



An Institute for Civil Services

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RANK-44 (CSE 2018)

GS MAINS 2018

INDIAN ECONOMY + INTERNAL SECURITY

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.• Answers to questions no. 1 to 10 should be in 150 words, whereas answers to questions no. 11 to 20 should be in 250 words.• Keep the word limit indicated in the questions in mind.• 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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Name Amritpal Kaur

Roll No. _____

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Date _____

Signature Amritpal Kaur

1. Invigilator Signature _____

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REMARKS

Section - A

Q1. The credit rating agencies are criticized by many on various grounds, yet their importance cannot be denied. In this context, discuss the importance of the credit rating agencies for developing countries and briefly elaborate on criteria used by them. (10 Marks)

Credit rating agencies rate the credit worthiness of sovereign nations and other entities. They have been criticized for a number of reasons, such as :

- i) biased towards liberal economic regimes
- ii) shareholding of agencies by corporations such that conflicts of interest arise.
- iii) rating changes can cause volatility in developing country markets.

Still they are important because they :

- i) provide financial data to interested investors
 - ii) can boost FDI into developing countries with strong financials
 - iii) the inputs from agencies can guide countries to make policy and structural changes which make them capital friendly and enhance growth
- The credit rating agencies use criteria such

Remarks

As :

- i) fiscal deficit
- ii) GDP growth rate
- iii) trade deficit
- iv) growth rate of exports
- v) inflation
- vi) policy framework that supports ease of doing business

The recent sovereign upgrade from Baa3 to Baa2 by Moody's is an example of credit rating improvement reflecting a corresponding enabling environment in India. Thus, the agencies can provide an incentive as well as reason for countries to spend meaningfully and operate efficiently

Remarks

- Q2. With mounting NPAs, Reserve Bank of India had introduced Strategic Debt Restructuring (SDR) scheme along with other measures. In this context, elaborate on reasons that led to discontinuation of SDR. (10 Marks)

Reserve Bank of India (RBI) had introduced strategic debt restructuring (SDR) in light of mounting non performing assets (NPAs) which currently stand at around 12% of the banking sectors' total assets.

SDR involved transfer of management control of a stressed entity to another entity which would recalibrate and reorient the stressed entity to make it profitable again.

The following reasons, however, led to its discontinuation :

- 1) ~~No parties~~ Not many parties came forward to buy management control
- 2) Those that did, many of them could not provide a satisfactory plan to make the assets profitable.

Remarks

Q3. What is Corporate Governance? Discuss the changes proposed by Uday Kotak-led SEBI committee in corporate governance norms? (10 Marks)

Corporate governance is the standards, processes and norms that govern the running of corporations, whether public or private.

A company run as per corporate governance norms takes decisions that do not cause public harm for private benefit, perpetuate corrupt practices or use unethical methods to sidestep regulations / avoid taxation etc.

In the light of recent revelations in case of ~~ICI~~ ICICI bank, HDFC Mutual funds and rising NPAs, changes proposed by Uday Kotak led SEBI committee are instructive.

These are :

- 1) separation of post of chairman and managing director : to make the board and management independent.
- 2) Atleast 6 independent and atleast one woman independent director : to activate checks and balances in decision making
- 3) No independent director on more than 7 boards : to prevent overlapping

Remarks

As the corporate sector has an enhanced role in an increasingly liberalised economy, these recommendations should be implemented to ensure the benefits of the end of license-quota raj.

Remarks

Q4. MUDRA has been termed as a game changer for micro finance sector in the country. What are the objectives of MUDRA? Is there a need of such an institution when there already are multiple schemes and institutions operating for the same purpose?

(10 Marks)

Micro units development and refinance agency (MUDRA) has been set up as a refinance of finance companies / banks that lend to micro, and small and medium enterprises (MSMEs).

MUDRA's objectives are:

- 1) increase lending to entrepreneurial ventures which find it difficult to get credit because of no collateral
- 2) Boost employment generation and share of MSMEs in manufacturing, trade and service sectors.
- 3) ~~Support~~

MUDRA's setting up was questioned because there are other such institutions for same purpose, such as NABARD, SIDBI etc.

