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# **MEDHA ANAND**

**AIR 13** CSE  
2023

## **ECONOMY**

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**CORE ECONOMIC DEVELOPMENTS  
IN INDIA***Time Allowed: 3 hrs.**Max. Marks: 250*

Q.	Marks	<i>Instructions to Candidate</i>
1.		<ul style="list-style-type: none"><li>• There are 20 questions; all questions are compulsory.</li><li>• The number of marks carried by a question is indicated against it.</li><li>• The paper contains 3 Sections; First Section has direct questions for NCERT text books, while Second Section has questions from wide range of books and study material and the Third Section has inter-disciplinary and application based questions that require knowledge and information of other subjects as well.</li><li>• Answers to questions no. 1 to 5 should be in 150 words, answers to questions no. 6 to 15 should be in 200 words, whereas answers to questions no. 16 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 Medha Anand

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

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

Date \_\_\_\_\_

Signature Medha Anand

**REMARKS****GS SCORE**

GS MAINS Q&amp;A TEST SERIES 2019

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## Section - A (NCERT)

Q1. The causes of poverty lie in the institutional and social factors that mark the life of the poor in India. Elaborate. (10 Marks)

Ans Poverty doesn't come naturally but is a product of institutional & social factors that exist in a society. While relative poverty exists in all societies, absolute poverty is most undesirable in a society. What is Poverty?  
 India houses 1/4th of the 20% most backward people of India owing to the following facts -

- (a) Bharat India Divide - The gap b/w haves & have nots is ever increasing.
- (b) Lack of skill educat<sup>n</sup>, vocational training
- (c) No inclusive growth as compared to populat<sup>n</sup> explosion
- (d) leakage in PDS
- (e) lack of political will
- (f) lesser investment in skill development and employment generat<sup>n</sup>

Explain the way these factors lead to poverty

Remarks

Fragmentation of land holding  
 low capital formation  
 unequal distribution of income and assets

Explain and make the factors self explanatory - the way they lead to poverty, like you

Social factors - have explained

- ① Women are neglected & usually devoid of economic sources of income leading to poverty.
- ② Transgender aren't allowed to work in public spaces.
- ③ Caste rules still define occupations.
- ④ Manual scavenging still prevalent.

Thus, poverty is not a natural factor but a social & institutional issue.

3/2



Q2. What do you mean by tax expenditure? From macroeconomic perspective, what are the costs and benefits of tax expenditure? (10 Marks)

Ans Tax expenditure refer to the money spent in collection of tax, which constitute a large share of tax collected owing to huge population of our country. Definition of cost of Tax Expenditure.

- ① Reduced Tax revenues *opportunity cost of taxing at concessional rate*
- ② lesser funds for social projects.
- ③ misuse of funds.

Ans. content lacking clarity

Benefits

- ① Tax compliance is increased due to officers present for its check.
- ② Employment is generated as jobs for Income Tax officers etc.
- ③ Necessary for tax to be collected is a frame work of officials who collect it.

NI satisfactory

Remarks

revenue foregone  
 corruption exp can increase  
 bust demand

Since, Tax theft still occurs in  
one country & a value system of  
not paying tax is prevalent in  
one country, unless the people  
become dependent on their ethics  
to pay taxes, tax expenditure is  
a necessary requirement.

1  
2

Remarks



Q3. In 1991, a crisis in the balance of payments (BOP) in India led to the introduction of economic reforms in the country. Elaborate. (10 Marks)

Ans BOP crisis occurred in India in 1991, owing to lack of forex and import of crude oil and essentiality towards economic growth, India declared itself to be in a BOP crisis in 1991. This led to a series of reforms being imposed an India like opening up of markets etc.

LPG reforms were a product of BOP crisis wherein -

liberalization - Trade rules were liberalized to allow for demand based imports being allowed.

Privatization - Govt gave a descent share of its holding to private sector to spur growth in economy.

Globalization - wherein world market was open to India & vice versa.

Remarks

abolition of industrial licensing  
 financial sector reform  
 disinvestment

These led to huge trade of India with the world. Initially an agricultural country, India ~~outperforms~~ on services sector and a huge export was of natural resources & labour.

