

**GS SCORE****TEST - 2****INDIAN ECONOMY & INTERNAL SECURITY**

Time Allowed: 3 hrs.

Max. Marks: 250

Q.	Marks	Instructions to Candidate
1.		<ul style="list-style-type: none"> <li>• There are 20 questions.</li> <li>• All questions are compulsory.</li> <li>• The number of marks carried by a question is indicated against it.</li> <li>• 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.</li> <li>• Keep the word limit indicated in the questions in mind.</li> <li>• Answers must be written within the space provided.</li> <li>• Any page or portion of the page left blank in the Question-cum-Answer Booklet must be clearly struck off.</li> </ul>
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1. Invigilator Signature \_\_\_\_\_

2. Invigilator Signature \_\_\_\_\_

Name MATTHEWS M.

Roll No. \_\_\_\_\_

Mobile No. \_\_\_\_\_

Date \_\_\_\_\_

Signature \_\_\_\_\_

# REMARKS

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GS MATRS TEST SERIES 1991

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## Section - A

- Q1. Foreign Direct Investment helps to increase the investment level and thereby income and employment in the recipient country. However, on the flip side, it can also reduce internal resilience of the domestic economy. Comment. (10 Marks)

Recently India reached a high of \$64 billion in FDI. ~~to~~ government has been trying to bring in more by easing norms, as seen in case of single brand retail and insurance intermediaries. This is because of its positive impacts on:

Intro  
is  
Valid

① Investment level

- It supplements government and private investment, both of which are facing challenges now.
- It attracts technology transfer <sup>present</sup>
- It brings in better administrative <sup>practices</sup>
- As a result, it boosts income and employment.

↓ New Industry creates jobs

Remarks

Also exemplify Indian scenarios

However, it can reduce internal resilience also by

→ Increased dependence on foreign investors

→ Much of the FDI is through round tripping, misusing DIATs as seen in case of Mauritius.

→ Indirectly paves way for money laundering and black money.

→ Can cause currency depreciation

However, FDI is essentially a blessing when comparing pros and cons, and need more steps to attract investors

good answer

4 1/2

Briefly discuss present low skill status with cum  
establish this into  
tenant.

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Q2. When technological progress takes place, it calls for new type of skills to handle new technologies effectively. But when the rate of new skill formation lacks in keeping pace with new technologies, it results in surplus labour specialized in older skills. To what extent will this impinge upon Industry 4.0's success? Analyse. (10 Marks)

Industry 4.0 refers to the next step of Digital revolution, that is Cyber-Physical systems. It has many applications like Internet of Things, Cloud computing, Augmented Reality, etc. These require a new set of skills to utilise effectively.

Importance of new skills

- 1) Opening up of new sectors requiring new hardware and software. eg. Cloud servers.
- 2) Old jobs will be threatened due to Automation. World bank estimates more than 75% jobs to be threatened in manufacturing.
- 3) Old processes will be obsolete due to high efficiency in logistics and data mining.
- 4) New economic landscape will be constantly undergo creative disruption.

What will be impact of

low skill  
out?  
explain

Remarks

5) New digital divide of 'low skill low pay' and 'high skill high pay' will replace the ~~middle class~~ because of importance of high end skills.

Due to these, government needs to be actively prepare for Industry 4.0. Digital India campaign, start up India, Skill India, are a good start. Need more in

- 1) Industry-academia partnership
- 2) Education relevance in colleges
- 3) Incubation centres & handholding
- 4) Social security net to support retrained workers.

④

Q3. A contraction in manufacturing output, especially in the sensitive capital and consumer goods segment, pulls down industrial growth. Examine their impact on Make in India programme. (10 Marks)

~~This year~~ Recently manufacturing output is witnessing a contraction. IIP grew at 0.3% in previous quarter, compared to 7.5% last year, same quarter.

Ans in  
Verid

Reasons for contraction

1) Capital goods segment

- lack of generating adequate demand.
- MSMEs try to remain 'dwarfs' and do not adequately invest in capital goods.
- Poor infrastructure.
- Competition, due to 'free import policy'.

Points  
Covered  
well

2) Consumer Goods

- Fall in private consumption as seen in recent fall in auto sale by 30%.
- Rise in unemployment, touching 7.5% recently.

