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TEST COPY

VIDUSHI SINGH

**AIR - 13
(CSE 2022)**

GENERAL STUDIES



8448496262



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ECONOMY - 1

Time Allowed: 90 min.**Max. Marks: 150**

Q.	Marks	Instructions to Candidate
1.		<ul style="list-style-type: none">There are 10 questions.
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		<ul style="list-style-type: none">All questions are compulsory.The number of marks carried by a question is indicated against it.Answer the questions in 250 words each. All questions carry equal marks. $15 \times 10 = 150$ MarksKeep 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.



66 1/2

Name Nidushi Singh

Roll No. 40666

Mobile No. _____

Date _____

Signature Nidushi

1. Invigilator Signature _____

2. Invigilator Signature _____

REMARKS

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- Q1. Fiscal policy of India always has two objectives, namely improving the growth performance of the economy and ensuring social justice to the people. Elaborate. (15 Marks) (250 Words)

Fiscal Policy of India empowers the government to raise revenue through tax and non-tax measures and carry out requisite government expenditure to control the economy. Fiscal Policy plays a crucial role in determining prevalent sentiments of consumers and investors in the economy. It is also a driver of all important government policies & schemes. hence Through Fiscal Policy, government is able to control all economic variables.

Fiscal Policy : improving growth performance

Fiscal Policy ensures that the economy follows the envisioned growth trajectory as:

1. Government Expenditure (G): is a component of Gross Domestic Product (GDP) [$GDP = C + I + G + NX$].

Govt. Expenditure can determine Money Supply in the economy and can also counter Inflationary Pressures witnessed in the economy. Thus, by increasing ' G ', government can increase overall GDP level and ensure growth in the economy.

2. Taxation: ~~& subsidies~~ government's sovereign ~~control~~ ~~over receipt of money~~ ~~from people to govt~~ various types of taxes can be an effective counter-cyclic measure & ~~any place to govt~~ ~~in past~~ of growth is followed.

3. Fiscal Deficit: ~~also~~ ~~proposed~~ ~~change in govt~~ Fiscal Policy of governments determines overall Borrowing level in the economy. Through this requisite capital can be moderated and this ensures that growth targets are met.

4. determines Consumers & Investors' Sentiments:

Higher government Expenditure with adequate taxation can lead to higher ~~Net~~ Consumption (C)

& Investment (I) component ~~of~~ of GDP.

~~by more~~ use simple efforts ~~to promote growth etc~~ to promote growth etc

Remarks

Fiscal Policy : insuring social justice to people

Fiscal Policy can act as an effective redistribution measure and ensure social equality & equity

1. Taxation & Subsidies: Through progressive Taxation and Subsidies to vulnerable groups, fiscal policy ensures the goal of social justice & equity.

2. Targeted Government Expenditure: through Schemes targeted at a particular section of population, ensures social justice. For example : PM-KISAN, Poshan Abhiyan, etc.

Thus, Fiscal Policy acts as an effective measure to ensure social justice, while at the same time it ensures that the economy grows continuously.

The effectiveness of Fiscal Policy can be seen through its counter-cyclic measures adopted during COVID-19 Pandemic. Hard hit economy

of India is on the verge of recovering due to extensive Fiscal Packages such as Atma Nirbhau Bharat (ANB) package. It is to be noted that the market is simple and understanding the question is very much required to answer the question.

Remarks

6 1
2

- Q2. "The virtuous cycle of growth and development can only sustain if the savings rate is high in the economy". Discuss. (15 Marks) (250 Words)

SAVINGS RATE (s) has been an important driver of growth and development in India. since independence, Economic Policy of India has always targeted a higher savings rate. several growth models - Harrod-Domar, Keynesian - have necessitated the need for higher savings rate for higher degree of capital formulation in an economy.

Savings Rate in the economy:

Domestic savings in an economy accrue from:

1. Household sector: the largest contributor to domestic savings in the economy.
2. Private sector: Private Sector savings determine the level of capital formulation in the economy.