Thus, BoP crisis made India to open up its economy to foreign market

Conclude with positive outcomes of LPG reforms

(2/5)

Q4. What is the difference between depreciation and devaluation of a currency? Analyze how it benefits a country's trade balance? (10 Marks)

Ans Depreciation is market driven, while devaluation is done by a country's central bank to spur ~~ex~~ exports, but is bad for imports.

Since India's crude oil imports poses a <sup>depreciation</sup> ~~under~~ <sup>flexible</sup> huge bill, depreciation isn't good for India unless it leads out in export promotion.

A country's trade balance can be benefited by devaluation when its exports <sup>depreciation</sup> ~~overpower~~ <sup>under fixed</sup> imports & exporters are able to fully utilize the situation.

$$1\$ = ₹65 \Rightarrow 1\$ = ₹67$$

exchange rate

Market driven i.e. depreciation can be healthy as it reflects the true macro economic structure of a nation.

But to utilize it effectively export needs to be encouraged.

Export become cheaper  
improvement in current account deficit

Remarks

(2)

*Remarks*

Q5. What is the impact of New Economic Policy (NEP) on poverty and inequality in India? Suggest measures to improve inclusivity in an era of liberalization and privatization.

What has been the major objective of NEP? (10 Marks)

NEP is focussed on employment generation and underlining growth in society & will thus help to ↓ poverty & inequality in India.

It aims to make India export driven followed by increase in industry to employ labour and increase growth among people.

Inequality will be reduced by focussing on marginalised people.

Measures to improve inclusivity -

Explanation not satisfactory

- (a) focus on education, skill development & vocational training
- (b) Outcome based budgeting
- (c) gender budgeting
- (d) PDS to be efficiently used.
- (e) empowered poor people.

Poverty  
1993-94 to 2004-05  
- declined by 0.24%  
(Tendulkar Committee)

Remarks

2

Analyse India's performance regarding  
- Poverty alleviation  
- Inequality

2009-10 - 2011-12  
- Rangarajan Committee



*Remarks*



Section - B

Q6. The need for diversification of agriculture arises from the fact that there is greater risk in depending exclusively on farming for livelihood in India. Elaborate. (12.5 Marks)

Ans Agriculture employs more than 50% of India's workforce while contributing a mere 17% to its GDP. This shows the presence of disguised unemployment among the agriculture sector.

Various other allied, secondary and tertiary sectors can be employed to reduce the risk on depending exclusively on farming for livelihood like -

(1) Animal husbandry. This includes cattle rearing, poultry farming, pisciculture, sericulture etc. This would help in not just increasing farmer's income but would also increase nutritional value of farmer's family by providing milk, eggs, meat etc.

(2) Food Processing Industry - FPI would ensure that bumper crop doesn't go in waste and perishable items shelf life can be increased by converting fruits to jams, potatoes to chips etc. This would require infrastructural development.

Remarks

- ③ Secondary sector - Adequate skills can open gates of mfg. sector to farmers & diversify their incomes making it less prone to crash.
- ④ Service sector - skills like driving, cooking, cleaning, etc can help farmers get such jobs like driver, chef etc.

Diversification is the need of the hour and even different crops should be sown on the land to gain insurance from a pest attack on a monoculture cotton seed or lack of rainfall leading to reduced soyabean product.

Thus, to reduce risk of depending only on agricultural sector, diversification is also key both inter sectoral and intra sectoral.

5/2

Remarks

Good analysis

Q7. Globalization is a process of rapid integration or interconnection between countries. In the light of this statement, discuss the factors that have enabled globalization.

(12.5 Marks)

Ans. Globalization reflects the concept of global citizenship where markets across countries are open to products from other countries.

Factor enabling globalization -

Which avenues have been majorly influenced by globalization?

- ① Resource crunch - Since no country has adequate supply of all resources it needs, and some have surplus / deficit in one or the other resource, import / export leads to sufficiency.
- ② Infrastructural bottlenecks - With India having second largest number of STEM Graduates after China, lack of labs etc hinders individuals from achieving their potential growth. Such people often utilize talents by going to US etc.
- ③ Buffer against domestic shocks - Trade with the outside world acts as a buffer against internal shocks like lack of food etc.
- ④ Access to credit - Global agencies like World Bank, IMF as authority measures in

Remarks

Improvement in tech.  
liberalisation of foreign trade and investment policy  
cheaper and faster transport  
communication

case of BOP crisis advise countries to open up markets.