→ Loss of jobs in the last 6 years, more than 20 million agriculturists and 35 million women moved out of labour market.

### IMPACT on Make in India

→ Affects profitability and viability of new firms ✓

→ Poor investor sentiment ✓

→ Need to encourage competitiveness ✓

This is way forward, not impact

### Steps needed:

→ Need to spur demand through increasing investment

→ Continue ease of doing business reforms, especially contract

↳ Resident enforcement

↳ Labour law should be relaxed

en

4



Q4. Trends in the labour force participation rate and unemployment do not reflect social or economic mobility. What do you make out of this statement? Analyse with reference to the recent labour force participation rate data. (10 Marks)

Recent data on labour force participation displays worrying trends.

- Decline in social mobility
- women's labour force participation declined in the NSSO survey to 27%.
- In the last 6 years, more than 35 million women moved out of labour market.
- vulnerable sections like SC, ST ~~and~~ are most affected.

- Decline in economic mobility
- Unemployment has hit a peak of 7.5%. It earlier breached a 40 year record on it.
- Sectoral mobility has declined with more than 20 million agricultural labourers moving out of labour market.

Remarks

→ Main need to explain that these data

→ Employment elasticity has also declined to 0.04 in Agriculture and 0.09 in Industries.

Reasons

→ Industrial growth has not declined and could not attract excess labour.

→ Agriculture distress

→ Rising household incomes and paternity are indirect reasons for women's ~~labour force~~ labour force decline.

→ Increasing informalisation of labour, with more than 87% firms purely informal.

There is a need to create 10 million jobs a year at least to remedy the situation.

(4)

Valid  
Cause  
Given  
relate  
each  
with  
economic  
&  
social  
mobility

define it

Q5. The "paradox of economic growth" is where the economy grows but so does income inequality. Analyse the statement with reference to the latest report released by Oxfam. (10 Marks)

Oxfam report revealed paradoxical trend -

① Poverty has reduced with India lifting 275 million people above poverty line in last 10 years

② However, inequality has increased, with Gini coefficient of income inequality rising to 0.51 from 0.45. Gini of wealth is almost 0.85.

Good way to start

### ANALYSIS

→ It is partly explained by Kuznets curve, which argues as an economy grows, inequality will rise initially, and then fall. It was seen in case of Europe in 1950s to 1970s and in China from 1980s to 2010s.

→ In India's case, it is exacerbated by additional factors like:

How, these create  
inequality? explain

- Poor industrial growth
- Service sector and led growth
- High skilled sectors like IT were the main drivers
- Agriculture distress
- ↳ Low tax base, dependence on indirect taxes which are not progressive
- Inadequate social security net with more than 70% non agri-based firms out of it

There needs to be strong measures using redistributive taxation, increasing tax base & capacity, and creating remunerative jobs.

4½

Q6. Limited access to social security (especially health and pensions) and reduced state contributions in social sector are primary reasons behind high incidence and prevalence of poverty. Comment. (10 Marks)

As per Rangarajan estimates, more than 29.5% of population live below poverty line. If the line is taken as \$3/day, then 60% population are below it.

Explains the role of state in social security

**REASONS**

1) Limited Access to Social Security

- Economic Survey 2017-18 pointed out that 64% firms were out of social security net

points given are relevant

→ Increasing informalisation of workforce etc.

This is mainly due to restrictive labour laws leading to adverse selection

→ 'Dwarfism' of MSMEs to avoid labour laws is clear evidence.

2) Social Sector

→ Government expenditure has remained constant at around

1.5% for health and 3% for education.

→ These prevent vulnerable groups from improving their quality of life, and attaining better skills.

→ Health & educational weakness creates a vicious cycle, trapping the poor.

- Recent government initiatives like Ayushman Bharat, Karam Yogi Nandan, etc are good initiatives. It needs to be supplemented with effective increased expenditures in social sectors.

$3\frac{1}{2}$

Q7. Majority of the Indian states financial position appears to be somewhat stretched. Both the fiscal deficit and the debt to GDP ratio of the states look problematic. Analyse the stand taken by 15<sup>th</sup> Finance Commission and critically evaluate its potential operational effectiveness. (10 Marks)

The financial position of ~~India~~ several Indian states are gumming with high fiscal deficit and debt to GDP ratio above 20% ~~in states~~ as seen in Kerala, Andhra Pradesh, etc.

