



An Institute for Civil Services

IAS TOPPER'S

TEST COPY

KULDEEP KUMAR

Rank - 548

GS Mains

Core Economic Developments in India

GS SCORE

Test Code

1

Very Good Understanding
& clarity of
broader picture.

Name

Kuldeep Kumar

Roll No.

Mobile No.

attempt more

to Improve Marks.

GS MAINS Q&A 2018

Core Economic Developments in India

Time Allowed: 3 Hr.

Max. Marks: 250

Instructions to Candidate

- ▶ 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.

Q	Answer	Q	Answer
1		11	
2		12	
3		13	
4		14	
5		15	
6		16	
7		17	
8		18	
9		19	
10		20	

Date:

Candidate's Signature

Kuldeep

60/2

Examiner's Signature

Bansal

REMARKS

Remarks

Q1. Discuss the importance of fiscal deficit in the context of resource mobilization efforts in India? Examine, how high fiscal deficit is related to crowding-out phenomenon?

(12.5 Marks)

Ans - Fiscal deficit occurs when Government expenditure exceeds its revenue. Government expenditure in India is important part of resource mobilisation as it provide services to people need based and accessible for all like health care services, primary & higher education, Public services etc.

Fiscal deficit is important indicator of the health of the Economy. In India generally high fiscal deficit is due to huge interest payments by government & financing the loss making PSUs. Hence there is need of rationalisation in Government expenditure so that it can increase its expenditure on social sector like health & education which is the most important part of Human development.

Recently Govt. has introduced PPP in providing health care services that will lead to effective resource mobilisation to public. On Revenue Part, ^{due to} low tax-compliance & absence of fiscal democracy in India, there is less collection of revenue which affects Govt. spending as it also leads to high fiscal deficit.

Remarks

not asked & relevant

improve investment climate for
priv. sector
powerful tool to promote
economic growth

High fiscal deficit will be financed through Government borrowings from market, will lead to crowding out phenomenon i.e. the private sector have ~~very~~ small portion of borrowings from the market. This affects the lending availability to private sector, hence decrease private investments.

Therefore Government should adopt countercyclic fiscal measures, and provide large space to private sector particularly MSMEs to during boom period to provide better job opportunities.

better defined in this manner:
 ↳ Crowding out

②/2 decline in pt. investment
 due to rise in interest rate
 as the govt borrowing
increases

Remarks

Q2. Discuss the pros and cons of FDI in multi-brand retail sector and examine its consequence on the food processing industry in India? (12.5 Marks)

Remarks

Remarks

Q3. There have been significant structural changes in the export basket of India, both in terms of composition and destination. Examine with help of data? (12.5 Marks)

Ans - India's export is ~900 billion \$ during 2016-17 and is rising at a slow pace of ~4-5% recently.

The exports of India include both trade in goods and services.

i) Export in Goods

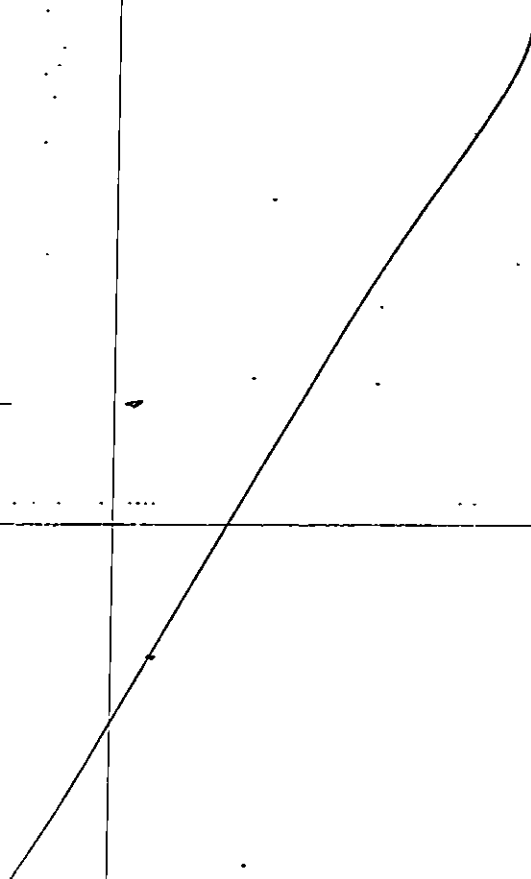
→ India exports ~~major~~ goods like gems and jewellery, textile products, footwear, Refined oil, Electronics & Automobile items etc.

