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An Institute for Civil Services

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TEST COPY

NISHA

RANK - 51

POLICY AND REFORMS IN INDIAN ECONOMY

TEST - 3

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TEST - 3

POLICY AND REFORMS IN INDIAN ECONOMY

Time Allowed: 3 hrs. *Max. Marks: 250*

Q.	Marks
1.	
2.	
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Instructions to Candidate

- There are **20 questions.**
- All questions are compulsory.
- The number of marks carried by a question is indicated against it.
- 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.
- Keep 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.

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Name NISHA.

Roll No.

Mobile No.

Date

Signature Dishy

1. Invigilator Signature

2. Invigilator Signature

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REMARKS

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Please give suggestion on Hand Writing &
Re Presentation of Answers
Do I need to change the style of answer writing?
→ More Data? → Beginning & Conclusion Improvement?
→ Flow Charts? → Time Constraints?

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Section - A

Q1. Fiscal Federalism refers to the division of responsibilities with regards to public expenditure and taxation between the different levels of the government. To what extent the allegations of union government's supremacy over the state government on the fiscal grounds are valid? What recent reform measures have been attempted to dilute these unitary tendencies? (10 Marks)

India is a federal country hence it follows financial federalism also where the taxes are distributed between the Centre and states.

Fiscal Federalism is essentially the backbone for the cooperative federal structure of the Country.

The 14th Finance Commission under YV Reddy has recommended 42% share in the taxation to the States.

Good Start

Also Discuss about Division of Power in the Schedule 7

However there are certain allegations on the Union govt's supremacy over State govt. on fiscal grounds.

-> The share of ~~exp~~ taxation to Centre is 58%, however Centre's share in Public expenditure is only 40%. the rest is incurred by the States.

-> Horizontal Imbalances & Regional Inequalities.

Horizontal imbalances arises due to differential growth rates among the states hence their difference in expenditure capability giving rise to Regional inequalities.

Remarks

You need to Also Discuss the Reason Why Burden up on Center

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→ Vertical Imbalances

this refers to the three tier - Centre, State 4 Local level where the local level government do not have adequate funds where they depend on the states for the grants and the states depend on the Centre.

→ ~~At~~ Rolling out of Planning Commission

Planning Commission - which was responsible for mandated funds transfer to the states has been rolled out and NITI Aayog (essentially a think tank) has not been given any financial allocation power. Thus the States' only ~~alterani~~ alternative to depend on is Finance Commission.

→ GST - GST promises for cooperative federalism to streamline the country Indirect tax structure as a measure to promote cooperative federalism.

→ Decentralisation is essential for smooth functioning of Fiscal Federalism
3Fs - Funds, functions 4 functionaries.
Without funds the governments at the Local level do not have the capacity to perform the functions.

Wayforward = Transparent GST regime, independent finance Commission, effective NITI Aayog. 4 effective decentralisation.

Required Statistical Data Here and Also mention About 'Uday' Scheme

4

Remarks Spending 4 Tax decisions must reflect local preferences, policies should not be merely imposed, freedom should be given

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Q2. Banks provide loans to the NBFCs (Non-Banking Financial Companies), which in turn extend loans to the high-risk sectors (such as infrastructure and housing) that the banks were avoiding. Discuss the challenge it can add on the already brewing NPA crisis in India?

(10 Marks)

NBFCs perform the functions of banks, although they are legally different from banks and are listed under Companies Act.

NBFCs ~~are speci~~ provides specific loans and hence are categorised into different categories:

* ~~A~~ Infrastructure Development - Road, Highways etc.
* Micro credit availability - MSMEs, etc.
* Agricultural loans & Housing Sector.
* Asset Finance companies.

- Since the size of loans provided by NBFCs is huge, there is profit margin.

Good Start

Also discuss About their Reasons

- Significant for Economy.
  - → 13% GDP share.
  - → Assets over 100Cr.
  - → Cheaper Loans.
  - → Diversity of Products.
  - → They cannot accept demand deposits but can accept time deposits.

and Schemes Launched by NBFC's

→ However NBFCs are facing a lot of problem today which needs to be addressed to spur the economic growth as they are the backbone for private investment.

Remarks

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03

Also Discuss About Ponzi Selling & Downgrading of Debt security

As per RBI, the Gross Non Performing Assets have crossed ₹ 10 Lakh Cr. in 2018.

NPAs — Twin Balance Sheet Problem
- Over levaraged companies
- Stressed Banks

} — Credit Slowdown

→ The lack of funds with the banks due to huge NPAs. further aggravates the problem of NBFCs and vice versa.

→ Banks provides loans to NBFCs

↓

NBFCs lend to high risk sectors (where returns are not fast).

↓

Loans turn to Bad loans and this further develops the NPAs of the banks.

→ further the recent ~~IF~~, IL&FS crisis was a further blow to the NBFCs sector where the company extended huge loans to brown field projects where rate of return was very low.

→ Lack of fiscal discipline and corruption further adds problem.

Hence the secter is facing a lot of problems and it is high time that at the Central govt. and the RBI must come up with a regulatory framework to address the issues

challenges need to be discussed in Being

Remarks

Conclusion can be Impersonal

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Q3. Examine the issues related to the causes of poverty. Do you think that the 'income approach' is sufficient to evaluate and holistically understand the concept of poverty and its related problems? (10 Marks)

- 'Poverty' as stated by Sustainable Development Goals is a multidimensional issue and mere availability of income cannot address the issue of Poverty.
- Over the past few decades although India has made considerable progress by taking out people from abject poverty, however in percentage terms still ~~1/4~~ nearly 25% of the population lives in poverty.

Good Start

- Causes of Poverty:
  -> Lack of Healthcare and Nutrition availablity
  -> Rural Distress and Agricultural indebtedness which further adds up to the vicious cycle.
  -> Absence of the basic amentities required to support life.
  -> Low per capita income and growing gap between the rich and the poor.
  -> Gender inequality
  -> Absence of Land Ownership and Inadequate wages to the agricultural labours.
  -> New Dimensions of poverty coming like inadequate financial inclusion & digital illiteracy which further marginalises the poor population.

Also Discuss About

Remarks

- Low Capital formation
- Lack of Demand
- Social Exclusion etc

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since the issues are multidimensional and solution has to be multipronged and mere income approach cannot address the issue of poverty.