### Reasons

- Populist policies like farm loan waivers,
- lack of access to cheap external loans due to constitutional restriction
- lack of innovative mechanisms like Municipal bonds for financing infrastructure
- Poor state of discipline UDM
- Poor recovery of user charges of necessary services like electricity & water.

good  
funding  
given

its recommendations is not out yet

Give proper stand

15<sup>th</sup> F.C has argued.

- 1) Keep debt to GDP ratio within 20% for states.
- 2) Allow access to loans from cheaper external sources.
- 3) Follow a band of fiscal deficit targeting reduction of 0.3% per year.
- 4) Self sufficiency in revenues & gradually eliminating revenue deficit.

### Analysis

→ It does not provide any special treatment, like Special Category Status.

→ It advocates greater transfer of funds to states from the FDI divisible pool, giving greater autonomy.

→ However, states must build their capacity to with financial discipline. Fiscal Councils are a good idea.

Remarks

(4)

Points are relevant



Q8. According to Fugitive Economic Offenders Ordinance, 2018, a fugitive is defined as someone who has left India to avoid criminal prosecution or who is already overseas and refuses to return to face the law. Taking a cue from the statement, differentiate between a Fugitive Economic Offender and a non-wilful defaulter. Also analyse steps taken both at domestic and global level to eliminate such loopholes. (10 Marks)

Recent Fugitive Economic Offenders (FEO) Ordinance was brought in to check recent tendency of high profile borrowers like Malviya & Nirav Modi to abscond. Intro is Very

**FEO** means

- ① A borrower with debt more than 100 crore Rs.
- ② Refuses to return to India to face prosecution ✓

**Non-wilful defaulter** →

→ Default means failing on loan/interest/principal repayments.

→ wilful defaulter is someone who → Refuses to pay even when he has ability to pay

→ Involved in money laundering, cheque fraud, etc

→ Non-wilful defaulter is a defaulter not in above categories.

Remarks

→ due to genuine reason

In essence, FEO can be or cannot be useful / non-useful defaulter. But it is essentially a huge borrower, who absconded from India.

## STEPS

In India : -

- New 2018 Ordinance gives a time span of 6 weeks to respond to summons. After that ~~the~~ debtors ~~can~~ lenders can take over securities and property.
- Other laws like SARFAESI, Insolvency & Bankruptcy Code, & provisions of IPC can be used.

## Abroad - Global

- Extradition ~~treaties~~ <sup>at</sup> unilateral level
- Mutual legal assistance Treaty

Briefly discuss the effectiveness of FEO ordinance.

Q9. Has Anti-India sentiments in Nepal and Bangladesh provided a fertile ground for non-state actors to wage a proxy war against India, utilizing these two land frontiers? How should India attempt to eliminate this peril? (10 Marks)

Nepal and Bangladesh have had various grievances against India, ranging from big brotherly domination, abrasive diplomatic arm twisting, etc. It has led to growth of anti-India sentiments.

This has facilitated non-state actors to wage proxy war, by

1) Exploiting the porous land boundaries. The poor terrain makes border management difficult.

2) Economic damage through FICN (fake Indian currency notes).

3) Human traf and arms trafficking, with roots in China, South East Asia and Pakistan.

4) Ideological support of comm. Marxism from Nepal and Islamic fundamentalism in Bangladesh.

5) Safe haven for terrorists to escape after terrorist activities.

Explains  
 Specific  
 Madhesi  
 blockade  
 Teesta  
 water  
 issue  
 etc

Spontaneous  
 are  
 not  
 part  
 of  
 answer

India should eliminate the need by:

1) Bilateral and multilateral cooperation  
Recently Bangladesh government's ~~strong~~ support has shut down several networks.

2) Border management

- Technology must be leveraged, like laser fencing.

- Security forces must be sensitised and trained to respect civilian population.

3) Creating a ~~very~~ clear doctrine on dealing with cross border proxy war, to promote predictability and effective prompt response.