But the need for MUDRA is there because:

- 1) it specifically caters to the MSME sector.
- 2) According to RBI data, 90% informal ventures, majority being MSMEs, do not

Remarks

- have formal credit linkages -
- 3) it refines financiers which are otherwise hesitant to give credit to ~~small~~ MSMEs which have small asset value and little or no collateral.
 - 4) A focused approach results when a separate entity is created to cater to a niche.

MUDRA can enliven the small business landscape alongwith employment generation and materialising innovative ideas of young entrepreneurs.

Remarks

Q5. The developmental model in India should include rural development schemes that are "demand driven" rather than "programme driven". Examine with respect to the design of various social sector schemes. (10 Marks)

Developmental model in India has guided development schemes which seek to alleviate poverty and provide employment, healthcare, education and other basic necessities.

It has been felt that the programme driven approach for rural development as embodied in National rural health mission (NRHM), Integrated child development scheme ^(ICDS), Swachh Bharat ^(SBM), etc. follow the one size fits all approach. Different areas in a diverse country such as India have different needs and shortcomings which the programme driven schemes do not adequately address.

- 1) NRHM Kerala has more demand for old age healthcare while Bihar has to focus on infectious diseases.
- 2) SBM People get toilets made but use it for storage
- 3) ICDS Eating habits of children vary from state to state.

Remarks

The Mahatma Gandhi National ^{rural} employment guarantee scheme (MGNREGS) on the other hand is a demand driven scheme which has been acknowledged by World Bank to have alleviated rural poverty and expenditure on food.

This implies that demand driven rural development schemes cater to the true needs of the people, giving states the freedom to tackle their unique problems.
~~the~~

Remarks

- Q6. "Privatizing Air India is a step that has been long overdue." Analyze the reasons behind the imminent privatization and necessary precautions that should be considered by the government. (10 Marks)

Air India's (AI) privatization has become imminent for a number of reasons, such as :

- 1) piling up of huge losses
- 2) inefficient operations due to subsidization of services over the years
- 3) lack of innovative business model unlike other domestic airlines
- 4) political interference and hence, less than professional management
- 5) burden on government finances which are required for other public investments

The necessary precautions that the government should take are :

- 1) the public assets are privatized at reasonable prices preventing any undue loss or throwaway pricing
- 2) the human resources are adequately adjusted in the new entity.

Remarks

3) government maintains adequate holdings so that can influence policy in a direction that upholds public interest

AI's privatization can fetch the country much finances which can be pumped into infrastructure and other developmental activities while pulling the airline out of lethargy into competence.

Remarks

Q7. How is the EPC model of investment in infrastructure different from the BOT model? What are the reasons behind a favorable push for the EPC model over BoT in road sector in recent years? (10 Marks)

Engineering, Procurement and construction (EPC) model is different from Build operate transfer (BOT) model in the following ways:

EPC	BOT
1) ownership of asset is with government	1) ownership first with builder and later transferred to government
2) government bears all risks	2) some risk borne by the builder
3) government pays for the asset	3) builder recovers a part / total cost through operations

In recent years, EPC model has got a favorable push in road sector because:

- 1) In EPC government can expedite all clearances while BOT has delays as builders failed to get timely clearances on land, environment, building etc.
- 2) EPC model attracts more private bidders and hence better economy because of no risk.

Remarks

3) Trade, economic growth, connectivity, border security and concomitant development has to hastened by avoiding delays caused by BOT.

EPC has thus ~~emerged~~ emerged as a better alternative for collaboration between public finance and private competence and efficiency.

Remarks

- Q8. Government has started defense reforms based on Shekatkar Committee recommendations to enhance combat capability of the armed forces. Discuss.

(10 Marks)

The Shekatkar committee was formed to recommend measures to enhance combat capability of the armed forces and rebalance defence expenditure.