Remarks

*Cheat sheet you
mentioned all
the components of
domestic saving:*

3. Govt. Savings: Public Sector savings are generally negative as Government spends more than it saves

Savings rate: driver of growth and development

High savings rate in the economy implies larger availability of funds and capital, since the savings are generally deposited. Higher capital then translates into Better infrastruc-tural Facilities in the economy. This leads to growth in the long run and Inclusive growth as well due to ^{betterment} of social infrastructure, thus leading to development.

→ High savings rate in the economy can be achieved by:

1. Financial Inclusion and Literacy
2. Ease of Doing Business for private sector
3. Better Government Expenditure targeted at developing social infrastructure in the economy

Need to explicitly link savings with virtuous cycle
Demand & supply

Remarks

However, savings rate alone is not enough to sustain ^{cycle} growth and development. Other important factors include:

1. Price Stability: Price fluctuations directly impact the purchasing power in the economy. Thus, price stability in terms of healthy inflation rate is imperative for growth & development.
2. Population Rate: As stressed by several growth models, population rate is an important determinant of resource availability & thus affects growth & development.
3. Technical Progress & Resources Endowments in an economy directly affect its growth and development trajectory.

Thus, savings rate is an important driver of sustained cycle of growth & development.

However, it alone is not sufficient to ensure ^{and} ^{long term} growth on ^{and} ^{sustainable} basis. This overall ^{and} ^{sustainable} growth must also be based on ^{and} ^{informed} understanding of ^{and} ^{current} state of current ^{and} ^{available} resources.

Remarks

- Q3. What is Central Bank Digital Currency (CBDC)? Do you think that CBDC is a double-edged sword that could promote financial inclusion but also undermine commercial banks' role in the economy? (15 Marks) (250 Words)**

Central Bank Digital currency (CBDC) is a digital fiat currency. Instead of printing paper currency or minting coins, central bank issues electronic tokens backed by full faith & credit of the government. RBI has been working on introduction of CBDC in a phased manner in India. Several countries, like China have already piloted CBDC in their respective countries.

1. Need for CBDC:

1. High cost of currency management will be averted by introduction of CBDC.
2. Need for Inter-Bank Settlement would disappear as Central Bank would be directly involved.
3. SC Garg Committee Recommendations (2019) on use of cryptocurrencies could be followed by RBI in a more consolidated manner.
4. CBDC would also help in reducing dependency on cryptocurrencies and associated threats posed by them.

Remarks

Also with regards of

Dollar ✓

5. CBDC could ensure Financial Inclusion as:

- (i) Penetration of cashless Economy: is on surge in India since the creation of Payments Bank in 2015 following Nachiket Mor Committee recommendations. This has the potential to make India completely cashless.
- (ii) sees not need e-wallets or Bank Accounts and hence equally available for all.
- (iii) Direct converse of RBI will ensure smoother monetary policy transmission and easier control of monetary policy in the economy. This can remove the current shackles of monetary policy and ensure large-scale financial inclusion.
- (iv) Lesser Black Money will increase the scope of more wholesome money supply & induce financial inclusion as a result.
- (v) Inclusive Banking with no intermediaries.

[CBDC is Commercial Banks]

Remarks

Current system of currency ensures indirect involvement of RBI in day-to-day transactions through commercial Banks (CBs). Thus CBs play an important role in Money Market. However, with CBDC, autonomy of CBs will be undermined as: (i) direct control of RBI will render the most important function of CBs, i.e., deposit-taking, useless.

(ii) CBs will be reduced to mere lenders in the economy with greater control of RBI over all operations.

(iii) Intermediaries (MFIs, SFBs, etc.) & CBs will lose out as most important source of their capital may also be affected.

Therefore, it's imperative to weigh out all implications of a CBDC in the economy.

With a vast & complex Banking system, India cannot undermine role of intermediaries in the market. Thus, it is important to think

of measures to ensure CBDC & as well as the functions of CBs remain the same. A Blended model of CBDC issued through large Banks could be adopted for the same.

But for better understanding, refer RBI website for where CBDC could be explored comprehensively.