4) Strengthen intelligence infrastructure

5) People to people contacts must be improved using border haats.

Easier visa process for short stays will reduce need for trafficking networks.

Through holistic measures this evil can be defeated.

good  
fruits  
given

discuss the reasons behind the rise of  
illegal immigrants & its prevalence

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Q10. It is estimated that about 15 to 18 million illegal Bangladeshi immigrants are in India, who are spread all over the North Eastern States. Critically examine the risk factor the situation brings with it. (10 Marks)

In North East India

Issue of Bangladeshi immigrants have been a major topic of debate in the neighbouring states, especially the North East states like Assam. Recent NRC agitation is a case in point

fine

### RISK FACTOR:

1) Change in demography, causing social tensions and electoral changes. It is ~~so~~ crucial in the tribal areas with identity ~~and~~ politics.

points are

2) Overloading the social infrastructure. Education and medical facilities in this region are already thin.

relevant

3) Illegal activities like human and drug trafficking is being promoted.

4) Increased risk of radicalization. Terror groups focus on illegal migrant recruits.

5) Change in political and electoral mechanisms, due to new vote bank.

Remarks

Solution:

- 1) Border fencing ~~has~~ using laser fence and other technologies is essential
- 2) ~~the~~ Capacity building of security forces and intelligence network to break the trafficking groups.
- 3) Bilateral agreements with Bangladesh government on extradition and repatriation.
- 4) Expanding 3-day and 7-day visa program to facilitate documented migrants ~~to~~ working across the border.

with effective measures, the risk factors of illegal emigration can be reduced, preventing a poverty and humanitarian disaster.

(3)

Section - B

Q11. The diagnosis of worsening Non-Performing Assets (NPAs) reveals five different causes. Analyse these causes and suggest fiscal stimulus and reformatory measures to clean up the underlying reasons for drought in Credit mechanism. (15 Marks)

NPAs have sharply increased in the recent years, touching 11% of the total banking ~~assets~~ <sup>advances</sup>. NPAs refer to assets/loans for which recovery is unlikely.

Causes for worsening NPAs

- 1) Bank side lapses while giving out loans, like compromising on collaterals eg. Kingfisher issue.
- 2) Issues in recognition of NPAs.
- 3) Poor insolvency mechanisms.
- 4) Political intervention, as in PSL norms.
- 5) Failure of regulatory and monitoring mechanisms.

same

Relate it with NPA problem explanation

ANALYSIS

NPA crisis is symbolic of a systemic failure in banking system. Banks are often under pressure to give out loans to

particular persons/sectors, preventing an effective risk assessment.

- Good
- Credit rating agencies has largely ~~failed~~ been ineffective in identifying weak debtors.
  - Sectoral failures like power and infrastructure have been caused by political compulsions preventing market-based pricing and poor implementation of policies.
  - Absence of bankruptcy and insolvency mechanisms prevented prompt interventions in case of default.
  - Evergreening of loans due to lack of regulatory oversight and reluctance of banks perpetuated the problem.

Its main implications are weak balance sheets of banks; and a state of credit drought.

### MEASURES NEEDED :

~~Bank~~ Raghuram Rajan Committee recommended a multipronged approach:



- ① RECAPITALIZATION of banks to shore up balance sheets
- ② RECOGNITION of stressed and doubtful assets, identifying wilful defaulters.
- ③ RESTRUCTURING of ~~EPFs~~ and RESOLUTION of NPTs using Asset Reconstruction Companies.
- ④ REFORM in credit disbursement and collateral collection to prevent such a crisis again.

good points

Government has taken several steps like

- 1) Bank recapitalization Plan in Budget 2019
- 2) Insolvency and Bankruptcy Code.
- 3) RBI guidelines on NPA recognition etc.

It ~~is~~ needs urgent steps and strong regulatory oversight, because strong banking infrastructure is a sine qua non for economic growth.

Q12. By diversifying the export basket, India's Foreign Trade Policy has tried to explore new markets and products, besides increasing India's share in its existing traditional domains. Analyse key features and operational effectiveness of Trade Policy 2015-2020.

(15 Marks)

India's Foreign Trade Policy 2015-2020  
aims to increase India's exports to \$ 900 billion, and increase total share to 3.5% of world exports.