The government has

Remarks

Q9. Critically analyze the induction of women for combat role in Indian Army.

(10 Marks)

Women's induction for combat role in Indian Army has started recently. It had been demanded for long, especially after the Navy and Airforce started induction of women in combat roles.

There are a number of positive outcomes of the same :

- 1) More employment opportunities for women who constitute only 27% of workforce as per National sample survey organization.
- 2) A step to women empowerment as another male bastion is broken
- 3) Diversity will get a boost
- 4) The challenge of combat role may attract more women to join the Army

However, some issues with negative implications may arise such as :

- 1) Training infrastructure and accommodation catering to women's needs would require

Remarks

- re-doing of plans and policy.
- 2) Parents of girls may not be receptive as fear of girls' safety and family honor still is entrenched.
 - 3) Psychological conditioning of menfolk as women being weaker (physically and mentally) may hamper leadership opportunities for women.
 - 4) The discipline of the army and respect for authority can restrict voice in case they face discrimination or harassment.

However, this step is just a small ~~and~~ but significant step in the giant leap for equalisation of opportunities for women who constitute half of the population.

Remarks

Q10. With rapid development and adoption of computing and Internet, protecting individual rights should be at the core of data protection legislation. Critically Examine.

(10 Marks)

Computing and Internet are being widely adopted whether in finance, banking, education, healthcare, communication, governance, welfare schemes or personal usage. This gives access to a large quantity of data of individuals to service providers.

The threat of intrusion and misuse of data looms large as seen in Cambridge Analytica case or leakage of Aadhaar data from government websites. This stands to violate individuals' right to :

- i) secrecy of health data, disease history
- ii) freedom of expression (without being profiled and targeted for manipulation)
- iii) to privacy (as upheld fundamental in Puttaswamy case)

Therefore, any data protection legislation that seeks to limit transnational flow of data or

Remarks

regulate collection, processing, analysis and dissemination of personal data has to keep individual rights at the core. ~~This has to come with adequate~~

In this light, the European Union's Global data protection regulations are a great example which mandate explicit and detailed consent from users for their data use.

Therefore, while enhancing ease of operation for companies in this sector, it is essential that those whose usage of the medium is the basis of the companies' business models are protected from breach of their person or assets.

Remarks

Section - B

Q11. Bharatmala Project, the flagship and ambitious scheme of current government to revolutionize the connectivity and transport sector is facing several challenges in its implementation. Examine and discuss, what could be solutions to fast track the project.

(15 Marks)

Bharatmala project aims at constructing highways across the country to connect remote, coastal, border and strategically important areas. This will help spread benefits of growth and commerce through connectivity.

The challenges that Bharatmala is facing are :

- land acquisition delay
- environmental clearance delay
- remote areas (for big machinery hard to reach)
- rising costs
- contractors are not committed
- border areas are prone to military skirmishes
- security of manpower in red corridor areas.

Remarks

In order to fast track the project, a number of steps can be taken:

- 1) Using local bodies to conduct locally monitored, transparent land acquisitions
- 2) Public hearings and on-the-spot redressal by empowered officials
- 3) Project planning by using GIS to minimize environmental damage
- 4) Using past record and delivery standards of previously executed projects strictly to contract work.
- 5) Coordination with border security forces
- 6) Involving and hiring locally local people from ~~the~~ in red corridor areas.

Since road density is a direct indicator of economic growth and trade competitiveness, Bharatmala scheme has the potential to bring far off areas on to India's growth map.

Remarks

while further boosting economic activity
in the coastal areas and big city centres.

Remarks

Q12. Challenges on the export front may increase owing to the growing threat of protectionism and rising automation, however, promotion of labour intensive industries, can be a long-term solution, provided structural changes are introduced in time. Examine. (15 Marks)

India's share in global exports is only 2%..
 As India moves to increase this value by encouraging exports, growing protectionism evident from US' tariff escalation and no outcome from WTO's 11th ministerial is a challenge. So is rising automation, which according to the World Bank threatens 69% jobs.

