


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. <p>Any page or portion of the page left blank in the Question-cum-Answer Booklet must be clearly struck off.</p> |
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1. Invigilator Signature _____

2. Invigilator Signature _____

Name Juhi Jalota

Roll No. 73710

Mobile No. 

Date 24-Sep

Signature Juhi

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)

Farmers in India face the twin ~~ills~~ ~~problems~~ ~~issues~~ ~~of~~ adverse climate events ~~and~~ on one hand and market or price fluctuations on the other.

Crop insurance aims at hedging the farmers against these risks. Major features of the recently launched PM Fasal Bima Yojana include

- Increased coverage - around 50% of the cropped area against previous 33% is covered.
 - Low premium - around 1.5% for Kabi, 2% for Kharif and 5% of insured amount for short duration crops.
 - Risk coverage - pest harvest risks are covered no ceiling on insured amount and also resort to actual based premium.
 - Use of technology - Drones and mobile technology for quick assessment of damage.
- These features make the scheme more effective, and affordable for farmers. However, the funding pattern for scheme involves cost sharing between centre and states in the ratio of 50:50. ✓

Remarks

This burdens state's finances, when there is an apprehension of revenue loss over GST Bill.

States have also not paid draft compensations in full, and in time in the past.

With the scheme, there are disbursements for compensations are shrinking further.

Thus, while PM Fasal Bima Yojana, includes wider risk coverage, its effective working demands that requisite finances be made available by both Centre and States. The phase one of compensation schemes must be matched with timely payments under PMFBY. In addition to this strengthening of irrigation network and also focus on animal husbandry must be continued.

good attempt

5

Remarks

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)

Insider trading refers to trading of shares or stocks in market by those in possession of critical information about the entity, thus amounting to unfair market practices as this information is unavailable to other market players.

SEBI signed norms on insider trading -
By defining insiders as those in possession of fiduciary information or those associated closely with the entity.

They must disclose any future trading, first to the regulator.

These norms are significant as they empower SEBI to act against violators.

It would bring greater transparency, predictability and stability in stock markets.

It would bring down the instances of corporate frauds.

Yet the limitations in the act include -
Too wide definition of insider traders.

SEBI will have to play a pro active role in identifying insider trading of market

Remarks

Q1. 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? (125 Marks)

The size of Indian Economy is said to be \$ 2 trillion. The extent of Parallel economy or black money is cited to be of equal strength. This creates many problems such as money circulating outside government or central banks control, creating parallel administrative structures through bribery, destabilizing financial markets, causing inflation etc.

Major reasons of the prevalence of black money include -
High tax rates which incentivise evasion and avoidance.

Complex procedures which make compliance costly.
Oversight institutions such as Enforcement Directorate, Dept of Revenue Intelligence, CBI-INDO etc. work in silos and thus there remains gaps in monitoring generation of black money.

Lack of cashless instruments - limited penetration of credit cards, payment banks results in transactions being done in cash. This fuels creation of unaccounted wealth.

Porties - measures that attract round-tripping such as P-NOTES, DTAA with countries like Mauritius, Singapore etc.

5

Remarks

- good attempt

Three reasons have incentivised generation of black money and also flight of money into safe havens. For instance - In British Virgin Islands or Panama, as recently in news.

- To curb this, measures have recently been taken -
 - Constitution of SIT on black money to investigate cases of unaccounted wealth held in foreign banks
 - Bringing p-notes under KYC norms.
 - Taxation of capital, ~~also~~ invested from DTAA countries - Mauritius, after amending the treaty.
 - Voluntary disclosure scheme, a provision in the recently enacted Undisclosed Foreign Assets Act.
 - The enactment of Benami Property Act will also check the use of black money in real estate.
- In addition to this corporate tax is to be reduced, wealth tax is removed. This will improve tax compliance. Further simplification of tax returns and coordination among financial intelligence agencies is needed.

Remarks

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. (125 Marks)

Ans

Government spends a ^{need elaboration to} substantial part of its expenditure on agriculture in funding subsidies (fertiliser, irrigation, electricity), but the ~~sums~~ have been limited. In post reform period, subsidies have grown by 8.3% but productivity increase was barely 1.1%. This brings out the inherent inefficiencies in subsidy regime.