⑤ Demand Driven - with internet connectivity, people demand the best from iPhones to Yonex. They demand what the best is, irrespective of the origin of the product.

⑥ Trade Benefits - Export & Import are the cycles of trade and are an important part to make for demand of the citizens.

Liberalization related initiatives (WTO aspect)  
Thus, rapid integration & interconnection of the world is facilitating globalization by making it more demand driven than demand neutral.

4½

Remarks



Q8. What do you mean by labour reforms? Why is it said that labour reforms hold the key of next level of industrialization in India? What steps have been taken by the government of India in post economic reform period for labour reforms? (12.5 Marks)

Ans Labour reforms are measures taken by the govt for betterment of bargaining power of the labour and to induce more companies to become labour intensive while not overlooking the welfare of the labour.

Labour reforms hold the key of next level of industrialization in India because-

- ① It leads to greater FDI flows, when foreign companies invest in India to reduce their mfg. cost.
- ② It aids domestic production by helping capitalists to invest and produce more owing to cheap labour availability.
- ③ Easy hiring and firing policies tempt industries become labour intensive instead of them shifting to capital intensive industries.
- ④ Easy and time saving grievance redressal mechanisms by labour, saves time & profit for the company.

Remarks Need to analyse the existing issues with labour laws which are hampering industrial growth, experiences of developed countries, changing tech

Basically they are general benefits of labour reforms.

⑤ It enhances bargaining power of the labour while ensuring their rights as well.

Govt's Steps in post <sup>Economic period</sup> ~~independent~~ India -

① Easy hiring & firing policy - Govt aims to increase the max<sup>m</sup> no. of labour an industry can have to fire labourers w/o govt permission from 100 to 500. This will help companies to be able to employ more.

② Equal pay for equal work is present in DPSP of Indian Const<sup>n</sup> & various laws commit to this.

③ Grievance redressal in case of labour disputes has been made quick & more efficient.

④ Easy hiring norms and provision of SEX to ensure that adequate infrastructure helps more companies to make investment in India.

⑤ Making of Labour Code to make one law for all.

Thus, labour reforms are a key to next level of <sup>independence</sup> industrialization.

(4½)

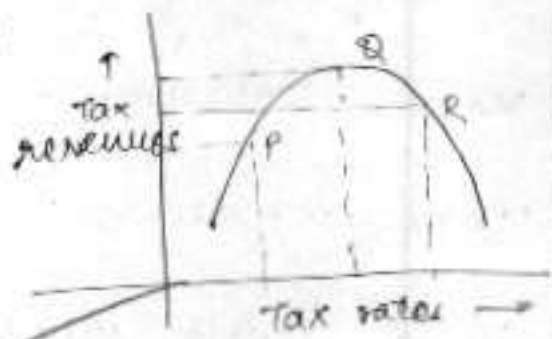
Remarks



Q9. What is Laffer curve? Discuss its importance in tax policy and planning. Also, analyze how India has undertaken reforms to make its tax structure compatible with Laffer curve analysis? (12.5 Marks)

Ans: Laffer curve denotes the relation between tax rates and revenue collected which comes out to be an inverted U indicating that revenues increase only upto a certain level of tax rate after which tax avoidance starts.

While tax revenue increases when tax rate increases from P to Q. Post Q it starts to decrease as people start evading taxes.



Due to higher tax rates as compared to incomes earned & inflation in market it is important in tax policy & planning.

- ① helps assessment by tax authorities to gauge at what tax rate revenues will be highest.
- ② helps them in understanding after what tax rate, people start evading taxes.
- ③ helps in stabilising tax structure most appropriate for people to comply.

Remarks

Analyse the Indian tax structure  
(since 1970s till now) which highlight  
the relevance of Laffer Curve.

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India has undertaken various reforms to make its tax rate compatible with Laffer curve-

- ① Introduction of GST
- ② More no of tax slabs to ensure people don't find rates too high to manage.
- ③ Changing norms of Capital Gains Tax.
- ④ Making compliance easier by e-filing
- ⑤ Progressive tax system.
- ⑥ Giving people opportunity to declare if they have not paid taxes.

While a lot has been done to make tax structure more compliant, increase in tax base is the need of the hour and only that would help in ↑ tax.