### Key Features

- 1) 'Whole of government' approach including state governments
- 2) Diversification of export basket moving to high value products.
- 3) It stresses on new product strategy, focussing on agricultural products, leather and textiles, etc.
- 4) It aims to build a 'Brand India'
- 5) Institutional mechanisms like a Board of Trade and a Council of Trade Development

Remarks

has been put in place.

6) It stresses on new markets like Central Asia, Africa and L. America; by capturing some of China's ~~eastward~~ markets.

→ Market Access Initiative is set to continue along with Market Development Scheme.

→ Trade MEIS

### ANALYSIS

There are multiple challenges

1) It does not account for present global slowdown. India's manufacturing output has dropped and so has economic growth to 5%.

2) Rise in protectionism, as seen in ~~China~~ America first, Trade War etc.

3) Non Trade barriers in China, Sanitary and Phytosanitary measures in EU etc are major hurdles.

→ Trade & Subsidies  
→ WTO  
2019

Remarks

→ China's positive impact find

- 4) Multilateral trading agreements like RCEP are set to gain importance; It will require a reorientation of export strategy.
- 5) Comatose stage of WTO due to disagreements over Doha Development Agenda needs to be resolved soon, before plurilateral solutions hamper India's bargaining power.

Despite these, Trade Policy is ambitious & far reaching. It just needs the political will.

6

define it properly

Q13. Discuss India's export and import trade basket in light of deglobalization threats. Explore areas where India can chart out a new growth strategy. (15 Marks)

Several recent events point to 'de-globalisation' or 'anti-globalisation' like trade war, failure of WTO, rise of regional trade agreements, etc.

India's present trade basket are set to face challenge.

### Exports

- 1) Petroleum Products
- 2) Gems and Jewellery
- 3) Textiles
- 4) Chemicals (Pharma)
- 5) Agricultural products, etc.

Cover this in short

### Imports

- 1) Petroleum products
- 2) Manufacturing products
- 3) Capital goods
- 4) Gems and Jewellery (Gold)
- 5) Electronics, etc.

Analysis

→ Petroleum products are challenged because of

- 1) Attempt by W. Asian companies like Aramco to build refinery capacity.
- 2) OPEC cartelisation and rise in prices
- 3) Environmental obligations as part of Paris agreement

→ Manufacturing exports have not reached full potential despite Make in India. High end product manufacturing is still absent due to lack of infrastructure and skilled manpower, as seen in case of chip manufacturing (electronics)

→ There is a need to chart out new areas

1) Target new markets mainly Africa, Central Asia and W. Asia.

Remarks

Give other points

→ (Also provide positive / Silver lining)

- 2) Enhance ~~the~~ regulatory capacity to improve quality checks. Japan, Europe and EU ~~have~~ separate sanitary regulations.
- 3) Agriculture & food processing are natural strengths which need support through ~~cold storage, warehousing and~~ awareness generation.
- 4) Need to improve outward FDI to use eg: Set up refinery capacity in UAE.
- 5) Need depth in manufacturing. Since the ~~world~~ world is going through a change, India needs to change its approach, too.

6

Q14. The WTO and the Doha Development Agenda has remained a white elephant which India and other developing nations have been trying hard to move around. What do you make out of this statement? What options are available to India in shaping effectiveness of WTO? (15 Marks)

Intro  
is value  
WTO is a multilateral organization dedicated to promote neo-liberal policies, by ~~promote~~ facilitating free trade. It evolved from GATT;

[Doha Development Agenda]  
or DDA started in 2001 and 2001 has not reached a conclusion till now.

• There are several disagreements

1) India and developing countries (G-33) want limits on food subsidies and public stockholding lifted.

→ India wants a 'permanent peace clause' → explain it briefly

• They argue that developed countries use different mechanisms like food coupons & rebates



2) Developed countries want

→ Stricter IPR legislation beyond TRIPS.

→ Oppose Compulsory licensing & domestic content requirements

patents are fine

eg: Pharma and Solar issues respectively

→ Greater market access

eg: USA in high end automobiles  
EU in wines, etc

Aligning with like minded countries

OPTIONS available to India:

1) Adopt a policy of give and take, because WTO is essential for India's foreign trade policy in the background of Trade war.