What Amartya Sen called 'capability Approach' has to be the holistic solution to the problem of poverty. Enhancing the freedom of people by building up their capability is the keystone to the solution of Poverty.

Cabability approach addresses the issue of income availability, education, health, environment factors, political freedom and several other hindrances to the overall human development.

Good Start

Add More Point of Discussion to this Part

→ The Recent Antoyadaya Yojna is a crucial step in this direction which will lead to Sarvodaya.

Antyodaya addresses the multidimensional issues like

Credit availability. Financial Inclusion Health & Nutrition.

Digital Literacy ~~Financial incl.~~ Adult Literacy.

4

→ Schemes like MNREGS. has to be strengthened further to spur the ~~s~~ rural demand.

→ Enlarging the formal sector jobs and regulating informal sector is also a right step in this direction.

Remarks → Inclusive Development

In conclusion

Discuss Newer Dimension of Poverty and suggest way forward

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Q4. Many countries are still struggling to collect sufficient revenues to finance their own development. Countries collecting less than 15 percent of GDP in taxes must increase their revenue collection in order to meet the basic needs of the citizens and businesses. Critically examine the rationality and effectiveness of India's resource mobilization initiatives. (10 Marks)

India's Tax / GDP ratio is much below than required which's 16-17% which makes it difficult for the government to meet the basic needs of the citizens & businesses.

The Revenue collection must be rationalised as. the developing country like India which needs funds for infrastructure development cannot sustain on ~~decades~~ & stagnant Tax / GDP ratio since decades.

Several steps have been taken by Government to enhance the effectiveness of resource mobilisation initiatives.

* Rationalising Tax Reforms :→ to simplify the tax structure and promote tax payment prudence.

* Income Disclosure schemes

* Advanced ~~Bin~~ Pricing Agreements.

* Media Awareness : Payment of taxes regularly significant for country's development

Also Present A Comparative Analysis w Counteries Tax Revenue

Remarks

Also Present Statistical Data to Your Discussion

Discuss Efficacy Initiative

Also Discuss Importance of GDP to Tax Ratio

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Q5.

Also Discuss
About
GAAR
Angel Tax
MAT

GST Implementation ⇒
has rationalised the tax structure, ~~incre~~ reduced the compliance cost, cost of distortion, standardised the laws and procedures.
It ~~has add~~, has added to the resource mobilisation by reducing the distortion costs and corruption lags.

Tax / GDP %age is crucial to finance the economy's growing demand for investment in physical & social infrastructure building.

→ Schemes such as – Brownfield Asset Mobilisation for Infra companies.
Credit Enhancement funds.

→ For foreign Investment, National Investment and Infrastructure fund.
Build Operate and Transfer fund

In Conclusion discuss
About the other Measures and Reforms
of Government
digital payment
Linkage to Adhaar etc

3.5

Remarks

Q5. What are the instruments of monetary policy of RBI? How does RBI stabilize money supply against exogenous shocks? (10 Marks)

The monetary policy instruments enables the RBI

1 → to control inflation
2 → to regulate liquidity in the economy against external shocks.
3 → Ensure provision of adequate credit to productive economic sectors. — Credit Availability.

It is essentially the ~~to~~ keeping the balance between inflation & credit availability that is crucial function that RBI performs.

+ Good Start

The Instruments of Monetary Policy of RBI can be categorised as

Quantitative Instruments

- → Cash Reserve Ratio
- → Statutory Liquidity Ratio
- → Repo Rate & Bank Rate
- → Liquidity Adjustment facility.
- → Marginal Standing facility
- → Open Market Operations

Discuss in brief

Qualitative

- → Margin Requirement on Loans. (Downpayment).
- → Differential Rate of interest (Different interest on diff. loans)
- → Moral Suasion. informal directions.

Remarks

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→ Cash Reserve Ratio – is the most effective instrument with RBI that directly impacts inflation and controls liquidity.

CRR = is the cash balance which the banks are required to maintain with RBI.

Hence on these ~~reserve~~ reserves there is zero interest and they are maintained to prepare the bank in situations of Risk.

Working – RBI increases – CRR.
↓ (more reserves with RBI)
Less Loan supply to Public by banks
↓
Higher interest rate on Loans.
↓
Lower money supply – Lower inflation.

You need to Discuss other Instruments As well in Brief

→ SLR ⇒ minimum proportion of Net Demand & Time Liability which the banks are required to maintain with themselves and not with RBI.
→ in forms of govt. securities, Excess Reserves, Gold etc.

→ Repo Rate the rate at which RBI lends loans the Banks.
higher the Repo Rate → Less Loan supply – Less Money supply controls inflation.

3.5

→ OMO ⇒ these are the operations through which RBI buys or sells Govt. securities ~~to~~ from / to the banks.
Sale / purchase of govt. security also acts as an effective instrument for ~~cor~~ regulating money supply.

Remarks

- You need to Also Discuss How Monetary Policy is used to stabilize money supply
- General critique of their effectiveness

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Q6. In context of the banking sector, discuss the evolution of the BASEL norms and assess the Indian banking sector's preparedness on this latest benchmark. (10 Marks)

BASEL Norms are international conventions (norms) on Capital Adequacy to prepare the banks for unforseen credit risk and thus creating a buffer to tackle the credit risks and other risks in global economy and thus are significant for the stability of the global economy.

Good Start

Evolution :-

* $\boxed{1988}$: In 1988 it was decided among various central banks BASEL I that the banks should maintain minimum Capital Requirement to cover credit & Risk.,
(Credit Risk - involves faulting of loans, NPA related risk).
Hence it meant whatever you give credit maintain certain capital accordingly to keep the balance sheet in proportion.

Also discuss About its Major Pillars

* $\boxed{\text{BASEL II - 2004}}$ This maintained the previous norms, however added two new risks =

Well Discussed

→* Market Risk - possibility of risk ~~in~~ due to change in Market.
Market Discipline.

→ Operational Risk - Loss due to failure in systems, human factors etc.

→. Capital Adequacy Ratio = 8%. = $\frac{\text{Tier I Capital + Tier II Capital}}{\text{Risk Weighted Assets}} \times 100$.