Automation will help importing countries overcome their high labour costs for indigenous production, suppressing exports from countries such as India.

In such a scenario, labour intensive production can be a long term solution because:

- 1) it will provide employment to India's 800 million labour force, raise income and hence demand which will further boost production.
- 2) it uses India's competitive advantage -

Remarks

cheap labour - relative to developed countries

- 3) Make our exports competitive while labour costs increase in China, the major exporter

This will require certain structural changes :

- 1) ease labour regulation so that labour intensive industries are not afraid to hire because they cannot fire according to business cycle needs
- 2) Ensure social security net for labour ~~rather than~~ to give social support on job loss.
- 3) Skilling of manpower based on inputs from industry on the skills needed, as is done in Germany.
- 4) Expedite ~~infrastructure~~ ^{or} infrastructural development of roads, railways, ports, logistics to enhance mobility of labour and fasten evacuation of goods.

Remarks

- 5) Provide access to credit to labour intensive industries on favorable terms as the spin offs are positive and many.
- 6) Regulatory processes and clearances need to be further eased.

India's ease of doing business has improved. ~~this and labour reforms~~ ~~such as~~ all the above steps can help India tide the challenge of automation and protectionism.

Remarks

Q13. Bitcoin has emerged as an attractive trading and investment option because of huge capital gains it has provided to its holders in last 2 years? In this context, analyze the reasons why it has seen such a boom? Also elaborate on the various risks involved and safeguards required? (15 Marks)

Bitcoin has emerged as an attractive trading and investment option as its price surged more than 200 times. The reason of this boom is :

- 1) the absence of other avenues which could provide even fraction of the returns that Bitcoin was.
- 2) ~~an~~ easy option to park black money / unaccounted wealth
- 3) modern society's urge to earn without working
- 4) Japan's move to legalize Bitcoin exchanges gave investors optimism
- 5) the above reasons fuelled demand which further raised the Bitcoin's value.

However, a number of risks are involved in such a boom :

Remarks

- loss of capital due to volatility in price of bitcoin
- small investors getting disenchanted and not investing in productive assets either
- black money goes off the radar, possibly prevails
- funding of drug trafficking, terrorist activities, crossnational crime
- increase in ransomware attacks because bitcoin payment ~~is~~ is hard to track
- absence of regulation puts genuine money at risk and may threaten stability of capital markets if people withdraw en-masse.

Remarks

Therefore, safeguards are required, such as:

- 1) Either regulate or illegalise so that bitcoin gains are taxed or are prohibited from ownership, use and transfer rather than being a grey area prone to exploitation by criminals and manipulators.
- 2) simplify investment in capital markets to safeguard from attractive-ness of unsustainable gains as bitcoin posited.
- 3) international unanimity on the issue through UN or other multilateral forum.

It is only when the government is ^{technological} responsive to needs of an ever changing landscape that throws up challenges such as bitcoin that citizen's interest can be safeguarded. ~~from~~

Remarks

Q14. The proposed new Financial Resolution and Deposit Insurance Act (FRDI) law is causing apprehensions and anxiety in depositors. In this context, discuss reason behind such a law along with elaborating the aim and rationale of introducing the FRDI law. (15 Marks)

The proposed Financial Resolution and Deposit Insurance (FRDI) law is causing apprehensions ~~and~~ because it is being seen as a way to use public money for bailing out private entities who did not follow financial prudence in their business activities.

The reason behind such a law is that in an economy (such as India) with large funding needs for infrastructure and development, the state has to ensure that savings in the economy are invested rather than lying idle. Such a law ensures banks can lend to entities while staying liquid.

The aim of the FRDI law was to insure depositor's money in the form of

Remarks

equity holding in their bank in case the debtors are unable to pay the bank back.

The rationale of the law is that people should not have to forego their hard earned savings in case of defaults by debtors. It protects the interest of the savers by giving him/her a share (and say) in how his/her money is to be used / deployed by the bank.