2) Move towards plurilateral and regional trade agreements like ~~WTO~~, & integrate with WTO

→ RCEP

3) Sign more FTAs selectively at bilateral level & lower barriers in a time bound manner

4) call for structural reforms  
to prevent 'green room' politics  
- It leads to taking rigid 'bloc'  
position on controversial issues

WTO is an essential ally in India's quest to be a \$5 tr. economy. Prompt resolution of Doha Agenda must be a high priority now. India must call to strengthen the WTO's dispute resolution mechanism

good answer



Drum factors behind rise of Startups

Q15. As start-ups turn out to be a major source of revenue and employment, governments from across the world have been going out of their way to facilitate the entrepreneurial dream. Discuss the role played by angel investors and government support in facilitating the Start-up growth story. (15 Marks)

NASSCOM's recent report showed that to become a \$5 <sup>trn</sup> economy, India needs at least 2500 highly scalable new businesses. For this, at least 10,000 new start ups need to be effectively supported. <sub>future direction</sub>

It is stressed so much because:

1) Source of Revenue

→ It is in mostly in high productivity sectors. 40% startups as part of startup India were tech-startups.

→ It attracts venture capitalists, angel investors, FDI, etc.

→ By providing new jobs, it increases tax base.

→ High potential to drive economic growth, & hence revenues.

primary  
or  
relevant

## 2) EMPLOYMENT

→ It appeals overwhelmingly to the youth. 70% startups were by

~~youngsters~~, less than 35 years.

→ sectors like food processing, textiles etc help wear away excess agriculture labour.

→ People become job creators, rather than job seekers, having a multiples effect on economy.

### Role of support mechanisms

Start ups need active promotion to increase success rate. It needs a variety of efforts.

#### 1) ANGEL investors

→ Funding

→ Technical and managerial expertise

→ Industry - Government interface guidance

Remarks

→ how? Not clear

## 2) Government

- Handholding support
- Tax concessions
- Incubation centres
- Infrastructure
- Supportive policies done tailoring startups, eg: SAMPADA ~~Start~~ Stand up India, MUDRA, etc.

Investment  
Schemes  
with their  
specific  
purposes

Thus, Start up growth story is a collaborative venture between the entrepreneurs, government and investors.

6

Q16. Railway Budget was used as a political tool with decisions made on new trains, routes, and fare hikes were getting influenced because of political considerations. Has the merger of the Railway Budget with Union Budget halted these tendencies? Examine. (15 Marks)

As per Bibek Debroy committee recommendations, the Railway budget was merged with union budget to curb populism. Earlier, Railway budget had problems like

- 1) Difficulty of rationalising  fares & passenger rates
- 2) Cross-subsidising passenger fares with freight, hampering logistics
- 3) Every budget, new trains were announced, rather than invest in infrastructure, rail safety, etc.
- 4) Heavily subsidised functioning of stations, with no attempt at recouping revenues.

Remarks

After merger, positive changes are seen in:

1) Technology upgradation

→ ICF coaches are to be ~~eliminated~~ with LHB coaches with anti-climbing features

2) ~~at~~ Non-ticketing revenues strengthened through train wrap ads, station management, etc.

3) Investment: in freight, as seen in Dedicated freight corridors, east and west.

4) Rail safety stressed with Rail Sankshamaa Kosh, eliminating unmanned crossings, etc.

5) New manufacturing promoted eg. Train 18.

6) Station facilities and passenger quality of service stressed eg. wifi facilities, clean food, etc.

points  
covered  
well

Relevant

However, the freight rates are still high compared to peer countries. Investment in railway has also stagnated with only Rs. 60,000 ~~crores~~ crores invested in recent budget. Experts opine that ~~FDI~~ on Bullet trains may not be viable.

Yet, budget's merger did free it from political pressure significantly and can now focus on operational revenues.

briefly suggest way forward

6



Q17. The tax-GDP ratio in the country is lowered by 2-3 percentage points for its level of per capita GDP. The reasons for the low tax ratio have to be found in the exemption to agricultural incomes, widespread tax preferences due to multiple objectives loaded into tax policy, tax abuse by multinationals and poor tax administration. Illustrate with examples. (15 Marks)

India's total tax revenues to GDP is 11.7% in 2018-19. It is significantly lower than its peer countries and EMES.