= Fiscal burden ∴ for every ₹1 of subsidy, the government spends ₹3.5. Fertilizer subsidies alone account for 0.8% of GDP. This leaves limited resources for capital formation (spending only 13% of total agri. expenditure)

- Leakages - Benefits are often cornered by unintended beneficiaries. This is 67% in case of fertilizer, around 50% in case of PDS (wheat, kerosene etc)

- The Economic survey establishes that total subsidies to the tune of amount to nearly ₹1 lakh crore, by way of small saving scheme, loss taxation of gold, ATF, and PDS and agricultural subsidies.

But this is only one side of the coin.

Remarks - Read que. carefully and Ans all parts

31/2

- Subsidies have helped in growth of irrigation infrastructure. (AIBP, PMKSY etc)
- Fertiliser subsidies helped farmers bear the input costs involved in cropping of high yielding varieties
- They have also played important role in ensuring food security (NFSA, 2013). This in turn improved learning ability, enrolment ratio etc.
- The PDS has also been successful in many states (eg- Chhattisgarh) and has improved nutrient intake

Thus, subsidies are based on the principle of equity; ~~as~~ ~~as~~ ~~to~~ ~~that~~ and thus the need is to make them more efficient and by rationalising them. To this end, Shanta Kumar Committee recommendations on overhaul of MSP and PDS must be undertaken and use of DBT for cash benefits to identified beneficiaries must be considered.

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)

Doha round of talks also called Doha Development round was stuck over disagreements between developed and developing countries over public stockholding, which was limited to 10% of total production at 1987 prices.

The Bali package, saw negotiations on Trade facilitation i.e. removing tariff barriers and non tariff barriers to trade while at the same time exempting developed countries from public stockholding limits till 2017, for a period of 4 years.

This was seen as an ice-breaker, but now as 2017 approaches and no solution on public stockholding is in sight, Bali package is seen as a failure.

- Developed countries have shied away from reaching a solution on public stockholding while pressing for trade facilitation.

- It was on India's stance, that a peace clause was accepted that stated that exemptions from public stockholding limits will continue till a permanent solution is reached.

But in absence of a definite agreement, arbitrariness and adhocism prevails.

3 1/2

Remarks

- Thus, while talks have moved forward on trade facilitation, which is expected to increase world GDP by 2-4%, the concerns of developing countries remain unaddressed, even at the Nairobi ministerial meet.

There is an urgent need for countries to arrive at a consensus on this issue as food security, in the aftermath of increasing climate risks is a major challenge for developing countries.

Remarks

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 refers to the meat processing industry and endeavours to increase its size and thereby incomes.

India faces numerous challenges in development of this segment due to climatic factors (humid climate raises costs of storage and logistics), low capital constraints, prevalence to diseases, lack of modern technology etc.

But, this industry is further affected by political developments -

- enactment of Cow protection and beef banning acts has led to closure of small units.
- political mobilization along caste lines over the issue of cow protection has created an atmosphere of uncertainty.
- As a result other milch cattle - buffaloes, water buffaloes (carabeef) can also not be slaughtered.

Inflation in cattle feed prices -

- higher cost of feed has increased the cost of cattle rearing for subsistence farmers.
- This accompanied with two years of consecutive droughts and recent floods has further constrained farmers' resources.

Remarks

4/3

To realize the potential of livestock sector, which stands at 25% of total agricultural GDP; measures need to be taken to provide input at low cost, create a stable political climate

Animal husbandry and its by-products have considerable potential for deriving farm incomes. This must be utilized fully.

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?

(125 Marks)

Mossack Fonseca is a law firm based in Panama which reportedly managed funds by investors from across the globe - India, Russia, China, Europe, and including influential politicians and leaders.

The document leak called Panama papers brought to light the cases of tax evasion and flight of capital to safe havens. Since this phenomena is closely connected with illegal encirclements of generating wealth, drug trafficking, terror financing and also money laundering, it raised concerns among global community.

It housed large sums of undisclosed, unaccounted money and invested these in markets, real estate and assets. ~~This conceals its source of wealth to accountable tax~~

~~Secret,~~
 This prevented the state from realizing their due tax revenues from the monies. Also since the source of money is unknown, trace it ties with terror financing or other illicit activities needs to be probed.

- Refer Model Ans - to Understand Issue

1/2

Still co-
 sound
 trapping

Remarks

Impact on Global economy:

- loss of revenue to states
- threat of terror groups securing finances through such channels.

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. (25 Marks)

Savings rate in India remains at a dismal 30%, against China where it is 50%. These small savings are instruments to encourage retail, household savings. This serves the twin purpose of generating investible capital on one hand and providing future security to the investor.