4 1/2

Remarks

Q10. Do you agree that reserve ratios should be removed to allow banks to deploy their funds more profitably? Give reasons. (12.5 Marks)

~~Ans-~~ Reserve ratios like Cash Reserve Ratios (CRR) and Statutory Liquidity Ratio (SLR) are designed to give stability to financial systems of a country & their complete overhaul may be a serious concern. Define CRR and SLR

While reducing the percentage points can still be suggested but totally removing these ratios will usher in financial instability and a trust deficit among financial sector.

Following are the reasons for keeping reserve ratios -

- ① Buffer against external shocks - During a global slowdown, banks may take up credit on govt securities to ↑ money supply, thus spurring demand.
- ② Factor of Trust - That the bank will be able to pay its depositors in times of needs is what inspires trust among depositors to

Remarks

What are the disadvantages of RRRs to Bank?

keep money in banks which is then utilized - to give further loans.

- ③ These act as cushion to ensure that people can withdraw money when required.

To ↑ fund availability

- ① Priority sector lending should be decreased

- ② CRR & SLR should be reduced

- ③ NPA's should be resolved to utilize the provisioning money.

- ④ Mission Indradhanush should be implemented

- ⑤ Mission Sashakt & Laxmi Mehta Committee's recommendations should be incorporated.

Thus, scraping of reserve ratio unt a  $8\%$ , but reducing them to further sustains life levels can be an option.

5  
Grand conclusion

Remarks

Q11. What is the role of SEBI in regulating and managing the capital market? What are the provisions to save the interest of small investors in India? (12.5 Marks)

Ans - What RBI is do the banking sector, that SEBI is to the capital market. It acts both as a regulator and a facilitator.

① Keeps a check on bad policy frameworks of companies & fraudulent measures like Insider trading etc.

② It keeps investor interest in mind & protect them from fraudulent companies.

③ It keeps rating agencies in check and make rules for their governance.

④ It makes rules for management of capital market.

⑤ It makes provision to save the interest of small investors in India.

⑥ It helps in stabilizing capital market by making provision in money market as per global demands.

Remarks



Include some direct initiatives like  
- Education and awareness programme  
- IPF & IEPF

SEBI has made following provisions to save the interest of small investors in India-

- (a) compulsory release of information by companies about their Board of Directors appointment and exit.
- (b) Display of Balance sheet on company's websites
- (c) Mandatory independent regulator on Board of a company's Board of Directors to ensure accountability.
- (d) Presence of a woman director on a company's board is also being recommended.
- (e) Annual General Meetings are mandatory
- (f) Protection of minority shareholders in case of investment of  $> \frac{1}{4}$  assets of company is also recommended.

Thus, SEBI acts as a facilitator for small scale investor alongwith being a promoter of investments in money market.

Remarks



Q12. What is zero base budget? What are its advantages and disadvantages? Has India adopted elements of zero base budgeting in its budgetary practices? (12.5 Marks)

Ans Zero base budgeting refers to making the budget of an economy from scratch as if no budget existed before. This helps in cleansing out of outdated policies.

It ensures that money being given to a country isn't just given as it was given for a preceding year. everything that is to be budgeted need to be approved

### Advantages

- helps to rope in newer policies with the changing world dynamics.
- helps to phase off outdated policies
- can be a pre-step to outcome based budgeting

efficiency  
reduction in  
wasteful  
spending

### Disadvantages

- human capability required to make such a budget
- effective resource mobilization to implement new policies.

Accuracy

Remarks

- bottom up approach to become familiar with the needs of that sector

India has strived to adopt elements of zero base budgeting by phasing out older policies, introducing new policies and reducing budgets of policies which were economically defunct.

Why ZBB lost its utility with time?

India strives to combine it with outcome based budgeting in various sectors by ensuring that all sectors get adequate resources and are able to perform well.

Present scenario regarding use of ZBB in India. <sup>(5)</sup>   
 capability crunch remains a problem and implementing an exact zero base budget remains a challenge

Remarks

Q13. Secular stagnation is generally confused with technological stagnation as both would lead to slow growth in the long term. Identify the difference between the two and how they are interrelated? (12.5 Marks)

Ans Secular stagnation refers to general slowdown in the overall economy while technological stagnation refers to a static technology based economic system.

Both lead to slow growth, but have differences & similarities as well.