Tier I Capital = High quality capital = Common Equity Capital

Remarks Tier II Capital = Revaluation Reserve

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→ The Recent Basel Norms III - 2010 were kept in accordance to the problems emerged during Subprime Crisis. where the Banks kept maximum of their Capital in Tier II which is of inferior quality than Tier I and hence not effective in addressing the Risk.

Well Covered Points

Now according to Basel III Norms out of 8% of CAR
— 7% — has to be of the Best quality Capital

4.5% of Risk Weighted Asset. Higher Common equity capital.

2.5% Capital Conservation Buffer which is to be maintained from Bonuses & Dividends

1.5

→ Further provisions were made Counter Cyclical Buffer (
economic upswing - create capital buffer
" downswing - consume additional buffer.

→ Leverage Ratio = 3% $\left(\frac{\text{Tier I Capital}}{\text{Total Assets}} \times 100 \right)$.

2010 Norms are to implemented till 2019.

*→ RBI has already prepared Indian Banks for Basel III
CAR is already 9%

*→ Indians Banks ~~to~~ to implement ~~Count~~ Capital conservation Buffer.

* Liquidity Coverage Ratio currently 60%, to be 100%.
ie Banks need to maintain LCR which is proportion of expected cash outflows during the next 30days in form of HQLA [High Quality Liquid Assets]

Add Way

Remarks

Ground & Brief Conclusion

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Q7. Discuss major problems faced by India's nationalized banks. How far does Mission Indradhanush intend to solve these problems? Analyse. (10 Marks)

Major Banks were nationalised in 1969 and then in 1980. when the main motive was to ensure government control on banks so that public would benefit.

Good
Also Discuss Rationale Behind it

Major problems faced by Nationalised Banks ⇒.

* ~~Lead~~ Lead Bank Scheme – to increase the number of Branches this adds ~~to~~ up to the Operational cost and back then banks were not making adequate profits.

* Priority Sector Lending. – minimum 40% of the loans must be extended to certain sectors at lower interest rates, some of the sectors involved credit risks.

* High Pre 1991 – High SLR = 38.5% of NDTL
CRR = 25% of NDTL.
However Post 1991 = SLR = 25%
CRR = 5% (of by 2001).

Also Discuss Bureaucratization of Bank
- failure to support Central Policies

The Narsimhan Committee Recommendations were crucial for Bank Reforms, it recommended that Priority Sector Lending to be reduced and Mergers and Acquisition of Banks where weaker banks need to be brought under Stronger bank which are being implemented till very Recently where FM. Nirmala Sitaraman, ~~reco~~

Remarks

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announced major mergers & acquisitions.

* Twin Balance Sheet Problem

It emerged post Global Financial Crisis of 2008, where the balance sheet of both Banks and the over Leveraged Companies were in losses.
During the economic boom ~~200~~ in early 2000s the Banks lended huge loans to the infrastructure companies, however due to GFCs those loans turned into Bad Assets and that added to the already bad NPAs.

Shorten this part

in Recent RBI Report NPAs have crossed ₹10 Lakh Crore in 2018.

* Capital Availability with the Public Banks

The Recent decision to infuse capital into the Banks was a step in the right direct as banks are facing capital crunch which is the main reason of slowing down of $\frac{\text{Investment}}{\text{GDP}}$ ratio.

* Mission IndraDhanush → Recapitalisation of Banks (PSU)

Comprehensive framework to address all the above mentioned problem ~~to~~ in the Bank Nationalised Bank.

ReCapitalisation of Banks will solve the issue for the time being but it is not a sustainable solution and the capacity of banks need to be developed

Also discuss other components of this project And its impact on the Banking of India

Remarks

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Powerful tool for Achieving Gender Mainstream

Q8. Gender budgeting means preparing budgets and analysing them from a gender perspective. Critically examine its rationality and effectiveness in India. (10 Marks)

Gender Budgeting - refers to allocation of funds to specific gender which is 'female' in this case.

It is about differentiating the budget allocation to the women's development from the other heads of the budget. It was started in 2005-06 and has been strengthening since then.

-> It not only means differentiating the budgetary allocation but also its implementation, execution, audit and impact assessment of programmes & schemes.

-> for 2019-20, the Gender Budgeting is - 1.31 Lakh Cr from last year 1.21 Lakh Cr.

-> It involves 2 kinds of programme
- All women specific scheme - 100% allocation for women
- Pro Women Scheme - at least 30% of the allocation is for women.

-> ~~2011~~ Need / Rationale for Gender Budgeting

2011 Census - 940 /1000 Sex Ratio, 65% Female Literacy.

Only 15% of high income earning group is women
Gender disparity widening.

Remarks

Also Discuss the Components of Gender Budgeting and its Effectiveness

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* Bulk of the public expenditure and policy concerns are in gender neutral sectors hence the gender disparities are not adequately addressed
* According to 2011 census, women account for 48% of the total population of the country.
Women face disparities in access to and control over services & resources.

Hence to address all these concerns Gender Budgeting is crucial in Indian Economy, it does not seek to create a separate budget but seeks affirmative action to address specific needs of women.

4.5

Challenges & way forward –

→ Gender budgeting has yielded mixed results.
→ Before gender budgeting, women must be given adequate representation and opportunity to voice their concerns in pre budget consultation.
→ Global gender gap report ranked India 87 in terms of inequality in economy, education, health and political representation.
→ Centre should encourage states to include gender budgeting in their budgets

Good

Gender Budgeting is essential to uplift the last woman in the remotest corner of the country.

Remarks

Also Discuss
> lack of awareness
need to be improved
& women.
Training programmes

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Q9. Compare various sources of budgetary revenue including taxes, market borrowing, and external debt? What are the advantages and disadvantages of cess as a source of public revenue? (10 Marks)

TAXES

* One of the head in the Budget Document is Revenue Receipts which are non-redeemable (do not lead to a claim on the government).

Revenue Receipts → Tax Revenue → Direct Tax; Indirect Tax

Revenue Receipts → Non Tax Revenue – Interest Receipts, dividends & profits.

→ Tax Revenue is the most important component of revenue Receipts.

★ Direct Tax includes – personal income tax, firms (Corporation Tax).

★ Indirect Tax includes = Excise taxes, custom duties & service tax.