Remarks

Q15. The land acquisition has emerged as the biggest challenge for development projects, infrastructure, rehabilitation work, resilient housing for disaster mitigation, among others. In this context, discuss the concept of land bank, its significance and issues related to it. (15 Marks)

India has 17% of the world's population in less than 3% of the land mass of the world. It is also a developing country which is the third most vulnerable to disasters according to the United Nations economic and social commission for Asia and Pacific. It houses 28% of the world's poor, with about 70 million living in slums.

These factors add to the need for land and hence land acquisition. Land acquisition is challenging because:

- 1) Agricultural land is valued by the 50% of the population deriving livelihood from it.
- 2) Land titles are absent or at best, incomplete.
- 3) In certain areas such as Western ghats or forests of central India, environmental concerns figure as well.
- 4) Many times, land ownership is disputed and court cases are going on.

Remarks

In this scenario, a land bank can be an answer to acquisition woes. A land bank is created by acquiring government lands and making it available to industry and developmental projects - complete with all clearances and facilities such as water, power, roads, connectivity. This cuts the red tape and prevent aforementioned problems.

It is significant because:

- 1) it can expedite industry set up, employment generation and general prosperity of the region.
- 2) disaster affected people can be promptly rehabilitated preventing tents, ~~and~~ slums and migration.
- 3) It can lead to creation of public infrastructure such as hospitals, schools, parking spaces etc.
- 4) affordable housing can be built

Remarks

The issues related to it are ;

- 1) Irreversible capitalism - lack of adequate checks can ~~for~~ lead to vested interests capturing cheap ~~govern~~ public land without creating opportunities for public
- 2) land from wetlands, degraded forests, community lands may get diverted, despoiling local ecology
- 3) Without transparency and accountability land may also end up being like ^{public} public money in the hands of banks - non performing asset

Therefore, it is indispensable that clear guidelines for divesting of land from land bank are there. These should require delineation of public good ensuing from the land and penalties and forfeiture in case of failure. Only then land bank can work as envisaged.

Remarks

Q16. Government is focusing strongly on the recapitalization of PSBs to overcome the crisis in the banking sector. In this contest, critically analyze its benefits and challenges. (15 Marks)

The banking sector crisis in India has been characterised by non performing assets (NPA's), majority of which (70%) are in the public sector banks (PSBs). To tackle this situation, recapitalization is being focused on with 2.11 lakh crore rupees being ~~some~~ proposed recently.

The benefits of recapitalization will

- 1) ^{be} cleaning up of books of banks
- 2) availability of capital for fresh lending
- 3) banks can meet the upcoming Basel III norms.
- 4) banks can access capital markets on the back of recapitalized accounts.
- 5) boost to growth and faith of investors.

Challenges also remain, such as:

- 1) fiscal burden on the government which is trying to limit fiscal deficit to 3.3% of GDP to maintain a strong outlook

Remarks

for overseas investors as well fiscal management.

2) The recapitalization package is small compared to NPAS

3) Without, reforms in governance and pullout of government from majority shareholding of PSBs (as recommended by Economic Survey), recapitalization cannot prevent relapse into the same crisis.

4) Creates a moral hazard and public distrust because in the end, it is a bailout of private follies by public.

Along with recapitalization, banks should be reformed from within. Other avenues such as corporate bond markets should be developed to lessen reliance on banking sector so that PSBs can efficiently perform the function of public interest serving.

Remarks

Q17. A strong and modern export infrastructure would help enhance the competitiveness of Indian exporters in the global market. Highlight the shortcomings in India's export infrastructure and discuss the steps that Government has taken in this regard.

(15 Marks)

Exports' competitiveness depends on not only quality of goods but their cost which is constituted by production cost as well as cost of evacuation from hinterland. In this, export infrastructure plays the biggest role.