61
62

Q4. The age of pandemic, among many factors, has expedited us on the path of cashless economy but its penetration is still a major hurdle. Discuss. Also, elaborate on the progress we had with the cashless economy. (15 Marks) (250 Words)

The establishment of PAYMENTS BANK in 2015 following Nachiket Mor committee recommendations ushered a new era of cashless Economy in India. This was further aided by steps like Demonetisation, and Jan Dhan Yojana, Digital India Initiative and other initiatives aimed at financial inclusion.

This is good that you identified factors in intro itself.

Cashless Economy in India:

Since the start of COVID-19 pandemic, onus of day-to-day business in almost every sector has been transferred to the Digital Economy.

1. Increase in Digital Payments due to lockdown restrictions has led to an elaborate set up for cashless economy.
2. Online Education, Tele-Medicine, and other online initiatives have further consolidated cashless

Remarks

Economy in India.

3. Huge increase in DEMAT Accounts and the upward surge of Stock Market in India are evident examples of increased network of cashless Economy.

However, penetration of Cashless Economy still faces several hurdles:

1. Internet Penetration: is only 45% as of 2021. There has been an upward trend in Internet Penetration, however to achieve the goal of large-scale cashless economy, this still needs to grow further.

2. Financial Literacy: According to National Strategy for financial Education, only 27% of Indian Population is Financially literate. Thus, there is a need to financially educate the population to ensure transmission into fully cashless Economy.

3. Financial Inclusion: has increased in terms of

Remarks

Closed, but also have the security and privacy of users.

overall bank accounts, however, other financial services such as insurance are still a long way from universal inclusion.

Progress of cashless Economy: we are still a long way from completely cashless Economy, however, there has been a tremendous increase, in ^{witnessed} this cashless Economy. This is because:

1. New Digital Payments Platforms such as BHIM & UPI build by NPCI.

2. Demonetization: has stressed on cashless economy to uproot ~~Black Marketing~~ in ^{and all} currency.

3. Digital India Initiative: Has ~~exp~~ started a digital revolution in India, indirectly ^{about trends} of cashless Economy.

This, Cashless Economy as envisioned by our Prime Minister can truly modernise the ^{With P.P. Nahi} Indian Economy and bring in economic growth and Efficiency. It has received huge impetus in the COVID-19 Pandemic & will further keep on increasing.

Remarks

6 1
2

- Q5. "Despite taking extreme steps like demonetisation, improvement in India's tax-GDP ratio seems a distant dream". Critically analyze. (15 Marks) (250 Words)

Tax - GDP Ratio shows the proportion of tax-revenue collected to the overall level of GDP in the economy. A higher per-capita income directly translates into a higher

Tax - GDP Ratio. India's Tax GDP ratio is 17% which is half of OECD countries (35%).

Gross Tax Revenue(GTR) in India for FY 2019-2020 was only 9.9% of GDP. While most developed countries

Armid anomalies have a much higher Tax to GDP Ratio due to higher per capita Income.

High Tax-to-GDP Ratio : a distant dream

Relatively low Tax - GDP Ratio in India is due to :

16-17%

i. Informal Economy : largely unorganised &

Informal Economy inhibits the growth of GTR.

ii. India's Informal sector employs approximately 85% of all workers.

iii. Exemption of Agricultural Income: Agricultural

Remarks

Sector employs nearly 49% of workforce. Exemption of such large chunk of workforce directly translates into lower Tax collections.

3. Parallel Economy: Problem of Black Money, which is not present in official books and cannot be taxed.

4. Inadequate Tax Machinery: leads to tax evasion and thus lesser GTR.

However, since 2016-17, formalization of economy has gathered momentum with demonetization and GST reforms. There has been increase in Income Tax filings, more digital payments and more stringent vigilance over tax evasion. Tax - GDP Ratio peaked in 2017-18 & as GTR reached 11%. The rise in tax-to-GDP Ratio has largely been because of:

1. Demonetization: as many as 1.26 crore new taxpayers were added in 2016-2017.

2. Operation Clean Money: by Income Tax

Remarks

Department has clamped down unaccounted money.

3. GST: has replaced plethora of service Tax & this has been ^{led to} increasing overall average monthly revenue of more than ₹ 1 lakh crore, thus realising its goal of doing away with cascading effect.

4. Tax Reforms: such as Faceless Appeals Scheme, Faceless Assessment Scheme & Taxpayers' Charter has induced positive sentiments amongst tax-payers.