In Intro Briefly Discuss About Budgetary Revenue

Market Borrowing

In case of deficit financing the government to meet its expenditure requirement borrows from the market however it creates liability on the government. This can also ~~increase~~ result in the decrease in investment due to a reduction in the amount of savings available to the private sector.

Remarks

Since the Question Asc for comparission Among them You need to create through adv and Disadv of Each

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External Debt

When the government borrows from the foreign governments or companies it results into external Debt. External debt is a bigger liability than the market borrowings as it sometimes threatens the sovereignty of the nation itself. It also acts as a burden on the future generations.

Tax on Tax

~~Cess~~ a source of Public Revenue

Cess is a form of tax that is levied by the government of a country for a particular purpose.

for eg. Education Cess would be used for the funding of primary, secondary & higher education

→ Cess is a way for the govt to fund the schemes of the government.

→ This form of tax is not supposed to be relied upon as a regular source of revenue.

→ They are resorted to only for a specific purpose & are to be discontinued after the objective is fulfilled

Eg. Education Cess, Swacch Bharat Cess, Krishi Kalyan Cess Infrastructure cess etc.

Misuse point of discussion

4

Remarks

Conclusion ?

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Q10. In any country, economic growth is seen as the solution to unemployment and poverty. Critically evaluate the effectiveness of economic growth in facilitating inclusive development? (10 Marks)

GROWING FAST DOES NOT MEAN YOU GROW NON INCLUSIVE

India has been ranked 62nd out of 74 Emerging Economies on the Inclusive Development Index of World Economic Forum. This highlights that there is a long way to achieve inclusive development for all sectors of society.

- Economic growth is one of the many solutions to poverty and unemployment. India has maintained a respectable GDP growth rate 7-8% in the last decade, however despite the rising GDP growth rate it has not been all-inclusive.

- Further compared to other developing economies the Per capita GDP is lower. (China, & South East nations).

- Much of the contribution to GDP growth come from Service Sector however this sector does not have enough room for employment. Where it is compared to Agriculture sector, the contribution to GDP of Agriculture Sector = 15-16%

  % of Work Share = ~60%.

Traditionally the shift from Agriculture Sector has to be to manufacturing sector which the Indian growth story has skipped & directly switched to Service Sector.

Remarks

Under-employment (disguised employment) in Agriculture sector is major issue where people do not have alternative to switch to other sectors.

Good Start

Also Discuss About the various Govt. Schemes and Programs

MGNREGA NRHM etc

Shorten This Part

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You need to Discuss How the effectiveness of Economic Growth w.r.t Poverty

Thus mere economic growth can be highly misleading and the intricacies have to be looked into, which secter is contributing how much and ~~is~~ does the development percolates down to the last man?

→ Another issue is most of the people are employed in Unorganised sector where they do not have social security net and no financial security. About 80% of ~~emplo~~ of work force are in unorganised sector.

Thus Economic growth hides all these issues which are very crucial to ensure the inclusive Development.

→ for ~~Econ~~ Overall Human Development & Overall Inclusive growth other issues that should be considered are

Education
Adult Literacy.
School Enrollment Ratios

Skill Enhancement
whether the education that is provided to them makes them skilled for job.

Health & Nutrition

Changing Nature of Economies
- High skilled jobs.
- Gig Economy.
- IOT, AI etc

Environment Liabilities
Sustainable Development to compensate the loss to environment

Hence Inclusive Development is key to unlock our sustainable development goal.

4

Remarks

Discuss Conclusion 2

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Section - B

Q11. The major objective of fiscal transparency is to inform the common citizen about the policy choices available, the implications of each choice, and the reasons as to why a particular choice is preferred. Discuss the effectiveness and co-relation of public expenditure and policy outcomes achieved in India. (15 Marks)

→ The decision of the budget allocation to different sectors in the economy and the decision about the public expenditure is one of the most difficult decision that a government has to take.

→ If the government makes it transparent to the public the funds available with it, the receipts it has, the expenditure it will incur, the common citizen can analyse that why a particular budget allocation was made to certain sector.

→ Budgetary allocation is difficult considering the difficult policy decision that the government takes.

A Good Start

Industry

Industrial growth has not been spuring as required if we wish to achieve the five Trillion dollar economy. Its share in GDP has been stagnant over the years with no significant growth. Thus it is the priority area for the policy intervention by the govt.

Being in Shares

Remarks

Also Discuss About the Stages of Policy making.

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Agriculture

In a traditional economy like India where ~~I~~ more than half of the population still depends on Agriculture, but its contribution in GDP is declining.

It is required by the government to incur public expenditure on this sector to take the population out of it and provide them alternative sources of livelihood. ~~In~~ Policy Intervention in Food Processing Sector for example is a choise.

The farmers are also to be provided social security net and other income support scheme as this sector is vulnerable to externalities. PM-KISAN is ~~an~~ the much required policy in this ~~dio~~ direction.

Not Required

Health Sector

India is still lagging behind in the major health indicators despite good economic growth.

A targetted scheme like AayushMan Bharat was required to ensure health security to the people who cannot afford expensive medical costs.

Discuss in Short

Remarks

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National Security

With a disturbing neighbour around and growing tensions with it, it is required by the Country to build its defence capabilities.

Hence defence expenditure also ~~includes~~ accounts for a major share in the Public Expenditure.

Poverty Alleviation Schemes

With a quarter of population living in poverty, where they are not able to meet their basic demands & needs, ~~the~~ it is the responsibility of the government to address the issues and provide welfare schemes for the marginalised population.

Shorter this part

Data, statistics is important to develop public faith and a transparent governance is the building block for successful policy implementation, execution and its acceptance.

The fiscal transparency informs the citizens about the ~~et~~ allocation of the tax payer's money and develops faith in the government of the day.

3.5

Remarks

You were required to Discuss the effectiveness and Co-relation of public expenditure and policy and discuss Briefly about policy outcome Conclusion

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Q12. The budget document contains relevant information on macroeconomic forecasts, fiscal deficit indicators and deficit financing sources. Analyse the extent to which this information helps in scrutinizing government's effectiveness. (15 Marks)

Budget document contains relevant Information and is the most significant policy document ~~of~~ that the government presents. The success of this policy document determines the success of the government.

→ It is ~~a~~ the most important Instrument of Economic Development

→ It is Instrument of Accountability.