- Increased savings are essential to wean in least dependence on foreign investments for growth.
- They are not in the nature of borrowing and so do not adversely affect fiscal deficits.
- These are long-term instruments and so debt servicing costs are also not high.
- Besides, they provide security net to the households and further their financial inclusion.
- Beneficial for Gov. - Indent projects
- Steps taken to promote small-scale savings include, Instruments such as -
- Kisan Vikas Patra, National Savings Scheme, PPF and EPF accounts, Sukanya Samriddhi etc.
- Gold Bond Schemes also means invested away from physical gold to financial instruments.
- PM JBY, APY and PM JSY → insurance and pension schemes launched recently also encourage thrift and savings.

Remad
of que

2 1/2

Remarks

The Jan dhan Yojana with facility of overdraft after successful operation of account will also encourage the habit of saving in bank accounts.

Remarks

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)

Pulses have been a major source of food inflation in the country.

Factors resulting in high prices include -
 - low acreage → pulses are not grown ~~fairly~~ despite favourable climatic conditions.

- MSP → limited MSP support infrastructure for pulses and price floors being non remunerative have ~~also~~ shifted cultivation from pulses to other crops - rice, wheat, sugarcane etc.

- low yield → absence of research in pulses, ~~and~~ has prevented an alternative with high yields, in case of pulses.

Steps taken to manage pulse prices include -

- = Clampdown on hoarding, putting pulses in the Essential Supplies list.
- = Importing pulses from countries like Zimbabwe.
- = Increasing MSP for pulses.

In addition to these, long term measures to be taken include

- = extending MSP infrastructure to pulses, in accordance with Shanta Kumar Committee recommendations

= Incentivising cropping of pulses in dryland regions

→ Demand side aspect?

3½

Remarks

by giving certified seeds and other requisite support

- financial support for research in pulses.

India is a major consumer of pulses and given the high inflation in pulses, there is a need to extend acreage in pulse production.

Also these are non water intensive crops, which enrich soil nutrient content and therefore generate positive externalities.

Remarks

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? (125 Marks)

The 14th Finance Commission set up under Art 280 of constitution to devise a scheme for devolution of finances, deviates from previous commissions in its recommendations

- ⇒ Size of devolution - increased from 32% of to 42% of central resources.
- ⇒ Scheme of devolution - 10% weightage to population change, so as to factor in the impact of inter-state migrations - 10% weightage to forest reserves to encourage afforestation and sustainable approach - fiscal discipline is removed from the formula to estimate share of states
- ⇒ Direct Grants to local bodies - Performance and basic grants to Panchayats (90:90) and Municipal bodies (20:80) so as to aid & augment their resources
- ⇒ Doing away with special category status - The Finance Commission increases the share of states, in light of fiscal federalism. This also grants greater flexibility to states by restructuring Centrally Sponsored schemes on

Remarks

- Refer Model Ans. for other elements

4

one hand and doing away with discretionary grants via planning Commission.

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 provide the essential seed funding for developing and marketing of a business idea. It therefore is instrumental in converting an idea into a venture.

Given that startups generated 85,000 jobs in the year 2015-16 (Economic Survey), Venture funds have immense role to play in employment creation. Besides capital, they also provide incubation and technical support to entrepreneurs.

The Government therefore provides for creation of funds of funds under SEU and AIM initiatives, to sustain venture funds and thereby startups. This is in addition to the startup India mission.

Since, the penetration of startups is low in financial markets and that bond markets are not sufficiently developed in India, as a result the capability of startups to generate resources through equity or share sale are limited.

- Also, in order to protect retail investors, SEBI has put restrictions on startups from raising money from markets (2 Lakh minimum investment)
- They also have to comply with SEBI norms on documentation, turnover, profits etc which are

3 1/2

Remarks

difficult for startups.

Therefore, to arrest the flight of innovative startups to locations such as Singapore, measures have been taken to provide financial support to startups. This includes setting a ₹10,000 Cr fund under Startup India mission.

Remarks

Q15. Evaluate the measures taken by SEBI and RBI to control financial scams and Ponzi-schemes in India. (12.5 Marks)

Ponzi schemes or ^{overlooked} pyramidal schemes refer to money pooling schemes that lure investors by promising high returns, but often pay out of pocket funds initially to gain investor confidence and thus fool them.

Such schemes often make use of provisions for collective investment schemes, which come under the jurisdiction of state governments. This was the case in both Sahara scam and also in the Sahara scam.

Measures taken to curb this include -

- Oversight by SEBI over collective investment schemes amounting to more than ₹ 100 Crores.
- power to attach property that is ill acquired
- search and seizure, without approval from district magistrate, on orders of a court.