- |  |   |
|--|---|
| <p>Secular stagnation</p> <ul style="list-style-type: none"> <li>- overall stagnation in economy</li> <li>- global slowdown may be a reason</li> <li>- leads to job loss in overall economy</li> </ul> | <p>technological stagnation</p> <ul style="list-style-type: none"> <li>- in technology there is stagnation</li> <li>- can be domestically induced as well</li> <li>- job loss in particular sector</li> </ul> |
|--|---|

Bring in more clarity

Specific outcomes of tech stagnation

- Similarity -
- overall slow growth rate
  - unemployment
  - lack of FDI

Proposed by Robert Gordon

Explain more

Remarks

2

*Remarks*

Q14. Compare various sources of budgetary revenue including taxes, market borrowing, public debt and external debt? What are the advantages and disadvantages of cess as a source of public revenue? (12.5 Marks)

Ans Sources of budgetary revenue can be both tax and non-tax. While tax revenues include revenues from both Direct and Indirect tax; non tax revenues arise from profit of PSU's, disinvestment, interest from previous loans etc.

### TAX REVENUE

- ① Direct Tax - It includes income tax, corporate tax etc.
- ② Indirect tax - while most indirect taxes have been subsumed under GST, some are left out but this would definitely lead to higher tax compliance.

### Non-Tax Revenue

- ① Remittances sent by foreign working nationals.
- ② Gifts, grants-in-aid by foreign govt.
- ③ profits of Public sector units.
- ④ sale/purchase of bonds.

Remarks



- (5) Interest from past loans.  
 (6) disinvestment from ~~govt~~ owned enterprises.

Cess refers to an additional tax which is levied for a particular cause like Swachh Bharat Cess, ~~Beti Bachao~~ Cess etc.

It has following advantages -

- (1) It can be used only for that particular purpose for which it is proposed.  
 (2) It can't be siphoned off to other goals, thus giving adequate monetary support to a cause.

- (3) It can be totally utilized by central sector w/o having to share it with state govt.

3 1/2

Remarks

Q15. Food is as essential for living, as air is for breathing. But food security means something more than getting two square meals. Elaborate. Also, discuss the reasons for the existing food insecurity in India. (12.5 Marks)

Ans. Food is more than just two square meals and has an important component of nutrition along with food diversification.

It also encompasses problems of malnourishment, stunting and wasting by providing age & gender appropriate dietary patterns.

India suffers from triple burden of malnourished children, obese children & anaemic women.

Availability  
Accessibility  
Affordability  
Nutrition  
content of  
food is to be increased to make food security an effective prospect.

Analytically discuss the 3Ds of malnourished children  
Food Security

adult obesity

anaemic women

Reasons for existing food insecurity:-

- ① Lack of food diversification
- ② Provision of only grains in PDS.

Remarks

Lack of improvement in agricultural productivity  
Gender inequality

12 Briefly explain each factor  
- the way they lead to food  
insecurity.

③ Lack of nutrition to female children

④ Poshan abhiyan not available in far  
flung areas

⑤ Lack of nutritional knowledge among  
people.

⑥ Poverty, uneducation among masses

⑦ Expensive nutritious food against cheap  
colas etc.

4 1/2  
Thus, to ensure food security, nutrition  
availability is a must which can be  
ensured by food fortification, Ready-to-Use  
Food (RUTF) etc.

Remarks

## Section - C

Q16. Differentiate between different generations of economic reforms in India? What are the difficulties faced in the third generation of economic reform in India? (15 Marks)

- first generation economic reforms related to changing of economic structure
- 2nd generation related to opening of economy
- 3rd generation further

Problems with 3rd generation.

- overall global slowdown
- unemployment
- lack of skill.

1/2

Content not sufficient  
↓  
Properly discussed and  
complete ans. required

Remarks

--

*Remarks*



*Remarks*

Q17. What are the measures of fiscal health of a country? How has the policy of fiscal consolidation helped India to achieve fiscal health? What are the reasons of failure of India in realizing its fiscal consolidation objectives in the last decade? (15 Marks)

Ans. Fiscal Health relates to a country's ability to manage its expenditure and revenue sides. It can be gauged by parameters like tax to GDP ratio, Debt to GDP ratio, inflation, revenue deficit, fiscal deficit etc.