→ This Reflects the government's effectiveness and policy framework on fiscal discipline, inclusiveness and accuracy

Good Start

→ Relevant Information in the Budget Document :-

* Revenue Receipts = Tax Revenue & Non Tax Revenue.
* Revenue Expenditure = Interest payment
  Major Subsidies
  Defence Expenditure
* Revenue Deficit
* Capital Receipts = Recovery of loans, Others Receipts
  Borrowing & Other Liabilities
* Capital Expenditure

Remarks * Fiscal Deficit & Primary Deficit

Also discuss about the Relevance of Budget on National Economy

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→ The Budget Document highlights the sources of the Receipts of the governments on which the expenditure depends, if expenditure exceeds the Receipts, the government to meet the expenditure needs borrows from different sources.
thus it acts as an instrument of accountability of the government

→ Further the government through FRBM Act is mandated to ~~keep the fiscal deficit~~ to pursue a prudent fiscal policy.
The Central govt. must ensure intergenerational equity and long term a macroeconomic stability.
Hence this ensures effective debt management.
Further if there is deficit financing to meet the consumption expenditure then there will be low investment hence impacting the economic growth.

~~Eg~~ for example the Govt. this year is likely to miss its ~~defic~~ fiscal deficit target for the year 2019-20, to be forced to raise it to 3.5% of GDP from 3.3% after economic growth fell to a six-year low of 5% in the April-June quarter.

Good points covered

Remarks

Also Discuss About → Fiscal and Monetary Policy
→ Crowding in and out
→ Treasury Bill etc

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Primary Deficit

The goal of measuring primary deficit is to focus on present fiscal imbalances.

Gross Primary Deficit = Gross Fiscal Deficit - Net Interest Liabilities

Hence all these relevant statistics serves as an policy check and scrutinise the government's effectiveness. Budgetary deficits must be financed by either taxation, borrowing or ~~pit~~ printing money.

Thus The Budget document also identify areas of weakness which also help the government to allocate resources in a useful and sustainable manner.

You need to Discuss how they are helpful in scrutinizing

5

Conclusion can be improved

Remarks

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Q13. Explain the concept of 'crowding-out'. Also, discuss how, the expenditures on interest payments, subsidies and transfers have crowded-out spending on physical and social infrastructures. (15 Marks)

→ The government often goes for deficit financing as it is not able to meet its expenditure requirement with the receipts available with it.

→ Hence for this the government goes for raising funds from the market, this it does by issuing bonds

→ These bonds will compete with the corporate bonds or the private borrowers.

→ Hence the funds to be invested in private hands will be smaller as the government has the share on the savings available to finance its deficits.

→ Hence in this procedure, some private Borrowers will get 'Crowded out' of the financial markets as the government claims an increasing share of the economy's total savings.

→ Now if these funds which the government has, is spent ~~to~~ on physical and social infrastructure this will increase the incomes and thus savings and that can further adds to the funds available to be invested by the private borrowers.

Good Conceptual knowledge but definition needs to be proper

Remarks

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7

However this is not the case, the funds which are ~~use~~ taken out by government by crowding out private borrowers is used to finance the government's liabilities. → Interest Payments (on loans)
→ subsidies
→ & transfers.

Good point

→ Thus if the funds by the government would have spent on creating more income, the government & industry can borrow more.

→ If the government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest.

→ If the borrowings are spent on Physical & social infrastructure the actual debt could be paid off by the growth in output.
the debt then would not have been burdensome.

Good
But
Elaborate
your
Point of
Discussion

Remarks

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→ The use of the borrowings to fund the liabilities of the government ~~to~~ do not lead to the growth in the economy and hence the debt becomes burdensome.

→ Bureaucratic Rigidities often add to the problems, the efficiency of the subsidy transfer is not free of corruption.

A recent study by the Planning Commission has estimated that to transfer Re1 to the poor, government spends Rs 3.65 in the form of food subsidy.

→ Thus the spending on interest payments & subsidies have further ~~givens~~ discouraged the spending on physical & social infrastructure due to lack of funds

→ Political Will – The returns on physical & social infrastructure may not be as immediate and politically visible. Thus a correct political will is also required to address the ~~loopholes~~ loopholes in the process.

Policy execution & Policy implementation is the key.

Good

Remarks

In conclusion Also discuss suggest as way forward to your Discussion

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In graters You Need to Bewpry Discuss about the Rationale and Cure objective of Tax Policy

Q14. The tax policy is a major instrument through which the resources are transferred from the private sector to the government for financing public services. A good tax system is supposed to raise the required revenues by minimizing the collection cost, compliance cost and the cost in terms of the distortions it creates. Examine the impact of GST on the Indian tax structure. (15 Marks)

Analytically elaborate

Major charateristics

- GST is one of the biggest tax reform in the country since independence.
- It is a destination based tax which has sub-assumed various indirect taxes levied by centre & state and thus rationalising the tax structure.
- It is comprehensive indirect ~~d~~ tax ~~on~~ on supply of goods and services right from the manufacturer / service provider to the consumer.

→ Earlier the tax was levied ~~on~~ not only on the value added at each stage but on the total value of the commodity or service - hence there was minimal utilisation of Input tax Credit. Total value included taxes paid on intermediate good, thus there was Cascading effect of tax, GST has solved this issue,

↳ It is effectively a tax on value addition at each stage of supply. At each stage in supply chain there will be Input tax credit so that tax is paid only on value added.

→ GST has simplified the tax structure which would also ensure to reduce the cost in terms of distortions.

Good Points of Discussion

Remarks

5 You can Also Discuss About the Principal of Economy and on the basis of it discuss Importance of Good Tax System

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→ The laws, procedures and Rates of taxes across the country are standardised. Thus increasing the compliance.

→ It has facilitated the freedom of movement of goods and services and created a common market in the country.

→ Parity in taxation across the country. and extended principles of value-added taxation to all goods and services.

→ 6 standard Tax Rate Slabs-
0%, 3%, 5%, 12%, 18%, 28%.

→ It has reduced the cost of business operations.

→ It has also reduced the overall cost of production which will make Indian products more competitive in domestic & International markets.

→ Higher Economic Growth.

→ Online common portal thus compliance will be easier, registration, returns, payments.