These measures will ensure -

- speedy response
- better oversight over such schemes by independent authority (SEBI)

The limitations however involve include -

- as of now a amount are left out of SEBI's jurisdiction.

2 1/2

Remarks

There is also a need to build an accountability mechanism within SEBI to check acts of omission, so as to ensure effective enforcement. Also, as per the FSRC under B.N. Srikrishna, there is a need for a unified regulator to oversee the working of Insurance, Pension and Financial markets so as to reduce confrontations over issues of Jurisdiction.

Remarks

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)

write about PAMAL, Sinecure Comp
 The Economic Survey points out that subsidies to the tune of ₹ 1 lakh crore go to the rich on account of small savings schemes through tax exemptions, low taxes on ATP, Gold, fertilizer and PDS subsidies, subsidised electricity, and also railways.

There is a need to rationalise subsidies given that fiscal deficit remains at 3.9% and debt to GDP ratio is high at 67%.

Measures include

Better identification of beneficiaries through

Adhaar - for targeted delivery.

Shift to DBT instead of subsidies.

- This will eliminate intermediaries

- will also bring down float and therefore opportunity cost

- for every ₹ of subsidy, extra incurs cost of ₹ 35. This will be eliminated.

Policy measures

- reduce tax exemptions

- lower tax thresholds

- increase tax on Gold and Aviation fuel

- Tax withdrawal on EPF, PPF etc.

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)

India allowed 100% FDI in retail for brick and mortar structures, but in case of e-commerce, this benefit is available only in case of market place model and not inventory model. As a result, e-commerce investors can at most provide an interface to sellers through the internet platform.

Pros of FDI in retail include -

② Increased investment - would generate employment for the semi-skilled.

- would increase market penetration and improve access.

- more competition will improve price discovery for customers.

- quality

Cons of FDI in retail

- competition for domestic retailers - it can eventually lead to their closure if support is not given.

- The strategy of market capture and then resorting to monopolistic pricing will also harm customers.

- Predatory Pricing, Monopoly
 Thus, FDI in retail is allowed with conditions on minimum procurement from indigenous manufacturers.

In case of e-commerce FDI, the market

Remarks

place model provides a platform to domestic
traders and manufacturers for marketing
produce

But due to the concerns regarding stiff
competition and monopolistic pricing, the
inventory model is still not allowed (100% FDI).

Remarks

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)

The e-NAM is a platform to provide a unified, single agricultural market, to facilitate trade of farm products across the country and bring faster price discovery for farmers.

Unlike APMCs, farmers from all over the country will be allowed to sell on e-NAM.

The transaction costs on the platform will also be uniform.

Advantages of e-NAM include:-

- Elimination of intermediaries as in APMCs - this will reduce the wedge between farmgate and market prices.
- Market predictability will also help in crop diversification.
- Real time market access will help farmers realize their costs. Also, they will have access to buyers across the country.
- Price wedges between states will also be reduced resulting in uniform pricing across states.
- The problem of food inflation will be tackled to an extent.

These benefits are subject to availability of ICT infrastructure - in villages and also

Remarks

development of logistics infrastructure.

This is being undertaken through Digital India mission and PM Grameen Sadak Yojana.

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unanswered

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Remarks

- Read que. carefully - Ans all parts

3

development of logistics infrastructure.

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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)

not answered

Types of Irrigation
 Only 44% of land (cropped) in India is under irrigation. This also exhibits wide spatial diversity.

Canal Irrigation - well developed in Trans Gangaic plains (Punjab, Haryana) and in Rajasthan.

Well Irrigation - This is practiced in regions of UP, West Bengal, Bihar, Gujarat and is dispersed through wide regions of the country.

Tank Irrigation - practiced in Maharashtra, Karnataka, Tamil Nadu etc.

draw map

Great potential for irrigation is created under initiatives such as Command Area Development program but despite schemes such as AIBP, this remains unutilized.

3/2

The Pradhan Mantri Krishi Sinchai Yojana seeks to ensure efficient utilization of irrigation potential by combining - 1) On farm water development 2) Accelerated irrigation Benefit program 3) Integrated watershed management program (Aaranchal), and therefore guaranteeing 'Har Khet ko pani'.

Remarks

- The scheme will be implemented with block as unit
 - Panchayats will be involved in implementation
- Besides, additional funds have been allotted under Budget to NABARD to spearhead the implementation of pending projects under AIBP.
- With focus on watershed management and micro irrigation, this irrigation potential can be effectively utilized.

Remarks

