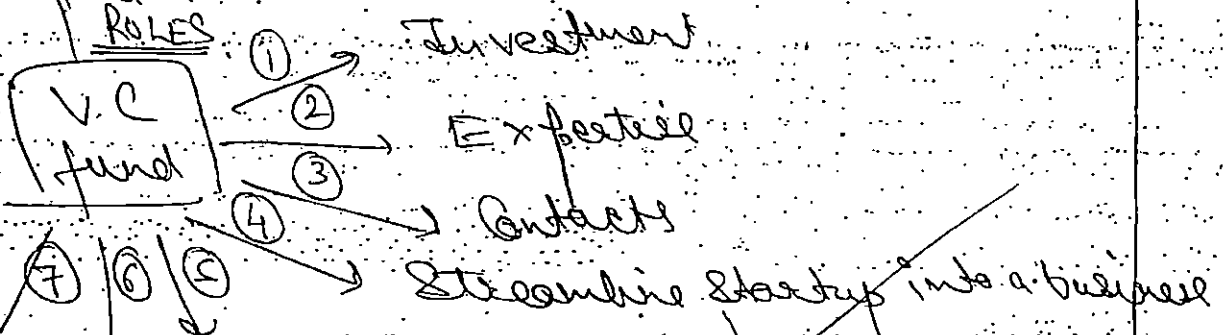
Remarks

Q14. Discuss the role and importance of Venture Capital funds for development of entrepreneurship? Evaluate the status of its penetration in to financial markets in India? (12.5 Marks)

Venture Capital funds are those which invest capital in new ventures more specifically startups. Their role & importance for development of entrepreneurship is as follows:-

(i) They provide alternate investment option from traditional sources like banks etc

(ii) They are more attractive than angel investors because along with investment they provide mentoring as they know the business, have prior contacts and requisite skills.



Remarks

Secure & transparent

Expansion
(Don't comply with
+ over fees) / P Law

(iii) On the supply side, they tap the funds of hitherto unused money. For eg. the gold saving scheme can be utilised by such VCs to fund startups and give greater gains to their clients.

The current penetration of VCs in Indian financial markets is very low & has huge potential. Most VCs are foreign based except Tata, Reliance etc. and few big cities including Mumbai, NCR, Bengaluru etc.

But the fact that India is 2nd largest startup centre of the world, development of GIFT city, initiation of more people towards startups including filmstars, the digital sector is bound to grow

Remarks

Give examples of success of global Indian

Q15. Evaluate the measures taken by SEBI and RBI to control financial scams and Ponzi-schemes in India. (125 Marks)

The recent financial scams including Sarda scam bring to the fore the measures taken by SEBI & RBI to control such scams. These ~~include~~ can be evaluated as follows:-

(i) Merge of SEBI & Forward Market Commission (FMC) :- FMC will get greater expertise, better monitoring in the wake of N2DL scam. However, the scope of work of SEBI has vastly increased which is leading to a strained workforce, lack of professional managers etc.

(ii) KYC norms by RBI :- The KYC norms are working fine but there are cases of duplication, wrong filing

Remarks

which is leading to shrink in the amount.

(iii) Changes in Chit Funds Act - Chit funds

mostly affect poor & unlettered people therefore with mandatory registration of Chit Funds with the State, the RBI also needs to be informed which leads to increased accountability. However, since Chit Funds are governed by the State, the results have to be seen.

(iv) Introduction of UPI - Unified Payment

Interface leads to increased digitalisation, transparency in payments therefore keeping a tab on prevention of leaks.

In the wake of development of fast paced financial dynamics, the role of RBI & RERI is

Remarks

increasing in which they are making substantial progress to prevent & curb.

Q16. Throw light on the structural change in the composition of agriculture in recent years. Point out the areas where the structural transformation of composition of agriculture is still lacking. (12.5 Marks)

The structural changes in composition of agri in recent years are:-

- (1) Increased focus on horticultural products like fruits & vegetables.
- (2) Cereals continue to expand.
- (3) Pulses growth also increasing especially in states like MP.
- (4) ~~Revenge~~ ~~use~~ of mixed cropping whereby pulses are grown with cereals, banana is grown with rubber crop & mango strips along cereals, therefore, the percentage of horticulture has ↑ to 4% etc.

The areas of structural compositional change include:-

Remarks

- (1) Pulses & oilseeds need to be grown more as they are nitrogen fixing as also there demands are increasing.
- (2) Rice should be grown in rainfall intensive areas, for eg. Rice in Punjab requires 3 times more water than in Bengal (Down to Earth study).
- (3) Mixed farming should be expanded.
- (4) Focus to shift more on organic & sustainable agriculture without reducing focus on productivity.
- In the wake of increasing desertification, land salinization, structural transformation of agriculture to export schemes like Soil Health Card, Rationalised MSP which can modify farmer behaviour are the right

Remarks

Step in this direction ✓

Q17. What is the approach of the government on subsidies to the rich? Suggest measures to rationalize subsidies to the rich, in India. --(12.5 Marks)

The present approach of the government on subsidies to the rich is to reduce them by 2 means:-

(1) Unilateral actions like deregulating prices of petrol & diesel.

(2) Requesting them to give up subsidies as seen in the Give up campaign to give up LPG subsidy.

Moreover certain caps have also been introduced like Cap on number of LPG cylinders.