5. Better utilisation of PAN & NSDL has led to ~~stronger~~ ^{had} watch over Black money.

~~you can't~~ ^{you can do} although India is still a long way from realising optimal Tax-GDP Ratio, however corrective action taken by the Govt. has led to broadened Tax base. The challenge that remains is continuing the pace of increase of tax base even during the COVID-19 pandemic.

7-2

Remarks

~~But you also have to implement govt's~~

- Q6. The Reserve Bank of India (RBI) does not hesitate to use any conventional or unconventional policy instruments to mitigate the adverse economic scenario. Comment.
(15 Marks) (250 Words)

The Reserve Bank of India (RBI) is the central bank of India and is directly responsible for the Monetary Policy in the economy. Through its various quantitative & qualitative tools, it regulates money supply in the economy and ensures that healthy economic atmosphere persists.

RBI over the years has adopted various strategies to counter adverse economic scenarios.

CONVENTIONAL POLICY INSTRUMENTS used by RBI:

I. quantitative Tools:

1. Bank Rate: changes in Bank Rates directly impacts all other interest rates in the market. Thus an increase or decrease in Bank Rate can, increase ^{decrease or} Money Supply.

2. Open Market Operations: buying & selling of

Remarks

securities directly affects money supply.

3. Reserve requirements (CRR & SLR) directly affects credit supply.

II. Qualitative Tools:

1. Marginal requirements: are altered to affect credit flow.

2. Rationing of credit caps money supply in economy.

3. Selective Credit Control through Priority Sector Lending

4. Moral suasion & Direct Action on other Banks. These measures affect credit control & thus enable economic growth.

UNCONVENTIONAL POLICY INSTRUMENTS used by RBI:

Unconventional monetary policy tools significantly differ from conventional instruments in terms

of nature of policy actions, their rationale & their channels. RBI undertook several unconventional measures in 'one-in-a-century crisis' of COVID-19 pandemic. For example:

1. Long Term Repo Operations (LTROs): were

introduced during the pandemic to facilitate

Remarks

monetary transmission and support credit offtake.

2. Targeted LTROs (TLTROs): provided liquidity to specific sectors and entities.
3. Negos Apart from these tools which were used during the pandemic, several other unconventional monetary policy tools (UMPTs) are present to be used by RBI, for example:

- Moving forward
- (i) Negative Interest Rate Policies: however NIRPs cause large spillovers in emerging economies like India, therefore not used largely.
- (ii) Asset Purchases: are another tool which induce liquidity in cases of financial stress

Thus, there are several conventional & unconventional and are policy tools present at the disposal of RBI to be used. RBI's proactive approach during Global Financial Crisis 2008 and COVID-19 pandemic are testimony to the effectiveness of these policy measures.

You addressed this question well!

Remarks

- Q7. What are subsidies and why are they important? Do you think that NITI Aayog's proposal to cut food subsidies will worsen India's rising hunger problem?
(15 Marks) (250 Words)

SUBSIDY is a form of government incentive given as financial aid to an economic sector or a targeted group, with an aim to of promoting social and economic justice. The Subsidy is given out of Govt. Exchequer and thus counts as Govt. Expenditure.

Importance of subsidy:

1. Ensures Redistributive Justice: Subsidy provided to a vulnerable section promotes the goal of social equity and ensures social justice.
 2. Reduces Poverty Incidence: With a large no. number of people Below Poverty Line (BPL) in India, subsidy ensures that ^{stressed} economic sectors do not get pushed below the poverty line.
 3. Incentivization: Fertilizer Subsidies & Electricity Subsidies act as an incentive to farmers and producers respectively to engage in their respective economic activities.
- high
coverage
of
rural
points.*

Remarks

4. Subsidies are a crucial tool of Fiscal Policy which sets the economic atmosphere of the country.

- Recently, NITI Aayog circulated a discussion paper proposing a reduction in NFSA coverage (National Food Security Act coverage) to 60% of ~~total~~ ~~net~~ Rural & 40% of Urban Population from the current 75% of rural and 50% of urban ~~population~~ ~~net~~ population.
- Earlier, Economic Survey 2020-21 suggested ~~gradual~~ ~~migration~~ hiking the issue price of foodgrains from existing ₹3/kg for rice, ₹2/kg for wheat & ₹1/kg for coarse cereals through PDS.
- Food Subsidy for this year was ₹4.2 Trillion. However, this large amount of subsidy is actually the result of mismanagement of food procurement & storage.