Well Discussed Point

Also Add

Remarks

- Exports are expected to Grow
- Inflation would be Reduced
- Fiscal Deficit

→ Higher transparency in Taxation system, widened the tax base.

→ Reduced corruption as it minimised human interface b/w Taxpayer and government.

→ furthered Ease of Doing Business.

→ Promoted Cooperative fiscal federalism.
Centre's share of GST = CGST
State's share of GST = SGST

→ Exports shall be zero rated in the sense that exporters will pay GST but will get full refund of GST.

→ Benefit to Consumers too.
Anti Profiteering clause under GST to ensure that the benefit of lower tax paid at each stage is passed on to the consumers in the form of lower prices.

Thus all these positive impacts have revolutionised the tax structure, standardised it and hence removed all distortions and made it a smooth & efficient mechanism

Good

5.5

Also Discuss various challenges posed by it

Remarks

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Q15. Keeping the 1991 LPG reforms in the hindsight, provide quantitative information and qualitative insights regarding the evolution of trade policy in the past 25 years.
(15 Marks)

1991- New Economic Policy was the major decision in the Indian Economy that has taken ~~as~~ it out of Hindu Rate of growth and transformed the economy like never before

The LPG Reforms revolutionised the major sectors of Economy- External Sector, Banking System, Public and Private Sector.

The Transformation has been excellent in the Trade sector with some of the major decisions such as:

* MRTP Act was replaced by Competition Commission of India Act which promoted competition in the Indian Economy to target unfair trade practices.
* Import Tariffs were removed
* Export Subsidies were removed making the products more competitive.
* FERA act was replaced by FEMA Act.
Under FEMA act, firms were allowed to bring any
-> amount of foreign investment to India.
-> Exporters were ~~allowed to bi~~ freed from the restrictions where they had to bring their foreign earnings from abroad within 3 months.
* External Commercial borrowing including Masala bonds have been allowed under FEMA.

Also Discuss About Policies and facts Adopted

New Economic Policy

Remarks

Scanned by CamScanner

* Business friendly Reforms –
  → Relaxation of licensing Rules.
  → Rationalisation of Tax Structure
  → Allowing import of raw materials with lesser restrictions
* Increased labour productivity resulted in higher output generation hence increase in skilled ~~to~~ work force gave further boost to the trade sector.

* To develop coordination between different government policies and incentives – 6 earlier schemes to promote commodity exports have been combined into single Merchandise Exports from India (MEIS).

and two earlier schemes to promote services exports have been combined to provision Services export from India Scheme (SEIS)

* Government Recently has promoted MSME through policies like Zero Defect Zero Effect (Certificate – quality superior, zero effect – Environment superior).

Also Describe about fall in imports and exports

SEZ

Remarks

Export oriented Scheme (EOU)

8

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* To Reduce Red Tapism in foreign Trade transactions - 18 ports in India have been equipped to provide 24x7 clearance for all consignments.

All these steps acts as nuts and bolts to strengthen the trade policy.

well conceptual knowledge

* Categorisation of Trade Indian Exports

Category A	Category B.	Category C.
Traditional markets.	emerging markets	Other Market.
	important in Recent year.	huge potential in coming years
~~UAE~~, E USA, EU, Libya, Iraq.	Singapore, S. Korea Japan.	Chile, Nigeria, Thailand.

* Business to Business Relation improved.
* Export Growth = 10.4%. , India's Total Export 302 Bn $

Also Discuss about current trade policy

Further Steps to be taken

→ Diversification of Both exports and imports. for consistency
→ Development led export Path
→ Reducing Average Import Duty to make India Manufacturing Hub.

Remarks → Promote Services export - Tourism, Healthcare, software etc.

→ Better Negotiation for Foreign Trade Agreements.

Guided by LPG model

Brief Conclusion

& Jeevanode

6.5

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Q16. Discuss the meaning, important components, trends and government policy on foreign capital/foreign direct investment in India. Also, analyse the key role foreign capital plays in the economic development process of the country. (15 Marks)

Foreign Capital / Foreign Direct Investment -

means when a foreign investor generally a company may invest in a country say India with the object of manufacturing some product, providing some service engaging itself in construction activity or merely providing know-how & technology.

major components

Good Stalls Also Discuss About the Importance of Foreign Capital in Economic Development Process of Country

→ Manufacturing - Example - HUL, Cadbury, Nestle, Colgate Maruti Suzuki

→ Service Sector - Telecom, Aviation, Restaurant, Business. Vodafone, Bajaj, ICICI Prudential etc.

→ Construction Sector - Smart Cities, Highways, Ports.

$\boxed{\text{Role}}$ & Trends

→ FDI is the best form of foreign capital (unlike FII) where the investor brings foreign capital without any quid pro quo and ~~set~~ on his own risk.

→ FDI bridges 4 gaps in economy

Technology gap — brings latest technology
Knowledge gap
Resources gap — Investment (much needed)
Trade gap

Remarks

Scanned by CamScanner

→ By Definition FDI is long term as the company comes with the intention of ~~saving~~ staying in the Country, investing, earning profits and spreading its wings as a global multinational companies.

Government's FDI Policy :→

The Indian Economy was liberalised in the 1991 with the New Economic Policy which also liberalised its foreign investment secter and since then there is no looking back.

FDI Policy in India basically includes 2 components

Routes of Foreign Policy Investment — Caps on FDI.

Descriptive
Discuss relevant Govt initiatives

Routes of FDI in India:

(1). Automatic Route : This implies that if any foreign company wants to invest in the country it can do so and it does not require any prior permission from any agency.

92% of total FDI comes through this route in India.

India has opened many secter for this direct route

Remarks

Scanned by CamScanner

Q17.

II) Govt. Approval Route : When FDI has to come through this route, for certain sectors government has reserved that the company has to seek prior approval from the concerned ministry or department
Govt. from time to time notify which sectors are open for direct route and which sectors are open for govt approval route.

(III) NRI ⇒ The Non Resident Indians can also invest in the country. The govt organises Pravasi Bhartiya Diwas to spur investment from NRIs.