The export infrastructure of India suffers from shortcomings such as:

- 1) lack of warehousing, storage, cold chain infrastructure which means longer time in transit and spoilage of goods, especially edibles
- 2) high cost of freight through railways due to congestion, delays, high insurance premium and cross subsidization with passenger traffic.
- 3) long delays at ports due to low handling capacity, lengthy clearance process and high traffic on surrounding roads.

Remarks

4) Inadequate road infrastructure and poor maintenance of state highways and other roads.

5) Costly air carriage

In these circumstances, the government has taken many steps to better export infrastructure such as:

1) Sagarmala to modernise ports and enhance connectivity

2) Bharatmala to build roads in the country

3) Salu Bharatam to streamline and speed up railways

4) Golden quadrilateral project for highways connecting major transit cities

5) Industrial corridors connecting industrial towns directly to ports.

6) Saam Vikaas to upgrade National Waterway - 1.

7) Logistics sector has been given infrastructure status

Remarks

- 8) RFID tags in Cochin port to fasten goods movement and other technical projects in other ports
- 9) single window clearance to prospective exporters online.

Use of big data analytics to analyse and manage traffic on ports is also proposed. All these steps will boost exports by providing quality infrastructure.

Remarks

Q18. In the context of peaceful use of outer space, elaborate on UN's Outer Space Treaty. Also, discuss on the need, limitations and challenges faced by the treaty?

(15 Marks)

The Outer Space Treaty was signed in 1967 and seeks to regulate the use of outer space — space outside the earth's atmosphere.

Its major provisions are :

- no country can claim sovereign rights in outer space
- no installation / placement of weapons of mass destruction
- no action which can pollute the outer space is allowed.
- states shall be liable for any action emanating from their territory
- space is a common asset of humanity
- only to be used for peaceful, educative or research purpose.

Remarks

The treaty is needed because it is the first treaty to spell principles governing use of outer space. It binds countries to use only for peaceful purposes.

The limitations of the treaty are:

- 1) does not restrict weaponization of space (use to assist ground based military action)
- 2) was not deliberated by all countries, many of which now have elaborate space activity (India (ISRO))
- 3) does not envisage against anti satellite weapons

The challenges the treaty faces are:

- 1) China's anti satellite program
- 2) non state actors may harm satellites in space
- 3) US's plan to start a space force may lead to militarization, ~~an~~ a violation by a founding member.

Remarks

These challenges necessitate an updated space treaty that takes cognizance of new improvements in technology and sophistication of weapons.

Remarks

Q19. Paramilitary forces allege of step-motherly treatment meted by the government as compared to military. In this context, discuss various issues associated with discontentment in paramilitary forces and their reason. What steps government has taken to resolve these issues?

(15 Marks)

Paramilitary forces are armed forces such as the CRPF, ITBP, BSF, CISF, SSB and Assam Rifles. They have time and again alleged step motherly treatment as compared to military.

Some of the complaints are :

- 1) No non functional upgradation
- 2) Inadequate grievance redressal
- 3) Unlike Armed Forces Tribunal, the special force court has no appeal mechanism
- 4) Long working hours
- 5) low manpower leading to overworked force.
- 6) They are not given martyr status
- 7) Nutrition is not satisfactory
- 8) Uncertain leave policy