### Measures of Fiscal Health -

- ① Tax to GDP Ratio - India's tax to GDP ratio hovers around 10%, a typical feature of a developing country. For improving this, India needs to increase its tax base and also tax compliance by simplifying its tax structure. GST is a good initiative in this direction.
- ② Revenue Deficit - It is the difference between Revenue Expenditure and Revenue Receipt and FRBM Act proposed it to become zero to reflect that govt is able to manage its own day-to-day expenditure.
- ③ Fiscal Deficit - It drives growth by making capital available to various sectors but a high fiscal deficit may lead to fiscal instability and fiscal trust deficit.

Remarks

④ Debt to GDP ratio - While India has a debt to GDP ratio of 70%, N.K. Singh Committee required it to be 60% with 20% for states and 40% for the centre. Debt is taken as the new anchor as even credit rating agencies rely on it for assessing financial prudence of a country.

⑤ Inflation targeting - MSP rise and cost push inflation targeting has to be done by the govt to achieve financial prudence

Policy of fiscal consolidation helped India to achieve fiscal health by -

fiscal consolidation refers to

① Financial stability led India to attract foreign inflows and this led to infrastructure development - a huge factor in India's growth path by

negotiating with Govt.

② Better management of financial resources led India to invest in right sectors to aid growth

③ It helped India avert a Greece like situation cost of their deficits and

④ Helped India to maintain its credit rating FRBM Act aimed at making revenue deficit zero while dipping fiscal deficit to 3% of GDP, making fiscal deficit sustainable and

Remarks

Present the India's performance regarding FRBM targets (2007-2018) in brief

N.K. Singh committee recommended to use Public Debt as anchor towards a path of fiscal consolidation to achieve fiscal health.

Reasons of failure of India in realizing fiscal consolidation objectives -

1. Escape clause - FRBM provided for an escape clause for the govt to announce its inability to cover its fiscal targets.
2. Lack of political will - In a bid to woo voters, farm waivers were resorted to leading to drain of wealth.
3. Tax base of India is very small & until it is enlarged, not enough fiscal resources will be available.
4. Global slowdown and protectionism of developed world has furthered the cause.

Thus, India's fiscal health is prudent as of now but better mngmnt of its resources can bring huge profits for India on this

7½  
Cross analysis  
Remarks



Q18. What is the difference between merit and non-merit subsidies? How can JAM trinity help in designing and delivering subsidies effectively? (15 Marks)

Subsidies are help given to various sectors as per their requirements. It can also be given to individuals who are either BPL or whose involvement is low in those areas.

→ Benefits whole of society. What are the issues with subsidizing targeting?  
 Merit based subsidies hope to subsidizing efficient industries and demotivating inefficient ones by not subsidizing them.

Non-merit based subsidies are given by the govt without focusing on the efficiency shown by a sector. For Example - Urea

subsidy is given to companies based on the difference b/w what the govt has set for urea and the cost price of that industry.

This will lead to more inefficient production as the more the price, the more will be the profits of the company.

Merit based subsidy	Non-merit based subsidy
① leads to efficient product	① promotes inefficiency.
② promotes healthy competition	② doesn't foster competition
③ leads to higher productivity levels to gain subsidies	③ provides no such benefit.

Remarks



But, in some sectors non-merit based subsidies need to be given to foster growth in those sectors by stimulating investment and helping the sector in achieving growth.

In the long run, govt should restrain from resorting to non-merit based subsidies to foster "healthy comp" among & within sectors.

JAM trinity refers to Jan Dhan-Aadhar and Mobile trinity which will have the following benefits-

- ① Direct transfer of subsidies to a person's bank account to prevent leakages and ensure that the beneficiary gets the adequate resources.
- ② Mobile will ensure that people are made aware of bank's money add<sup>n</sup> to their accounts by way of SMS.
- ③ Aadhar card will reduce the number of duplicate and fake identity cards deeply reducing the fiscal burden of the

Remarks

govt

④ leakages will reduce and more number of people can be taken as beneficiaries, maintaining financial prudence of the govt.

Thus, both designing and delivering of services will be hugely made beneficial using

JAM trinity model ensuring that people get what they deserve by using data

from SECC.

6

Good analysis

Remarks

Q19. Monetary policy's primary aim is to control inflation and the objective of growth should be left to the fiscal policy. Critically examine this statement in context of Urjit Patel Committee's recommendations. (15 Marks)

Ans: Monetary Policy is an attempt of Central Bank of a nation to control and monitor price rise in an economy and aid developmental plans using resources for adequate sectors.