Caps on the FDI

Caps are the instruments with the domestic country through which it can regulate the investment of the foreign company in the domestic economy. For example a cap of 24% would imply that the shares of foreign company in the domestic company cannot extend beyond 24%.
In India for eg- FDI in defence is permitted only upto 49% under Automatic Route.
The Caps in FDI provide necessary checks & balances.
These regulations also prevent the disadvantages of FDI like the company sometime may threat economic & political sovereignty, cut throat competition etc.

Discuss in Brief

6

Remarks: Also Discuss Challenges of their effectiveness of foreign capital

Q17. Liquidity is important for an economy to spur growth. To maintain liquidity, the RBI is dependent on the monetary policy. Discuss the relevance of Monetary Policy review procedures undertaken by the RBI. (15 Marks)

Monetary Policy Instruments are the effective tools available with RBI through which it controls the liquidity in the economy, simultaneously also controlling inflation and balancing both the functions through Monetary Policy Review from time to time.

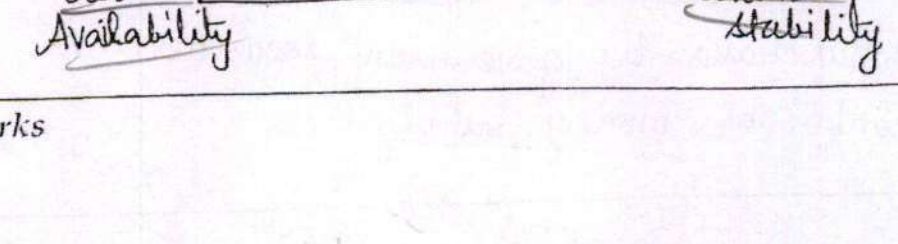
A Good Start

- RBI monetary policy committee looks at monetary situation.
- According to 2016 A agreement between government and RBI, RBI Committee aims to keep the inflation rate 2-6% as lower and upper band.

Also Discuss about the importance of liquidity

→ Government implements various fiscal policies. ~~Go~~ RBI reviews the monetary policies to keep the inflation within control, it access the market situation and maintaine financial stability through liquidity.

RBI-Monetary Policy Review



Remarks

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① RBI changes Cash Reserve Ratio

It is the amount of reserves that banks have to maintain with the RBI, on these reserves there is no returns.

CRR is changed to control the liquidity in the economy

Working → CRR ↑sed
↓
Reserves to be kept with RBI ↑
↓
Less availability of funds to be given as loans by banks
↓
Less liquidity in the economy. (Control Inflation)

there No Need of Detail Explanation these terms

② Similarly through Statutory & Liquidity Ratio (SLR) the RBI performs the similar functions. However it is not as effective as CRR.

SLR is the minimum proportion of NDTL which the Banks are statutorily required to keep with themselves. and not with RBI.

③ Open Market Operation:

This is the procedure by which the RBI sells and purchases the government securities. to control the money supply.

Remarks

Also Discuss About
urjit Patel Committe
Multiple Indicator Approach

Scanned by CamScanner

If RBI purchases the government securities it induces liquidity and vice versa.

Repo Rate : Repo Rate is the rate at which the banks can borrow money from RBI.

Higher Repo Rate → Less Borrowing by banks → Less Loan available to lend → Less Money supply controls inflation.

Through all these provisions the RBI tries to maintain a balance b/w credit availability & Inflation
There is inherent conflict, if RBI is very strict with Price Stability it may lose out of credit availability and vice versa.
This ~~a~~ is a challenge, and this conflict is resolved by Monetary ~~Review~~ Policy Review Procedures, it is consultative & participative procedure.
All the above mentioned instruments provides flexibility to the banks. RBI to balance the liquidity.

5.5

You need to Also Discuss about the Relevance of Monetary Policy in ... factors on context of liquidity Operations

Remarks

Scanned by CamScanner

Q18. Budget analysis is a tool used to build public accountability and focus into public expenditure management and budget processes. Illustrate the budgeting process and explain efficacy of budget analysis with reference to India. (15 Marks)

Article 112 mandates the government to present before the Parliament a statement of estimated receipts and expenditures of the government in respect of every financial year.

This Annual financial Statement constitutes the main budget document of the government.

Good
Intro

→ Budgeting in India can be divided into 4 stages

Well
presented

Preparation of Budget	Enactment of Budget	Execution of Budget	Parliamentary Control over Budget

→ Preparation of Budget:

Preparation of Budget starts from September where the departments and the ministries are served notice by the Department of Economic Affairs (Budget Head) to prepare the expenditure and estimated receipts for the current year and the next year

All the revenues ~~details~~ from all ministries and details are calculated.

Also
Discuss
About the
Budget
Analysis

Remarks

Scanned by CamScanner

→ Then the Expenditure division holds discussion with the officials of department with regard to expenditure demands.

→ Other Departments of Ministry of Finance hold discussion with economists and experts and invite proposals from general public.

→ In November, Core Budget team takes over to finalise all the proposals headed by Finance Minister.

→ Blue Sheets are prepared which are top secret which have the outline formula of the finalised proposals and the order of the priorities of the Budget.

→ The Documents are then printed which are to be given to the members of Parliament on the Budget Day.

Well Discussed About the Budgeting Process

Enactment of Budget →

Once the budget is prepared, it goes to the Parliament for enactment and legislation.

The Finance Minister presents the budget in the Lok Sabha and copies are distributed among the members to go through the details of the budget.

Remarks

Scanned by CamScanner

→ Finance Bill is also presented simultaneously.

→ Voting on the Demand of Grants – a Demand of grants show the estimates of the expenditure for various departments which are then voted upon by the Parliament.

→ Appropriation Bill is introduced, considered & passed
↳ It provides legal authority for withdrawl of funds from the Consolidated Fund of India.

→ Finance Bill & Appropriation Bill are sent to Rajya Sabha and are passed there and then finally get the President Assent.

Shorten the Part

Execution of Budget

After the passing of the Finance Bill & Appropriation Bill, the execution of the Budget starts, collection of revenue and spending money on the schemes

Parliament control over Finance

The Parliament being sovereign gives grants to the executive which makes demands. These demands ~~for~~ can be of varieties – demand for grants, supplementary grant, additional grant.

The Budget Document is the most significant policy document of the government, it signifies its goals and governance framework. It is widely discussed, debated, scrutinised ~~to~~ and herein lies the efficacy of the procedure.