Reasons for Food Subsidy to continue:

India ranked ~~74th~~ ⁹⁴ out of 107 countries in Global Hunger Index, 2020. There is rampant

Remarks

poverty and hunger prevalent in India.

1. Hidden Hunger in India is reflected from the high prevalence of undernutrition.

According to NFHS-4, $\frac{1}{3}$ rd of all children under-5 are stunted & every 5th child is wasted. Moreover, $>50\%$ children are anemic.

2. NFSA along with measures taken during pandemic could target 80.96 crore beneficiaries, majority being migrant labourers. Thus, efficacy of NFSA can be increased with active involvement of different stakeholders.

3. One Nation One Ration Card Scheme can go a long way in curbing the menace of hunger in India. But, for this, active strengthening of NFSA is required, which will be affected with reduced food subsidies.

Thus, it is imperative to strengthen NFSA with appropriate institutional and infrastructural frameworks to ensure eradication of hunger from India.

*you
will
make
it
possible
but
it
needs
few
additional
measures
to
nationalise
subsidy
as well*

(7)

Remarks

Q8. Highlight the mechanism for determination of interest rates by the monetary policy committee (MPC). Discuss the challenges faced by this mechanism to remain effective.
(15 Marks) (250 Words)

In 2016, Government of India amended the RBI Act to create Monetary Policy Committee (MPC). By this amendment, the primary objective of monetary policy was defined as - 'maintaining price stability' while keeping in mind the objective of growth.

Mechanism for determination of Interest Rates:

MPC is a 6-member body headed by Governor of RBI that fixes the policy rate (Repo rate).

→ MPC has 3 members from RBI - Governor, Deputy Governor and one official from RBI & 3 independent members selected by the government through a Search-cum-select committee.

→ All decisions are taken based on majority voting.

In case of a tie, the Governor of RBI has a casting vote.

Remarks: *These also need to be aware about internal processes v. like about SMD, FMC etc.*

- Interest Rate in an economy is a crucial variable which affects savings and investments in the economy. It is directly affected by the stance of central bank in terms of Bank Rate & Repo Rate.
- Inflation Targetting: current mandate of MPC is to maintain inflation at 4% with upper tolerance at 6% & lower tolerance at 2%. [4 ± 2% = π]

Advantages of MPC:

1. Collective Wisdom of the committee can represent a wholesome view.
 2. Spreading the responsibility for individual can reduce pressure on RBI Governor.
 3. A committee ensures broad continuity in the Monetary Policy.
 4. It leads to Institutionalizing of Monetary Policy formulation.
- Transparency
of Accountability*

Challenges faced by MPC:

1. Non-Performing Assets have plagued the economic

Remarks

scenario and has hurt overall consumer & investor sentiment.

2. COVID-19 Pandemic: RBI had to defer several targets owing to the pressing demands of the Pandemic → reduced GDP growth rate.

3. Implementation of GST & Demonetisation: had brought in difficulties in day-to-day business.

4. Crude Oil: Rise in crude oil prices has continuously kept inflation on the higher end.

5. Upset Consumer Demand: has affected overall deposits and ~~and~~ consumption.

Way Forward: In the pressing times of COVID-19 Pandemic, it is imperative for the central bank to ensure appropriate liquidity in the market to ensure enough consumer demand.

A more proactive approach by MPC can instill confidence among the investors to consider as ensure a V-shaped recovery for India.

Q2
Mark from 1 to 10 on the basis of your MPC proposal done well.

Remarks

Q9. How tax expenditures affect the revenues of the government? Compare them with subsidies in terms of effectiveness? (15 Marks) (250 Words)

TAX EXPENDITURE refers to the opportunity cost of giving exemptions, deductions, rebates, deferrals, credits, etc. to the tax payers. It indicates how much more revenue could have been collected by the government. In other words, it shows the extent of indirect subsidy enjoyed by taxpayers in the country.

