Test 10

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SUBJECT:	Economic development	Test Code:	7	5	0	
Name of Candidate	YAKINI NAGARAJAN					

Medium ~~Hindi~~/Eng.	ENG	Registration Number	1	3	7	0	9	
Center	DISTANCE	Date	1	1	0	0	1	6

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Q. No.	Page No.	Maximum Marks	Marks Obtained

Total Marks Obtained:

INSTRUCTIONS

1. Do furnish the appropriate details in the answer sheet (viz. Name, Registration Number and Test Code).
2. All questions are compulsory.
3. The number of marks carried by a question/part is indicated against it.
4. Answers must be written in the medium authorized in the Admission Certificate, which must be stated clearly on the cover of this Question-Cum-Answer (QCA) Booklet in the space provided. No marks will be given for answers written in medium other that the authorized one.
5. Word limit in questions, if specified, should be adhered to.
6. Any page or portion of the page left blank in the Question-Cum-Answer Booklet must be clearly struck off.

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EVALUATION INDICATORS

1. Alignment Competence
2. Context Competence
3. Content Competence
4. Language Competence
5. Introduction Competence
6. Structure - Presentation Competence
7. Conclusion Competence

Overall Macro Comments / feedback / suggestions on Answer Booklet:

1.

2.

3.

4.

5.

6.

All the Best

1. Waterways despite having inherent advantages account for only 1% of the total ~~to~~ cargo transport in India.

The ~~value~~ waterways have high value in Indian economy as →

i) It is one of the cheapest mode of communication.

Eg → Per ton cargo carried distance for 1litre of fuel is 100km for waterways but only 24km for roadways.

ii) It is low emission mode.

iii) Requires less infrastructure building than roadways & railways.

iv) Leads to overall development of hinterland.

The New National Waterways Bill 2015 aims to build 105 new waterways in addition to the existing ~~to~~ 6 National waterways.

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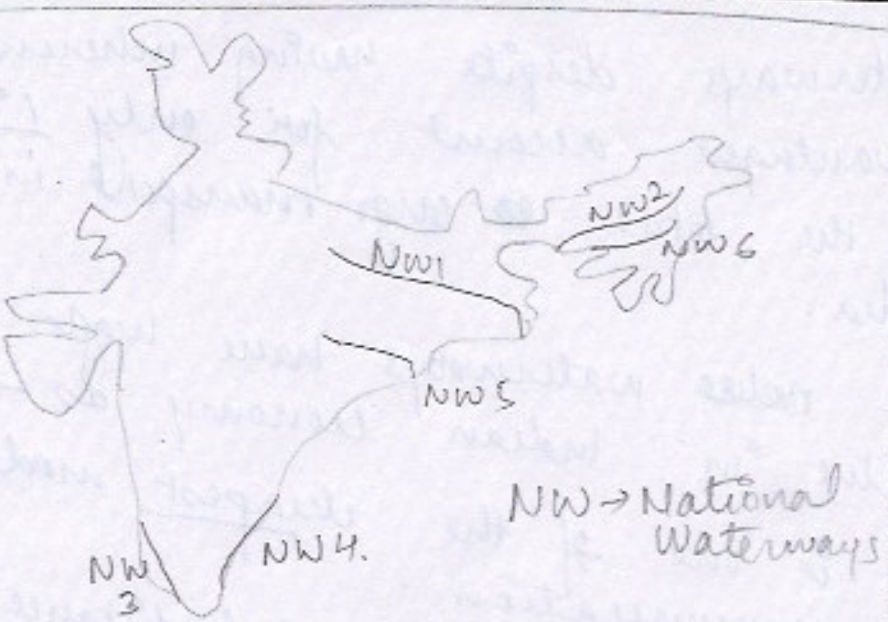

Potential benefits of an integrated approach to waterways development are →

i) Reduction in logistics cost which is presently around 18% compared to world average of 12%.

ii) ~~Operating~~ Achieving ease of transport of goods.

iii) Generating additional economic activity along the banks & development of hinterland.

iv) Reduction in congestion of roads & pollution.