6

Remarks

You need to also Discuss the usefulness of Budget analysis as a tool of public exp accountability

Conclusion

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Q19. In an economy, adequate availability of capital formation is considered as one of the important factors for the overall growth and development of the economy. Inadequate availability or lack of capital formation in the economy may lead to underdevelopment of the economy. Elaborate the role and importance of savings and investment in creation of capital structure and economic growth in India. (15 Marks)

- Investment to GDP ratio is ~~de~~ showing a declining trend in the recent years which is not a positive sign for the developing economy like India.

- Savings rate is also showing a declining trend which further adds up to the problem

→ Capital formation is needed to build physical and social infrastructure which ~~ss~~ creates a spill over effect over all sectors of economy.

→ Private Savings and Investment ~~is~~ are the bedrock for the availability of capital to Private borrowers as well as to the government.

However the government often uses these private savings & Investments to raise funds through issuing bonds to finance its deficits which might crowd out the private investors who would other ~~thsv~~ invest in capital formation.

Good Start Also Discuss About Various Stages of Capital Formation

Remarks

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Harod Domar Model also is based on the ~~cor~~ assumption that

high income → high savings → high investment → high economic growth.

Macroeconomic Stabilisation Equation

Private Saving = Private Investment + Fiscal Deficit + Current Account surplus.

Since we have negative current account surplus, our imports are more than exports.

Savings Investment Gaps.

$$\text{Income} = \text{Expenditure}$$

$$\text{Consumption} + \text{Saving} + \text{Tax} = C + I + G + Nx.$$

$$S = \underbrace{I + (G-T) + Nx}_{\text{Saving Investment gap}}$$

→ Hence if my savings are not effecient, I won't be able to make sufficient private investment.

→ Savings & Investment are most suited for capital investment as they create Relations of equals, however Borrowings create dependency & favours

Good But Elaborate your Discussion

Remarks

Also Discuss factors Affecting Capital formation

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Adequate Capital formation would benefit the future generations with higher returns than rate of interests.

→ Capital Formation - crucial for Social Infrastructure development

thus it acts as a strong boost to the inclusive development agenda.

→ Crucial for Industrial Sector

MSMEs contribute 31% of GDP and has 45% share in the Exports, thus Capital investments in the Manufacturing sector would be a multiplier effect on the economy.

→ Inclusive Development & Job Opportunities

Capital formation is crucial for job creation and thus the development could percolate down to the most remotest corner.

Good Graphics knowledge but Elaborate your Discussion

Remarks

Also Discuss the Reason for Slowdown in of Capital formation or India

Conclusion?

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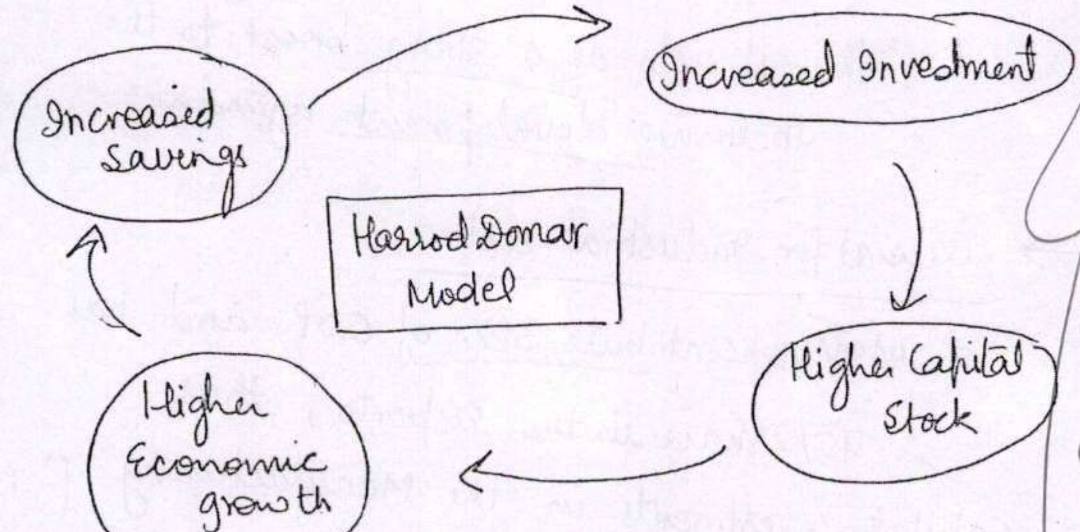
[illegible] Briefly Discuss about Planned investment Model

Q20. With reference to the planned investment models, bring in the distinctness observed in the Harrod-Domar model and the Mahalanobis model and evaluate their operational effectiveness. (15 Marks)

Harrod-Domar Model ⇒ Level of Savings + Productivity of Capital



* Harrod Domar Model- classical Keynesian model of Economic growth

* This model suggest that the economic growth mainly depends on two factors -
  - Level of savings - higher savings enable higher investment.
  - Capital / Output Ratio = lower capital output ratio means investment is more efficient and growth rate will be higher.

Good presentation But You need to Elaborate this

Remarks

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→ More investment → Capital accumulation → economic growth.

→ This model is not as applicable in Low Income countries as in these countries the income are low, thus there is insufficient rates of savings
↓.
∴ accumulation of physical capital stock is low.

→ The model concludes that an economy does not naturally find full employment and stable growth rates.

full conceptual knowledge

Mahalanobis Model

→ Mahalanobis Model is based on NeoMarxian Model of economic development.

→ Essence of the Model:
Shift in the pattern of industrial investment towards building up a domestic consumption goods sector.

→ Investment in building a capacity in the production of capital goods $\xrightarrow[\text{to}]{\text{leads}}$ High standard in consumption.

Remarks

Also Discuss limitation | Difference with Harrod Domar model

→ The first Five Year Plan was based on Harod Damor Model

Production required capital } → Capital canbe accumulated through investment } → faster one accumulates ↓ higher the growth rate

→ Criticism came from Mahalanobis –

Mahalanobis said that the model is incapable to cope with the real constraints of the economy ignoring of fundamental choice problem of planning over time.

The Second five Year Plan was based on Mahalarobis strategy. where a rapid long term rate of growth, as could be achieved by investing in the outlay of basic heavy industries.

Also Discuss these model effectiveness w.r.t unique contexts of India

5

Remarks

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