### REASONS

#### 1) Low tax base

- While India's tax payers increased from 6mn to 10mn in last 4 years, it is still only a fraction of total population.

- Main reason is exemption to agricultural incomes, which is profession of 49% population.

- Informalisation of labour is also a factor; with 87% firms in that category.

2) TAX EXPENDITURE, which means exemptions and its revenue lost.

In the  
is  
Valid

points  
are  
Valid

→ Indian laws do not have Sunset clauses and policies promoting a sector continue indefinitely  
eg: MSME promotion

Good  
→ Such policies create perverse incentives, as seen in case of 'Dwarfism', disincentivising growth of firm

### 3) TAX ABUSE by MNCs

- Recent Paradise papers leak showed extent of round tripping of Indian money through tax havens
- DTAA's are misused through Tax planning/avoidance/evasion

### 4) Poor Tax administration

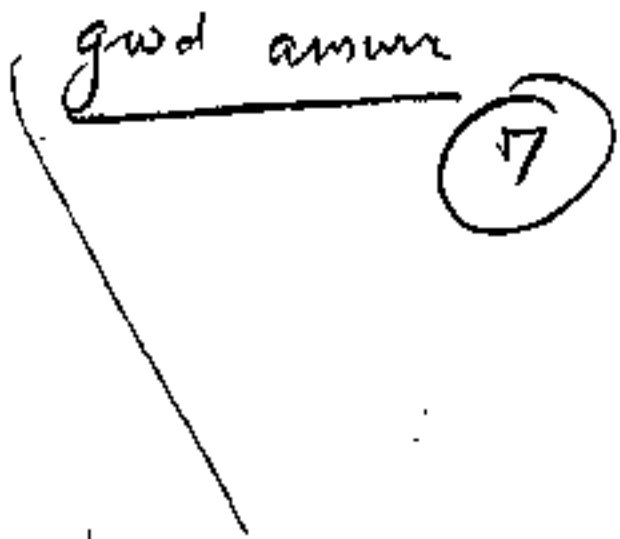
- High tax rates are linked with lower tax revenues, as per Laffer Curve
- Corporates accuse authorities of 'Tax terrorism' due to unpredictable

Parity  
cannot  
will

police & 'retrospective' implementation.  
- This reduces voluntary compliance

This situation needs to be remedied urgently through

- Taxation reforms, preventing inspector raj
- Promoting 'Trust and verify' model & self declaration
- Build sophistication, to counter roundtripping, with bilateral or multilateral agreements eg: with FATF, Mauritius, etc.
- Nominal taxation of agriculture sector, for the ~~high~~ large farmers who corner 77% of income earned



Q18. The word 'media' is derived from the word medium, signifying mode or carrier. Media is intended to reach and address a large target group or audience. Comment to what extent the paid news and media biasedness has jeopardized the overall credibility framework. (15 Marks)

discuss  
role  
&  
signifi-  
cance  
of  
media  
in  
detail

'Media' is a carrier of information from source to the people. It is of two traditional types - print and visual media. In the recent 2019 elections, media were accused of biasness, and breaching its neutrality.

**ISSUES**

→ Define it

**1) PAID NEWS**

Media is largely self-monitored to prevent government interference. But this has been inadequate, where leading personalities purchase favourable articles on them, especially in politics, cinema, etc.

**2) Political Sides**

- Many channels are owned by groups with political links, most prominent being Sun TV, Jaya TV, etc.

Remarks

- Active taking of sides by & manipulating emotions of the people.
- Quest for ratings,

### 3) Advertisements

- To maintain its revenue, channels turn people into consumers.

### IMPACT

- It has eroded the credibility of news.
- It is a breach of journalistic ethics.
- It distorts democracy by creating a false consciousness.
- As Herbert Marcuse pointed out, media eliminates the capacity of people for critical thinking.
- It has paved way for the rise of social media news, which is popular and more democratic. However, it is more vulnerable to rumour songering.