One of the reasons is that they are not all

Remarks

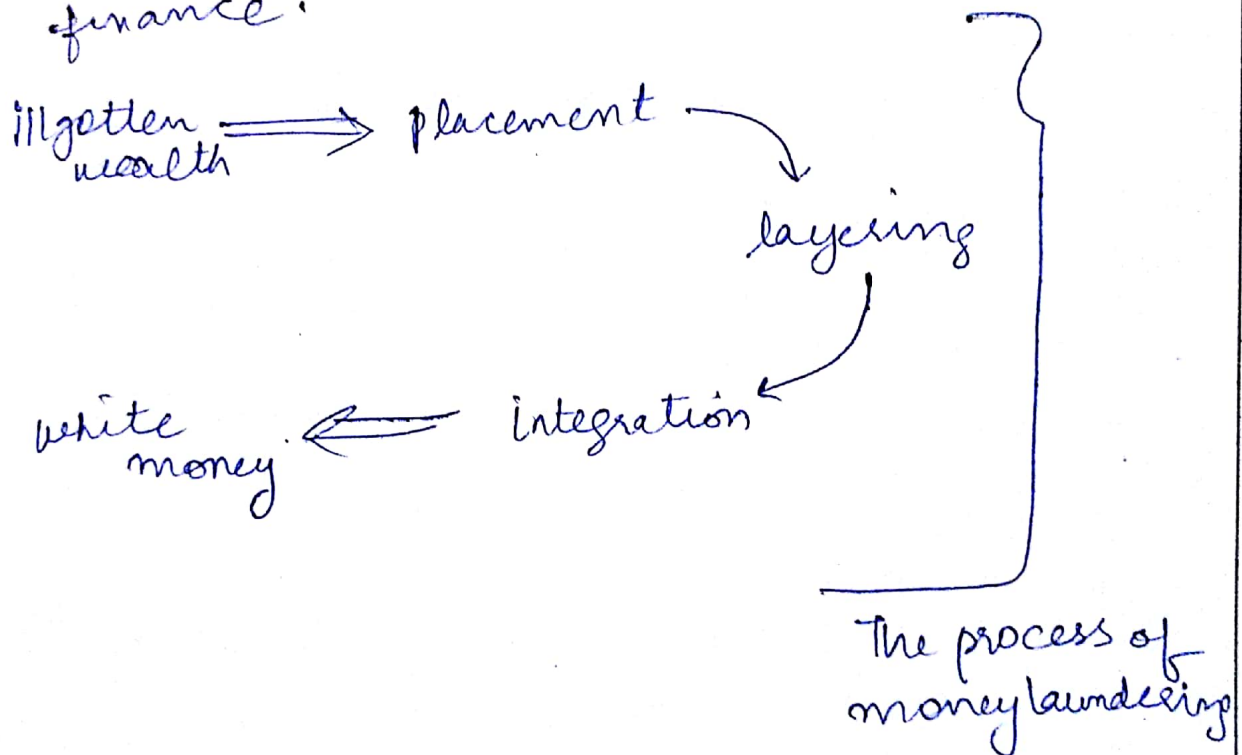
under one ministry so that a comprehensive policy for all can be evolved.

secondly, the Armed Forces enjoy greater leverage over the government due to historical reasons and larger finance from budget.

Remarks

Q20. Money Laundering helps in flourishing organized crime and has debilitating impact on economy as well as on society. In this context, discuss the key recommendations of Financial Action Task Forces (FATF) to curb the menace. Also, discuss the case of making the Money Laundering a separate criminal offence in India. (15 Marks)

Money laundering is the process of injecting ill-gotten wealth into the systems of economy so that its illegal origin is hidden and it passes off as legit finance.



This helps organized crime to flourish because the illegal funds find a way to be parked where they can fetch returns. So people have an incentive to indulge in crime.

Remarks

~~It debilitates the economy as tax is evaded~~

It debilitates the economy as money from tax evasion escapes the law enforcement while government treasury is deprived of taxes to fund economic growth. The society suffers because crime, drug trafficking, extortion and ransom go unpunished and more people may get attracted to the shine of fruits of crime.

The financial action task force (FATF) recommends that countries strengthen norms such as KYC (know your customer), capital market ~~instru~~ and restrict use of instruments such as p-notes through careless of due diligence. FATF also recommends data sharing among countries on taxation of cross country flows of ~~to~~ money and shutting down of illegal accounts used to fund terrorism, crime etc. In this context,

Remarks

it also releases list of countries (such as Pakistan on grey list) which are penalised by the international financial system for not adhering to norms.

Money laundering, as such, should be made a separate criminal offence in India so that it is investigated by a dedicated agency. This will ease the complications related to timely prosecution and acceptance of evidence in an increasingly digitalized financial system.

Money laundering is wrong in ethics as well as economy. So, it needs to be stopped.