Urjit Patel Committee was formulated to design policies such that monetary policy of India is in sync with its development path.

Recommendations of Urjit Patel Committee-

1. He targeted inflation within a range of 4 ( $\pm 2\%$ ).
2. Inflation targetting was to be done using headline Consumer Price Index (CPI).
3. The govt was given 2 years to shift its inflation from 9% to 6% and then follow suit of these recommendations.
4. Monetary policies were to be decided by a Monetary Policy Committee (MPC) which was to consist of both members of RBI as well as members of govt.

Remarks

- 5. Fiscal policy to be linked to growth objectives.
- 6. A breach of inflation target would hold the governor of RBI accountable to the govt.

Implications of Recommendations -

Inflation targeting i.e. fixing inflation within the 2-6% slab will attract more FDI and would induce ease of doing business by making investors sure that knee jerk reactions will not take place in the Economy.

Use of Consumer Price Index (CPI) instead of Wholesale Price Index (WPI) would effectively protect the consumer's woes and help the govt in effective policy making.

Formation of MPC would ensure fiscal policy is reflected in monetary policy and will also hold the governor responsible if inflation targets are breached.

Thus, growth objectives would be left onto the fiscal policy while monetary policy efficiently utilizes inflation targeting, attributing accountability from political pressure.

Remarks

Merits  
 increases central Bank's insulate the bank from political pressure

Critical aspects -

- only inflation targeting won't drive economic growth and other factors like reducing reserve proportions to increase money available with banks is also required.

- NPA resolution is posing a big threat to policy making and hence MPC should make policies regarding it as well.

Growth objectives can't be realised until fiscal and monetary objectives are in line with the developmental plan.

Thus, while Ujjit Patel's recommendations are a step in the right direction but to achieve growth objectives other concerns like

fiscal consolidation, twin balance sheet problems, NPA's mauling the banking system need to be resolved

(7)

Remarks

but not for growth like India where inflation emanates from supply side



Q20. The economic reform process after 1991 has been widely criticized for not being able to address some of the basic problems facing our economy, especially in areas of employment, agriculture, industry, and fiscal management. Elaborate. (15 Marks)

Ans The economic reform process after 1991 has led now India being in the Top 5 largest economies of the world. But, India accounts for one-fourth of the 80% most poor people of the world. India ranks 131 out of 188 countries in Human Development Index of UNDP.

This shows that all is not well with the Indian economy and though our GDP and per capita incomes have risen considerably since 1991, what we have failed to achieve is INCLUSIVE GROWTH.

Employment -

Unemployment particularly disguised unemployment is a characteristic of Indian economy and even LPG reforms were unable to solve this menace completely. India being an agricultural country, is heavily dependent on it and has workers whose marginal utility is not being employed in agriculture.

Post 1991 reforms couldn't bring in too many jobs specially for the unskilled & semi-skilled.

Remarks

### Agriculture -

Agriculture employs about half of India's population but its contribution to GDP is only about 17%.  
 Reflecting the huge crisis this sector suffers from, while India's agricultural output has become self-sufficient bumper crops often result into crashed prices resulting in farmers suicide. The reason for this are infrastructural bottlenecks, financial crunch, lack of financial inclusion etc which LPG reforms haven't really solved completely.

### Industry -

India is one among many developing nations in which growth took from primary to tertiary sector almost completely neglecting the secondary sector.

Post 1991, BPO's and IT industry jobs saw a major boom, while industries were unable to absorb the rising labour force to its full.

Thus, skills became a prerequisite for the service sector to take up people and industrial sector couldn't take off that well.

Remarks

fiscal management -

while 1991 reforms were a product of lack of fiscal management itself, it couldn't really result in a consolidated fiscal path.

Various committees were formed to bring India on the path of fiscal mngmnt, but the struggle has continued from FRBM (Fiscal Responsibility & Budget mngmnt) Act targeting fiscal and Revenue deficits to N.K. Singh's committee recommending the wage of Debt as an anchor to drive Indian Economy.

How tax and tariff reduction and incentives have impacted govt revenues?

Thus, though we have come a long way in fiscal and growth prudence, yet inequalities among various sectors and various employments are quite visible and a lot needs to be done for India's growth to become Inclusive.

7  
Great effort

Remarks

