

# **GS SCORE**

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2023

### **ECONOMY**

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# GS SCORE

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प्रश्न संख्या  
(Question No.)

Economy Test 1 August 14<sup>th</sup>  
**U.P.S.C.**

इस भाग में कुछ  
न लिखें  
(Don't write anything  
in this part)

Q1

Tax rates are a fiscal policy tool used by the government to collect revenue, redistribute wealth in the economy and control investment & demand in the economy.

TYPES OF TAXES :-

- a) Unit tax (a specific value)
- b) Ad valorem tax (a percentage)

Taxes can be :-

a) Progressive

Tax amount grows as income of taxed individual rises.

eg: Direct (Income) tax

b) Regressive

Tax burden lies on those with less income.

eg: Indirect tax

Taxes to Control Growth

- Increasing Taxation puts pressure on consumers spending because they have less disposable income after deducting for tax.

You did not understand the demand of question

- Low tax rate encouraging
  - increase the production of Country
  - FDI increase
  - increase production

23



→ tax-dissuaging factor

- Ease of doing business will get disrupted
- increase in corruption, smuggling

• Similarly, investments are discouraged when corporate taxes rise because companies feel their profits will be "taken" by the government.

• Reducing income and corporate tax increases disposable income and enhances demand and investment.

GST tax rates in India work as a fiscal policy tool, so do the cesses collected from the sale of petrol/diesel.

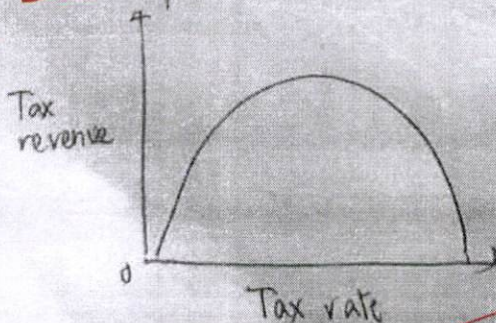
Illustrate  
Any tax levied  
by Country

→ GST  
→ Explain it  
→ Benefit  
→ pros & cons

## Tax Rate and Government Revenue

• Sometimes greater taxation is a means for revenue collection by the government for the purpose of letter funding on social services.

However, excessive taxation can be counter-productive :-



Laffer Curve



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in this part)

As taxes rise, people become unwilling to work (because most of their income is taken by the government). This eventually leads to a fall in total government revenue.

Thus, tax is a useful tool for economic expansion/contraction & can be used as a countercyclical policy.

→ Read question properly  
→ Write answer to the point.

3



Q3

Fiscal Policy refers to the use of tax rates & government spending to control economic growth/output.

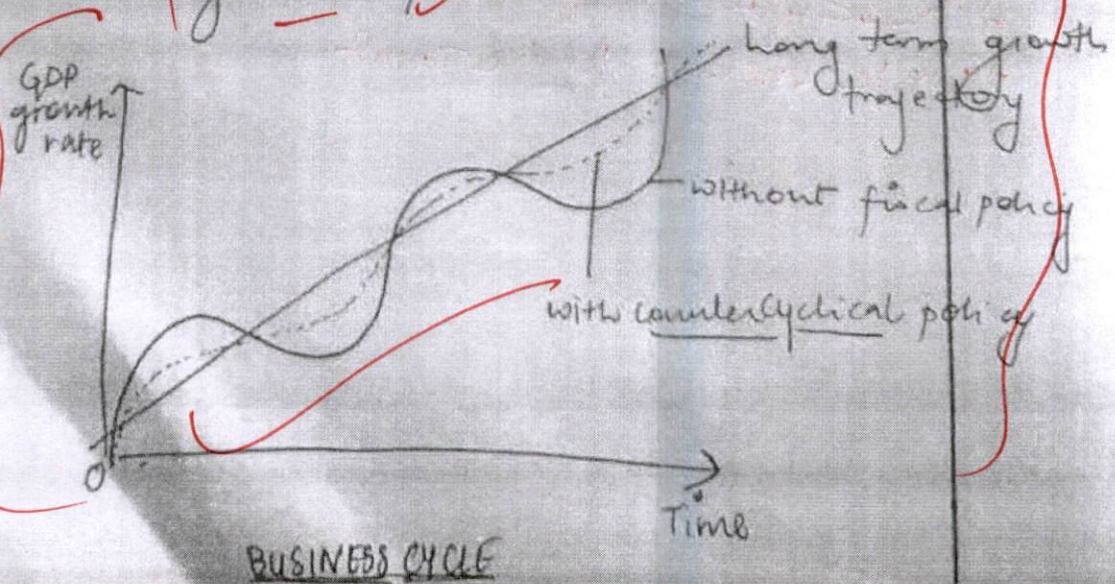
write  
in brief

### Role of Fiscal Policy :-

- Raise revenue for the government through tax.
- Enhance social services through government spending  
eg: healthcare, education, infrastructure.