1/2

Remarks

Remarks

Q4. Why is investment considered the most important factor for growth? Examine what other factors affect growth as critically as investments do? (12.5 Marks)



Remarks

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Remarks

Q5. Demonetization was such a big shock to economy, that it affected almost every person and entity in economy? In the above context discuss the importance of maintaining appropriate money supply in correct denomination and explain, how a small mismatch in any can affect markets? (12.5 Marks)

Ans - Impact of Demonetisation :-

i) On Banks.

- surplus cash.
- ~~low~~ high ~~credit~~ lending capacity.
- decreased interest rates.

ii) On People

- less cash in hands \Rightarrow \downarrow in liquidity.
- less earning on savings.

iii) On Industries

- less demands.

iv) On overall economy.

- \uparrow in online payments & transactions.
- \uparrow in black money market.

v) On security

- \uparrow in terror financing?

Affect
inflation
ex rate
macroeconomic
policy

(1/2)

Importance
regarded as instrument for
growth

Remarks

price stability.

Remarks

Q6. The Indian Economy has a peculiar feature that while the banking sector is not growing well and is affected by high NPAs; the stocks of banking firms are stable and Indian Economy hasn't faced any banking runs or crisis in recent years. Examine. (12.5 Marks)

Ans - The recent slowdown in the Indian economy has affected the health of Banking sector as the proportion of Non performing assets ^{NPAs} are rising sharply. The India NPAs ratio is higher than any other. The Indian Economy is suffering from twin balance-sheet problem & the NPAs are on rise ^{emerging market} particularly in Public sector banks.

Although the Banks have high NPAs, but its stocks are stable as :-

i) Most NPAs are in Govt. owned PSBs like SBI, PNB etc., having too big to be failed status, hence having government & RBI's assurance not to let them fail.

ii) Govt. timely schemes like Indradhanush leading to Banking reforms & their timely recapitalisation. other Govt. schemes are :-

- 1) S4A scheme
- 2) 5/25 scheme
- 3) setting up of PARA / ARCs.
- 4) Insolvency & Bankruptcy reforms.
- 5) Reconsolidation of PSBs

Remarks

while there is another side of wild full manipulations of their Balance sheets by Banks that doesn't show its actual condition like! -

i) Engineering of loans

ii) Improper Assessment & Manipulation in NPA declaration

While the Government & RBI is strictly assessing the Banking health there is need to spur investment and high growth, so that the installed capacity in the economy could be fully utilised and also need of ~~providing~~ ^{providing} VGF (Viability Gap funding) to make the existing firms profitable.

(5/2)

Remarks

Q7. The structural issues of Indian Economy have not been properly addressed despite more than 2 decades of reforms? Comment and Identify major areas which have not been reformed despite reasonable reforms in other areas, such as taxation and banking? (12.5 Marks)

Ans - The New Economic Policy of 1991 in India that led to 1991 reforms was quite focused on two aspects :-

i) stabilisation Measures

ii) structural reforms.

Although we have done several structural reforms like privatisation & liberalisation of Indian Economy but it neglects areas like :-

a) labour reforms

b) Bankruptcy reforms

c) taxation

d) banking.

land rights and
long term funding

power sector

India's rigid labour ^{laws} ~~reforms~~ have affected its ease of doing business capability and avoid India to become a manufacturing hub. It's strict norms of hire & fire, rigid working hours has led to affecting the Entry of industries. Economic survey 2015-16 cites ^{characteristic} ~~characteristic~~ challenge of Indian Economy, where Industries have difficulty to exit. Insolvency & Bankruptcy code, 2015 have solved this problem.

Remarks

→ Complex structure of taxation in India has led to decrease in tax compliance & promoted tax avoidance.

→ Banking sector is suffering from rising NPA's, increasing Bureaucratic & Political interference and capitalisation.

Gout. ~~sector~~ initiatives like GST, Indradhanush etc. have bring huge taxation & Banking reforms but it required :-

i) Gout. to bring reforms to ~~min~~ end political interference by privatising major banks like SBI & PNB etc.

ii) Bring informal sector under taxation & avoid tax avoidance.

(5)

Remarks

Q8. Examine the major reasons behind the decline in Current Account Deficit of India? Do you think the present decline is sustainable; suggest reasons in support of your view?

(12.5 Marks)

Ans - Current Account Deficit (CAD) is part of Balance of Payment which includes:-

- a) Trade in goods & services. (Export & Import)
- b) Remittances
- c) Foreign aid etc.

Currently CAD is $\sim 2.5\%$ of India's GDP, and has declined in past as :-

i) fall in oil prices in international market.

ii) Increase in remittances, as India is now largest remittance receiving country amounting to $\sim \$74$ billion.