Good work
you
defined
it to
help in your
and work

How Tax Expenditures affect Revenues of the Govt?

The Govt. has been presenting a statement on tax expenditure since 2006 in the parliament.

In 2015-16, revenue foregone due to tax incentives was nearly ₹ 6 lakh crores

- Such exemptions are justified for promoting:
 1. Balanced regional growth
 2. Dispersal of Industries

Remarks

Employment generation.

- Head
3. Incentives to priority Sectors
 4. Neutralization of disadvantages on account of location.

Examples of Tax Expenditure:

1. Pension schemes eg. NPS
2. Start - Up India providing incentives to up & coming start-ups.
3. Income Tax deductions eg. HRA, RJA, etc.

tax deduction on Agricultural income

Tax Expenditure & subsidy:

Tax Expenditure is a form of INDIRECT SUBSIDY / IMPLICIT SUBSIDY. Subsidies are however direct and targeted incentives to promote economic activity & social justice.

- However, both Tax Expenditure & subsidies are distortionary in nature
- Tax Expenditure may harm the overall economic scenario as

Remarks

~~Note
approaches~~

1. It stuns possibility of resource allocation & productivity.

2. By reducing the Tax Revenue, it inhibits development of requisite Infrastructure in the economy which is necessary for sustained & inclusive growth.

3. It also results in multiplicity of rates, legal complexities, disputes, etc.

4. Direct subsidy programs on the other hand are more defined & targeted and ensure proper resource allocation & equity in the economy, being more effective than Tax Expenditure.

It is necessary to weigh cut the options in case of Tax Expenditures & Direct subsidies according to the policy formulation. Opportunity cost of Tax Expenditure is the much needed government expenditure for resource mobilisation.

last part need improvement

Remarks
same priorities and different needs

Q10. Do you agree with the view that implementation of Universal Basic income (UBI) can solve the problem of inequality in India? Give reasons in support of your arguments.
(15 Marks) (250 Words)

UNIVERSAL BASIC INCOME (UBI) is a form of social security in which all citizens receive a regular, unconditional sum of money from government. The main idea behind UBI is to prevent or reduce poverty and increase economic equality. *Approved very well!*

The Economic Survey of India 2016-2017 had advocated the concept of UBI as an alternative to various social welfare schemes.

UBI: solution to the problem of inequality in India

A report by Oxfam in 2019 showed that India's top 1% population holds 51.53% of wealth while the Bottom 60% population holds a mere 4.8% of national wealth. Thus in a country in India with wide manifestation

Remarks

of inequality, UBI can be a ^{possible} ~~solution~~ as:

1. UBI reduces Poverty Incidence: and empowers the bottom rung of the economy. This can help in ~~in~~ achieving a lesser score of Gini coefficient, which ~~currently~~ is at 0.83.

2. Social Security: currently with a raging pandemic and very high unemployment rates, UBI can act as a social security and ^{this} ~~will not hamper the future of~~ children. With high drop out rates noticed in the pandemic mainly due to financial constraints, UBI can ensure uninterrupted education for children and ~~this~~ increase overall education levels in the economy.

3. Hunger & Malnutrition: ~~UBI~~ can ensure minimum needs of families in terms of nutrition are met. This will help in ~~inclusive~~ development of the *holistic*
model

economy.

4. Administrative Efficiency: ensures that Parallel Economy is broken. UBI can ensure administrative efficiency through transparent delivery.

The main objective of UBI is providing a living income for people to meet their daily needs. With huge sums of money invested in Poverty Alleviation ^{schemes}, _{to Inequality} till now, Poverty ^{has} ~~not~~ been alleviated. Thus, UBI can be a potential solution in

realising this goal.

However, it is important to set specific targets and norms in actually implementing UBI. UBI alone will not be able to counter ^{grave} social problems of caste & gender discrimination. Moreover, correct use of UBI by the people can also not be ensured. Thus, it is important to formulate a blended program with proper safeguards to ensure equity and an ^{inclusive} ~~and~~ ^{accordingly} approach.

Remarks

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