



**An Institute for Civil Services**

# **IAS TOPPER'S TEST COPY**

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### **AIR 95**

### **CSE 2023**

### **ECONOMY**



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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 :-

- Unit tax (a specific value)
- 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

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



Factor  
 • Tax discouraging  
 • 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.

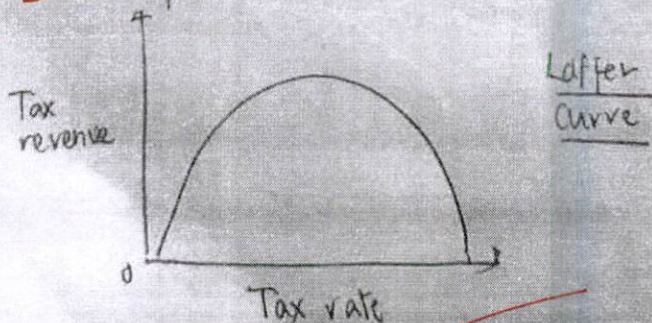
GST tax rates in India work as a fiscal policy tool, so do the cesses collected from the sale of petrol/diesel.

Illustrate  
 Any tax levied  
 by Country  
 → GST  
 → Explain it  
 → Brief point  
 → pros & cons

## Tax Rate and Government Revenue

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

However, excessive taxation can be counter-productive:-





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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

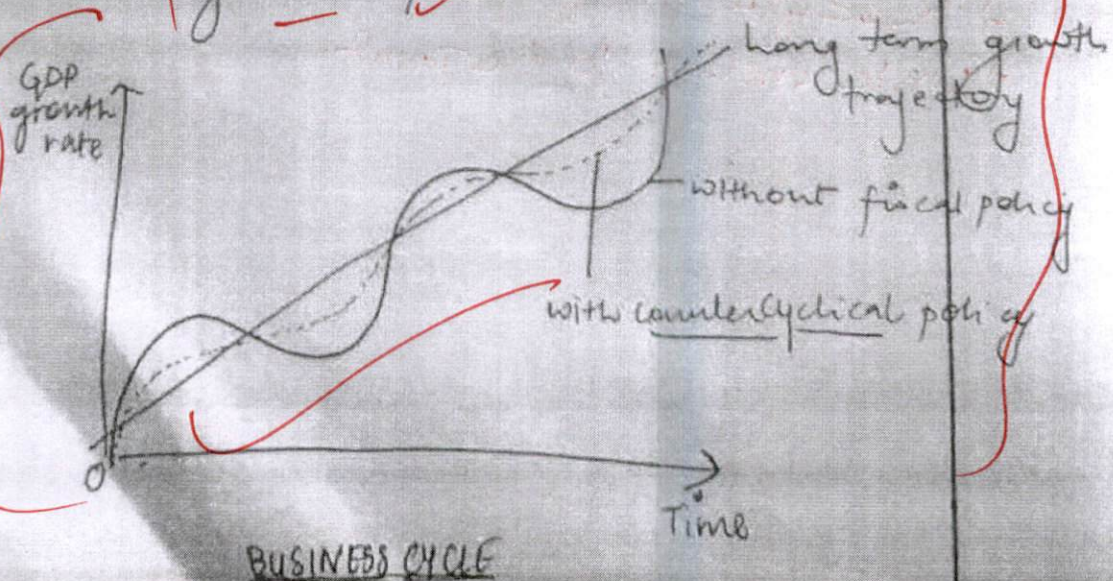
Role of Fiscal Policy :-

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

→ minimise the imbalance in the disposal of income & wealth

→ elevate the rate of capital formation

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





## 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

eg: 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.



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- 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.

Final  
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.

• 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.

Supply chain disruptions across the world are leading to inflationary pressure

• Agricultural fluctuations have resulted in food prices 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.

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



(Q6)

When principle or interest is due for more than 90 days then 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.

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

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

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

→ Recently during pandemic  
4-5% of NPA

3) Inadequate resolution mechanism 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.

Expb in m.  
bncf

→ IBC

→ SARFAESI Act

→ Indradhanush Plan.

→ Project Sashakt

Diversify more points

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 ( $\approx 1\%$ ).

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.

Why Subsidy reform needed

→ help to reach beneficiaries  
→ cut the hand of black market

→ to increase accountability & transparency

fine introduction



(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.

Avoid  
irrelevant  
points.

stick to  
the demand  
of question

Reform in  
Subsidy

→ PDS  
→ National  
Food  
Security Act

→ PM AYL  
→ PM UY  
→ LPG-DDBT



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this has helped in:-

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

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 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 project

→ 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