But recent trend shows the widening ^{crisis on gold} import of Current Account Deficit due to gradual rise in oil prices and the decline in exports due to Economic slowdown. This shows that the decline in CAD was not sustainable.

The majority of India's CAD owes to oil imports and defence imports hence to use the CAD:-

i) Promote Domestic Defense Manufacturing.

Remarks

- ii) Finding Alternatives to oil in energy.
- iii) Promoting Renewable energy to fulfill future energy demands.
- iv) Alternative fuels like Ethanol, Bio fuels etc.

Govt. initiatives like 175 GW R.E by 2022, setting up Bio-fuel factory, Ethanol blending & ~~for~~ Increase in FDI in defence are welcoming initiatives but there is need to promote exports as well.

currently ~~Govt~~ India's share in international trade is ~3-4% that needs to be increased particularly in textile sector where it is doing now.

Not Sustainable

oil price likely to increase
EXD rate appreciation

Remarks

Q9. India has claimed it has been treated unfairly by the international credit rating agencies and despite strong macro-economic fundamentals, its rating is poor? Examine with help of data? (12.5 Marks)

Remarks

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Q10. What are the main components of the third generation of economic reforms? What are the challenges to third generation economic reforms? Enlist the government initiatives to realize the goals of third generation economic reforms. (12.5 Marks)

Ans - Third generation reforms are those which supplements the reforms after 1991 crisis. It includes :-

- i) Labour Reforms
- ii) Bankruptcy reforms
- iii) taxation reforms

Components
Competitive and
Cooperative
federalism

Creating entrepreneurship
and innovation

Third Gen. reforms if acted properly will decide India's future of Manufacturing & job scarcity problem. Here are some challenges:-

i) Labour reforms.

a) rigid hire & fire policy - supported by Trade unions having huge say in political parties agenda.

b) Increase in working hours of men and women both

c) Demand for deciding Minimum wages, if kept high India will lose advantage of cheap labour. Govt. initiatives like social security schemes, Unique Identification, EPFO transferring etc.

Remarks

ii) Bankruptcy

- Although Govt. has enacted Insolvency & Bankruptcy code, 2015 to solve exit constraints of industries, but the recent examples shows RBI's discretionary & unlimited power has led to forced insolvency of loss making firms during slowdown.

iii) Taxation

- simplifying tax procedure Govt has introduced GST reforms which will lead to minimise bureaucratic interference leading to increase in tax compliance. challenges are :-

- ① Rise of intermediaries in GST filing, as GSTN is fully technical. particularly in MSMEs which lacks managerial staff.

Easing of FDI norms

④

Write less &
Cover more points

In principle →
it is correct

Remarks

Q11. What are the major problems facing the Indian economy despite being the fastest growing G-20 economy? In assessing the medium-term prospects of the Indian economy, which internal and external factors need to be reckoned with? Suggest steps through which India can achieve double digit growth in the long run. (12.5 Marks)

Ans - Indian economy achieves $\sim 7\%$ of GDP growth in 2016-17, it has declined in 2017-18 (1st Quarter) but still India fastest growing economy. The major problems economy facing are :-

i) Slowdown in the external market.

- slowdown has led to decline in exports.
- western world has unable to create demand.

ii) Less private investments.

- During 2007-08, boom period private investments in India was around $34-35\%$ of India's GDP but it has declined to $\sim 27\%$ in 2016-17.

iii) Job creation

- the Indian growth rate has been supported by Brownfield projects and absence of new Green field projects has led to jobless growth in India.

iv) Degrading Banking health

- Rise in NPAs in Banks affecting its lending capacity.

v) Infrastructure deficit.

- both in power, Energy & Social Infrastructure.

Remarks

- Inefficient redistribution
Series of deflationary impulses
ex. rate appreciation

⑥ The medium term prospects are :-

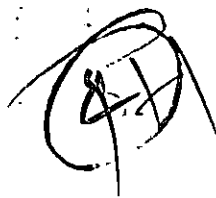
- a) Increase in public investments.
- b) focus on Entrepreneurship, startups & MSMEs to spur job creation.
- c) Recapitalisation of Banks.
- d) VGF availability for installed firms.
- e) Increasing India's share in world trade to increase India's exports.
- f) Leverage India's trade in services by signing TFA increasing steps to achieve double digit growth are :-

i) while continuing with Business friendly reforms. Govt. should focus on domestic Manufacturing and focus on job creation.

ii) R & D promotion with industrial linkages.

iv) to leverage India's service sector, India should hardenly negotiate FTAs to promote services trade.

v) focus on infrastructure creation - both physical & social.