According to Economic Survey 2015-16 the rich are taking in more subsidies than the poor. Therefore there is a need to rationalise such subsidies which can be

Remarks

all more points

- done in the following manner →
- (1) Incrementally reduce subsidies like that on fertilizer ~~for~~ ^{& other agri product} rich farmers by introducing cap on amount of fertilizer subjected to land ceiling. For this holistic survey of lands need to be taken.
- (2) Subsidies on passenger etc should ~~be~~ ^{like} that on AC ~~pass~~ ^{in public} transport including railways should be increased.
- (3) Educational institutes like IITs which spend ₹ 6 lac on a ward's education should charge commensurate ~~from~~ ^{from} students who can afford it. Rationalisation shall lead to better fiscal consolidation, better utilisation of public money and more poor could be effectively targeted.

Remarks

Q18. Elaborate on the pros and cons of the FDI in retail, in the context of increasing threats to the small retail sector from e-commerce? (12.5 Marks)

FDI in retail will basically lead to introduction of big retail players of world including Amazon, Walmart, Carrefour etc. The Pros of FDI in retail :-

- (1) More choice to customer.
- (2) Development of infrastructure through private hands. Eg Flipkart has own storage houses.
- (3) Government will also earn through tax revenue. ^{Equalisation Levy} introduced on e-commerce @ 6% tax.
- (4) In line with globalisation trend will make India more tourism as well as expatriate friendly.
- (5) Employment creation in line with goal of creating 100 million jobs by 2025.
- (6) Organised sector will grow which has benefits of better wages, empowerment.

Remarks

of women etc.
 (7) Best practices followed will be introduced leading to increased efficiency.

CONS of FDI

- (1) The Indian traditional system of kiriyana shops may get hampered.
- (2) May put rich people out of job.
- (3) Increased mechanisation may lead to no job creation & put strain on energy resources.

However, various studies have shown

that India has place for both to grow. Therefore, FDI in retail should

not be seen as a regressive

step. Rather both complement each other as people from nearby stores will fulfill daily needs while big stores

Remarks

& Online stores can fulfill immediate as well as luxury needs.

Q19. What is e-NAM? What are its functions and objectives? Would it help developing a unified market for agricultural produce in the country? What would be the advantages of e-NAM? — (12.5 Marks)

e-NAM is the online platform for the National agricultural market. The functions of e-NAM are:—

(1) It will bring online the daily price of various agricultural products sold in mandi. This will lead to better price discovery mechanism for both the customer and farmer.

It will bring in objectivity & transparency and will lead to better tax estimation & collection.

The objectives of e-NAM are:—

(1) To empower both farmer & citizen to realise best price for their products

(2) To reduce the role of middlemen

Remarks

3.5

(3) To bring in transparency in the system of mandi & agri products. IT will help develop ~~the~~ a unified market for agri products in following ways:-

(a) Farmers can sell in mandi where they are getting better price. Therefore, ~~the~~ while earlier they were restricted to sell in one place, now they can sell anywhere. Apart from aforesaid advantages, e-NAM will lead to improved fiscal utilization by people as the prices will be rationalised. Therefore, such money can be utilized in nation - building.

Read
Model
Answer
APNIC

Remarks

Q20. What are the spatial differences in availability and type of irrigation in India? How can India optimize the utilization of its irrigation potential? Discuss the main features of Pradhan Mantri Krishi Sinchai Yojana (PMKSY). (12.5 Marks)

Spatial differences in availability of irrigation

Most areas in India

lack any type of irrigation

These include :-

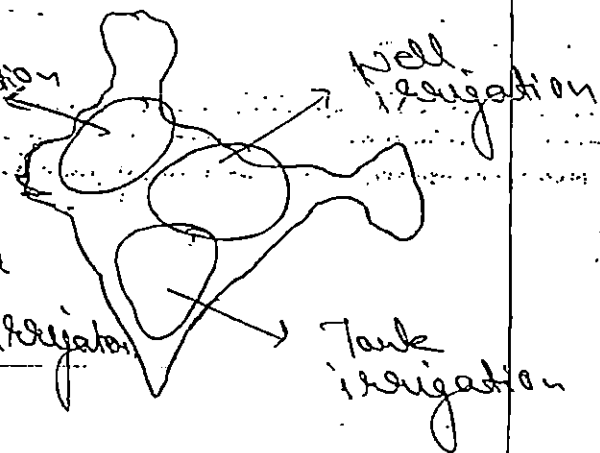
(1) JK, Tribal belt from Rajasthan, MP, Chhatisgarh, Jharkhand to North-East

Areas of assured irrigation :- Punjab, Haryana, part of MP, U.P, Rajasthan MP

Tank irrigation in desert & well irrigation in U.P & Bihar

Type of irrigation :- Apart from above 3 in map

New modes of irrigation including (1) drip irrigation are also being introduced in arid regions (2) Sprinkler irrigation



3 1/2

Remarks

- Indian optimum irrigation potential through
- (1) New sustainable irrigation modes of drip water for
 - (2) River interlinking whereby rivers which cause flood can be permitted to rivers which have water.
 - (3) Digging of new canals albeit in sustainable manner.
- The main features of PMKSY are:-
- (1) Early construction of prior identified & stalled projects.
 - (2) Subsuming MNRGA works for such construction, micro irrigation.
 - (3) Focus on lined canals as well as solar rooftop to prevent water wastage.
 - (4) Decentralised planning.
 - (5) Funds to be provided on the basis of 14th FC recommendation in next 5-year.
- If implemented well, PMKSY by central

Remarks

had the potential to change the face of agri in India.