Counter cyclical movements of the economy to keep it stable on the long term growth path.

→ minimise the imbalance in the disposal of income & wealth  
→ elevate the rate of capital formation





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(Don't write anything in this part)

## Objectives of Fiscal Policy

• According to Fiscal Responsibility and Budget Management Act (FRBM) 2003, India wants stable fiscal health

- fiscal deficit of 3% at the union level in the year 2023
- low state fiscal deficit

• Spending on growth inducing assets, capital monetization.  
ex: Gati Shakti, National Monetization Pipeline

- Control Inflation
- Control Debt
- Economic Growth
- Full employment

• Write answer to the point

• Avoid irrelevant point.

## Fiscal Policy & Monetary Policy

• the government (through fiscal policy) and the central bank (through monetary policy) work hand in hand to guide the economy.

• tax rates and interest rates together help control liquidity in the economy and therefore the level of consumption investment.



# U.P.S.C.

- This also impacts exchange rates of the economy and can help insulate India from the fluctuations in the world.

Fiscal & monetary policy cannot be independent & must work in tandem to lead the economy to sustainable growth.

fine  
Conclusion

4



Q4

Inflation refers to the rise in general price levels in the economy over a certain period of time.

Basic Introduction

### Reasons for inflation in India

#### \* Cost push inflation :-

International Factor  
→ Chip for Automobiles  
→ Rise of price of metal.  
→ Weakening of Rupees.

Supply chain disruptions across the world are leading to inflationary pressure

- rise in price of imported oil due to supply shortages (Russia-Ukraine war, Iran Nuclear deal)
- high cesses/surcharges on petrol/diesel by the government continue
- rise in raw material costs pushes prices of processed goods.
- Agricultural fluctuations have resulted in food price rising - putting pressure on people's purses.



\* demand pull inflation :-

- sudden rise in demand after COVID could not immediately be met by companies.
- breakdown of supply chain means demanded raw products must be self-produced or procured at higher cost elsewhere.

The RBI's tolerance band of inflation is 2% - 6%. If inflation is outside of this band for 3 consecutive quarters, RBI must write to the Union explaining why inflation is persisting.

Measures to check inflation

- 1) Monetary Policy Committee has decided to raise interest rates, induce saving and thus discourage demand to rein in demand pull inflation.
- 2) Reduce cess/tax on essential goods as well as petrol/diesel.

Good points are covered

Measures taken by RBI

- policy measure
- contractionary monetary policy
- open market operation

Govt role



Role of  
Repo rate  
reverse rate

3) control liquidity through other operations  
eg: Open market operations  
Cash Reserve Ratio  
Statutory Liquidity Ratio  
etc.

4) Reduce import costs by re-engaging  
with efficient raw material producers  
eg: china.

Inflation has stark effects on  
the everyday person within their income &  
savings realm. It must be controlled  
to encourage healthy economic growth.

fine  
conclusion

4



(Q6)

When principle or interest is due for more than 90 days than it will be known as NPA

Non Performing Assets are borrowings that have not been repaid in time.  
NPAs are extremely harmful to the nation as they waken bank confidence and are an example of wastage of resources making lending a difficult risk-filled action.

Reason for NPAs rise

1) Taking loans to fund basic consumption  
eg: buy food/clothing

→ Relaxed lending norms for Corporate & credit rating were not analysed properly

These activities do not lead to future profits and thus cannot be paid back.

→ Recently during pandemic U.I. ↑ of NPA

2) COVID induced economic downturn has made the economy unopen to investment.  
Startups/MSMEs have had declining profits.

3) Inadequate resolution mechanisms means that people get away.



4) Inadequate prosecution and recapitalization weakens bank credibility in ensuring low NPAs.

5) money laundering, black money, large unorganized economy leads to a shadow economy that is unregulated yet contributing to growth.

Addressing the NPA growth crisis

\* The Insolvency and Bankruptcy Act (IBC) helps resolve debts in a quick and bank-user friendly way.