Correct, but many important issues skipped refer back

Remarks

Q12. Discuss about the major inflationary trends in India? What explains current low consumer and wholesale price indices in India? Why negative WPI is not a good indicator for an economy? (12.5 Marks)

Ans - Currently India is going through a reform phase which is quite experimental includes demonitisation and GST. Both have led to decline in CPI & WPI but it is difficult to arrest the amount of their impact.

CPI - 3-4% (has start rising in 2016 end)

WPI - ~1-2% (has fallen to negative in 2016) but has increased from then.

The reason for ~~low~~ CPI & WPI are :-

i) Demonitisation, which led to fall in demand due to currency shortage.

ii) GST, which led to destocking of goods by firms before its introduction from 1st July 2017.

iii) CPI - the headline inflation of India - due to ~~low oil price~~ ^{institute} fall in oil prices has lowered, but it sustained 4-6%, due to food inflation. ^{of} Similarly WPI ~~has~~ declined due to ^{low MPC} demand of goods & fall in oil prices.

Recently, Govt. has brought changes in WPI & IIP which changes its base-ys from 2004-05 to 2011-12, to easily & accurately

Remarks

Comparison b/w indices - CPI, WPI & IIP.

The negative WPI ~~shows~~ is not good for the economy as it shows:-

i) less demand for industrial goods.

ii) diff. in WPI & CPI - roughly depicts the impact of indirect taxes on prices. low WPI & high CPI shows high indirect taxes leading to headline inflation.

iii) ~~low~~ less WPI shows health of industrial sector, means they are making less profits.

Recession
increase in
bad debt

4/2/12

Good

Remarks

Q13. What are the major determinants of FDI? Discuss the recent trends of FDI inflow in India? Why has India become one of the major destinations of global FDI? Critically examine the structure and direction of FDI in India? (12.5 Marks)

- Ans! - The major determinants of FDI are :-

- i Economy's openness.
- ii Infrastructure - both physical & social.
- iii Good Governance.
 - Ease of doing business.
 - Less Red-tapism.
 - Less bureaucratic interference.
- iv Availability of cheap labour
- v high domestic demand.
- vi Various tax incentives. (Low input cost)
- vii policy support to Industries ✓

India - FDI & FII - both are increasing.

(1/2) 1/2

removal of FIPB
high return on bond

Remarks

Remarks

Q14. What do you mean by precautions and cleavage India? Chart out the desirable vision for India that is democratic, poor and unequal. (12.5 Marks)

Ans - Economic Survey 2016-17, mentions India as precautions & cleavage democracy as :-

Precautions :-

India has attained democracy while having less state capacity.

cleavage India :- India is divided on the basis of caste, Religion, hierarchy and economic conditions that are deeply rooted in the society.

Although Indian Constitution ensured social Justice to its people but still there is huge inequality in India - As around 22% of income in India is owned by 1% of its people.

1 1/2 + 1/2

Weak state capacity
inefficient redistribution

Remarks

Remarks

Q15. How is Basel-III different from Basel I & II? What are the implications of Basel-III for the Indian banking sector? Is it advisable for India to adopt tough prudential norms for banking sector at this juncture of its development? (12.5 Marks)

Remarks

Remarks

Q16. What are the reasons behind NITI Ayog replacing the Planning Commission? Has NITI Ayog made any difference? Evaluate. (12.5 Marks)

Ans - In 2014, the new NDA Government has replaced the erstwhile Planning Commission established in 1950 from NITI Ayog i.e. National Institution for Transforming India. It cites some drawback of PC as :-

i) Irrelevance of Planning in India, as since 1991 reforms, it is Globalised and moving towards fully capitalist Economy (Market has major control).

ii) Earlier PC has decide some devolution of funds to states, and also decides where and how to spend those funds, hence it dilutes cooperative federalism.

iii) PC has review the Ministeries performance on execution of schemes, hence it has interfered states in Ministry-level work. lack of proper representation to states

iv) lacks Evidence based technical inputs in planning. politically motivated

The NITI Ayog has replaced PC in 2014. ^{parts} Since then it has helped Govt as :-

a) policy think-tank - NITI Ayog has based on

Remarks

the Evidence & Research based policy decision has helped Govt. in framing its policies. It reflected in its :- 3 year action agenda, 7 year strategy & 15-year vision documents.

- b) NITI Ayog
- Knowledge & Innovation Hub (KIH)
 - Team India hub. (TIH)

Team India hub incorporated both Centre & States in policy making decisions, and has strengthened federalism.

- c) KIH has initiated missions like Atal Innovation mission & SETU mission to increase the Innovation
- d) Proposed various indices like SEQI, Health indices, Agriculture Performance Index to enhance competitive federalism
- e) proposed Judicial performance index, for increasing Judicial competitiveness of HC's in India

Although NITI Ayog is a welcoming step but requires more involvement of private sector experience with less Government interference.