Substant  
points

as seen in 20 lynchings in 2 months this year.

intention  
some  
spirit  
of  
India  
and  
other  
bodies  
must  
be  
strengthened  
and  
parodies  
must  
be  
eliminated  
as  
effectively  
as  
possible.

There is an urgent need to bring back the legitimacy of the media houses - both print and visual. Press Council of India and other bodies must be strengthened, and parodies must be eliminated as effectively as possible.

(6)

Q19. The World Wide Web and web 2.0 technologies have given rise to electronic media where even a common man can express views through blogs, website posts, Facebook and twitter like social media. Discuss the communication revolution that these structural frameworks have created. (15 Marks)

define this term

Web 2.0, internet and

electronic media has revolutionised communication. This communication revolution was catalysed by

- 1) Radical success in chip design.
- 2) Lowering costs of hardware, storage, etc.
- 3) Successes in software, creating stable platforms for applications, eg: Android, Facebook, etc.
- 4) Technology advancement eg: 8<sup>th</sup> gen. intel i5 is 3 times faster than 5<sup>th</sup> gen. intel i7.

Also:-  
 Improve  
 ment  
 in  
 infrastru-  
 cture,  
 literacy,  
 etc

As a result, it has had widespread impact.

Positive impacts of Communication Revolution:

- 1) Democratizing public space  
 → Social media has enabled anyone to make their voices heard.

Remarks

eg: Minister of External Affairs contacted through twitter.

2) Broken the monopoly of giant media houses.

good

3) Creative disruption of economy, opening new possibilities like Skype, collaboration, work from home, etc. It has radically improved efficiency.

4) Paving way for Industrial Revolution 4.0 of Cyber Physical systems, artificial intelligence.

5) Better consumer targeting due to big data; data analytics, etc.

6) Social: Helps keeps families connected, reducing alienation due to migration.

## NEGATIVE IMPACTS

### 1) SECURITY

- Vulnerability to cyber attacks; cyber war, etc.



Valid

→ Privacy is a fundamental right which is often a casualty as seen in Cambridge Analytica issue.

→ ~~Facilitates~~ Facilitates political surveillance

**SOCIAL**

→ Rumour mongering, fake news, etc has increased in speed, intensity and reach of ~~spread~~

→ Propaganda and advertisements manipulate individuals

→ Trolling, stalking, etc

Thus, ~~media~~ communication is a double edged sword, and needs self regulation to prevent its worst side.

6 1/2

Q20. A liquidity trap occurs after a severe recession, where families and businesses are afraid to spend no matter how much credit is available. Is this the situation in India? Discuss. (15 Marks)

Recently, there has been a crash in private consumption as seen in

- 1) 30% decline in auto sales
- 2) Growth rate touching 5% low

A liquidity trap is a situation where there is abundant credit but demand is muted.

This leads to a situation where easing monetary policy or fiscal policy will not have be effective.

However, in India, this situation is not visible because

- 1) Credit growth has been unaffected due to 'twin balance sheet syndrome' and surges in NPAs to 10.3% of PSBs and 3% of private sector banks.

Remarks

Value

Also  
Communication  
& Spending  
in goods  
are less

Briefly  
discuss  
about  
this

- 2) Monetary policies have not been dovish with constant effort to maintain inflation as seen in WPI & CPI targets.
- 3) Savings rate has fallen from a high of 33% plus to 19% in recent years.

The present crisis is due to

\* Fall in demand and private consumption.

→ This is the result of growing 'jobless growth'. ~~More than~~ unemployment reached a high of 7.5% recently.

→ Rural demand is muted due to agricultural distress. In last 6 years, more than 35 million farmers moved out of farming.

→ Make in India and Skill India have not produced fast results as expected! Manufacturing

points are fine

sector growth slumped, as seen in IIP fall to 0.3% recently

To remedy this, the government has brought in

efforts like BANKING:

1) Recapitalisation of banks - Recently ₹10,000 Cr. has been approved

Valid again

2) Merger of banks

3) Insolvency Code

### INDUSTRY

→ MSMEs are now in focus with tax breaks

→ Startups promoted

### INVESTMENT

→ Government is now stepping up its investment to boost demand, create jobs, etc

→ FDI norms being eased

6½