\* National Corporate Law Tribunal (NCLT) provides for a quasi-judicial body to deal with review petitions appeals.

\* Extra judicial mechanisms of dispute resolution  
eg. adjudication, mediation, conciliation.

\* Enhancing startup ecosystem →  
In the year 2021, there were more than 100 unicorns in India.

Expbin m  
bnet  
→ IBC  
→ SARFAESI Act  
Jinba dhanush  
Plan.  
→ Project  
Sashakt

Diversify  
more  
point

4



enhancing bank credibility  
while encouraging a healthy  
investment friendly economy is the  
way out of the NPA crisis. India  
is on the right trajectory as a recent  
RBI report noted that NPAs have been  
on the lower side lately ( $\approx 17\%$ ).

Decent  
Conclusion



Q8:-

subsidy reform refers to an enhancement of the efficiency / effect of a subsidy. This involves reducing the subsidy or altering its composition.

most of the subsidies provided in India pertain to the agricultural field:-

- i) Fertilizer Subsidy
- ii) Electricity Subsidy
- iii) Water Subsidy

as well as the provision of food under the NFSA 2013 and the public distribution system and the MSP.

The government's latest reforms have been in subsidy rationalization:-

- i) Enhancing private sector involvement in fertilizer production and electricity distribution to reduce costs and make subsidy more substantial.

fine  
introduction

Why Subsidy reform needed  
→ help to reach beneficiaries  
→ cut the hand of black market  
→ to increase accountability & transparency



(i) MSP is based on CACP recommendations using various parameters :-

A2 : raw material (input) costs to farmer

A2+FL : A2 and family labour costs

C2 : A2, FL and opportunity cost of rent on land etc.

(ii) Subsidies have now shifted to Direct Benefit Transfers due to a rise in digitalization of the economy and financial inclusion of the people.

(iv) e-RUPI - RBI has introduced a new form of service delivery in which beneficiaries are given a code that is linked to a singular service.

eg: vaccination

Thus, the government has tried to enhance the efficiency of subsidies in the economy.

Reform in  
Subsidy  
→ PDS  
→ National  
Food  
Security Act  
→ PM AYL  
→ PM UY  
→ LPG-DDBT

Avoid  
irrelevant  
points.  
→ stick to  
the demand  
of question



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this has helped in:-

- a) reducing leakage of funds
- b) stemming corruption in the bureaucracy/corporate realm
- c) enhancing point (targetted) service delivery and helping the poorest of the poor.

4

Subsidies are an essential fiscal policy tool but also create a financial burden on the public exchequer. Thus they must continually be rationalized & reformed to enhance efficiency.

Final  
Conclusion



Q9:-

Budget transparency refers to the level of accountability and openness the budget of a nation is subject to.

This involves all processes :-

- 1) Formation of budget
- 2) Discussion of budget
- 3) Passing of budget
- 4) Review (Audit) of spending after budget

Although the Indian process of budget formation is known to be very democratic and transparent it does suffer from some ills:-

- i) budget formation is restricted to the Cabinet Ministers (Parliamentary members have little say until discussion stage)
- ii) Guillotine does not allow for budget discussion and effectively passes all demands for grants.
- iii) Popular politics - leads to policies in favour of p that cause wastage of funds.

Importance  
for budget  
transparency  
→ Higher revenue  
→ Less Corruption  
→ Efficient use  
of resources

No linking  
b/w policy  
making  
Planning  
& budgeting



iv) Once the budget is ~~imposed~~ approved, CAG is in charge of auditing Central and State expenditure but CAG's approval is not required for conducting expenses.

v) The Public ~~Estimate~~ Accounts Committee (PAC) can audit review the CAG's report and suggest changes in spending but it is powerless and can advise only after the expense has been incurred.

vi) State budgetary processes are rather similar and most budget-related factors are monopolized by the party in power.

WAY FORWARD :-

i) Increased participation of all members of the legislative in budget formation.

Issue related to budget process

→ Unrealistic budget estimates

→ Delay in implementation of projects

→ No correlation b/w expenditure

→ Poorly motivated staff

→ Inadequate accounting system



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in this part)

ii) introduction of green budgeting &  
gender budgeting

iii) need for an independent Fiscal  
Council to direct government spending  
and enhance fiscal health.

4 The budget is an essential tool for  
the government's policy of public service.

Its transparency is essential to democracy  
as the people have the right to know  
how their money is being spent.

Whole answer was on Policy base.  
It should be in Economic prospect