62

Remarks

Q17. Examine the recommendations of the 14th Finance Commission in the context of competitive federalism in India. Is there any incentive for competitive federalism in the Commission's report? (12.5 Marks)

Ans - Indian Constitution mentions in Art. 280, for creating finance commission to decide devolution of taxes between Centre and states.

14th Finance Commission in its report :-

- i) Increase state capacity in expenditure by increasing state's devolution as part of taxes to from 32% to 42%.
- ii) Ended fiscal populism, by ending criteria of SSC status. follow the concept of bottom-up approach

While the 14th FC, has incorporated cooperative federalism b/w Centre & states, but also demand the need for competitive federalism by its measures like :-

- a) Deciding state's devolution - performance based :-
 - i) Contribution of SGDP to Centre's GDP.
 - ii) Contribution of a state's tax base in Centre's tax collection
 - iii) Performance based CSS allocation to state as per indices prepared by NITI Aayog.

Remarks

④

But
decline in social sector
allotment
- wound up of BRGF

Remarks

Q18. In the wake of falling savings and investment, dwindling GDP, and sluggish global economy, should India continue strict fiscal consolidation? Give arguments. (12.5 Marks)

Ans - current status of falling savings & investment, decline in GDP growth rate and Global economic slowdown shows that India require counter-cyclic fiscal policy measures i.e. while slowdown Govt. should increase its public expenditure and spend largely in creating infrastructure, while during boom period, allow private sector to grow & invest.

Presently, there is demand to increase in public expenditure, but on the same time Govt. have its commitment to fiscal consolidation. Acc. to Nile Kalini Report, Govt. end its revenue deficit & decrease its fiscal deficit to 4.53% of GDP by 2020.

As the Investment rate has declined from 2008-09 levels of 34% to 27% in 2016-17. There is need for Public investment! -

- i) to create jobs
- ii) to create demand in the economy.
- iii) creating infrastructure to make business profitable for private sector.

Remarks

Arguments
to ensure adequate money supply
to contain inflation
to balance employment

Although Govt. should stick to its target of ending revenue deficit, but should not go stricter in fiscal consolidations. India currently has 3.5% of GDP as F.D., while on the same Western countries have 7-8% of their GDP as fiscal deficit.

2/2 + 2

Good, but

Discusses

N.K. Singh
Committee &
FRBM
clearly;

you have covered
it indirectly
without providing
exact details

Remarks

Q19. What are the main features and advantages of GST? Why the Indian format of GST is considered to be full of anomalies and a half-baked tax reform by the critics? (12.5 Marks)

Ans - Goods and Services tax (GST) is brought in India after 101st constitution amendment act and was implemented on 1st July 2017. It's main features are :-

i) dual tax - (imposed by centre & states

↳ CGST - by centre

↳ SGST - by state

(also IGST)

while collected by both & shared b/w them.

ii) input tax credit.

→ will lead to tax compliance enhancement.

iii) value added tax

iv) structured.

→ include 4 slabs - (5%, 12%, 18%, 28%) tax

v) GST council

→ to decide tax rates

vi) GST Network.

→ private owned - to manage GST from online filing to online refund.

It's (GST) advantages are :-

a) simple taxation

b) unified taxation

c) Minimal bureaucratic interference.

→ from online registration to file return to refund - all

Remarks

are technology enabled, hence led to decrease the cost of tax compliance.

- d) faster movement of Goods & services b/w states
- e) Enhance cost competitiveness of MSMEs.
→ fall in cost of raw materials (states abandoning tax from import state) ^{remove} **Cascading effect**
- f) Enhance India's ranking in ease of doing business
- g) Increase in tax collection & acc. to Kelkar Task force estimate will lead to an 1-2% increase in GDP growth rate.
- h) also enhance cooperative federalism.

No reform is best in itself from starting, requires time to evolve its best. Hence GST has too some flaws :-

- i) Multiplicity in tax slabs.
- ii) Will affect Manufacturing origin states.

- iii) Some critics say that as states will have less say in dec'g own taxes, they will lose ~~auto~~ fiscal autonomy, hence dilutes cooperative federalism.

But overall GST in itself is revolutionary, and its short term impact on GDP growth can't be the sole reason for its judgment.

GST Compensation
Cess

(6)

Remarks

Q20. Entrepreneurship is necessary for economic growth, the biggest example, is the difference between Eastern and Western India, both regions have very different levels of prosperity mainly due to difference in entrepreneurial zeal among people? (12.5 Marks)

Remarks

Remarks