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v) Boosting India's export by encouraging trade from hitherto unconnected areas.

vi) Revival of drying rivers and also help in ~~wab~~ proper river management.

vii) Boosting of infrastructure development.

Hence, integrated approach to waterways development along with Coastal development through Sagarmala Project can be a game changer for Indian economy.

2. The fiscal deficit target has been set at 3.9% for 2015-16 and 3% by 2018. by the FRBM Act 2003.

Need for adhering to fiscal consolidation →

i) It boosts investor confidence in the economy & leads to higher private & foreign investment.

ii) Breaching this target destabilises the economy as witnessed in Brazil. due to lack of fiscal consolidation.

iii) It also maintains the international rating of Indian economy.

iv) Lack of fiscal consolidation results in inflation and depreciation of Rupee.

v) This may lead to higher debt servicing charges from external borrowers.

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i) The ~~6~~. FRBM Act has largely served its purpose in maintaining fiscal discipline.

ii) It has boosted India's credit rating to BBB-positive.

iii) It has also reduced in current account deficit from around 5% to less than 1% now & helped ~~to~~ reduce inflation.

But ~~as~~ Finance Minister has called for a relook at FRBM act to provide for a range rather than a fixed target of 3% because →

1) ~~During~~ ~~recent~~ to boost economic growth ~~monetary policy &~~ fiscal ~~policy~~

Public spending is needed to crowd in investment & boost economic growth in times of weak growth. which is restricted by FRBM Act.

Also, it would lead to greater public investment in infrastructure building, employment building & welfare measures by the government in times of depressed growth for eg last two consecutive years of drought.

Hence, FRBM Act has served its purpose to some extent but there is a need for its relook as Government is always under pressure to breach the target.

3. ~~Railwa~~ Railways share in total cargo transport has considerably fallen from 90% to less than 30% today.

It is facing from an investment crunch.

Public investment in railways has a multiplier effect on economy as ⇒

i) It reduces the cost of logistics & increases cost competitiveness of the goods.

ii) It acts as a binding force of the nation.

iii) Its 17lakh strong employee ~~a~~ can fuel consumption & boost economic growth.

iv) It increases the ease of doing business by overcoming infrastructural bottlenecks

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Despite a separate budget, Indian railways have been held back due to →

i) Using of railways as a political tool to mindlessly announce new trains as sops!

ii) ~~to~~ Cross subsidisation which results in poor passenger service & expensive freight transport.

iii) Losses annually by railways ~~a~~ reached 30,000 crore in 2014.

iv) Lack of technological innovation like Bullet trains.

v) Lack of investment in building infrastructure.
for eg → Only 17000 km railways has been built since independence

vi) Intense competition from roadways & airways.

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Relevant recommendation of Bibek Debroy committee are →

i) Gradual liberalisation of Indian railways by promoting private partnership.

ii) Separate Rail Tariff Authority to decide fares.

iii) Depoliticisation of railways by ending the process of separate budget.

iv) Technological innovation & boosting investment.

v) Outsourcing of services like catering services.

Government has already accepted his recommendations & 92 year old practice of Railway budget has been scrapped to pave way for a modern efficient railways.

4. It is said that small firms account for 60% of total informal employment & 40% of India's export.

But small firms are noticed to have remained small. Factors that prevent them from growing bigger are →

1) ~~Fear~~ Disincentive to grow due to inavailibility of government support & tax relaxation if they advance to medium or large industry.

ii) lack of credit for expansion.

iii) Lack of technological support & thus lack of lack of product competitiveness.

iv) Infrastructural bottlenecks like lack of stable electricity, storage facilities also restrict it.

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v) Lack of ease of doing business also prevent their growth.

vi) Lack of skilling and training is also a factor.

vii) Restrictive labour laws for formal organisations

viii) Presence of Regulatory Raj.

India has made considerable progress as follows →

i) Has initiated various schemes like MUDRA Yojana, Start up India, Stand up India to boost credit availability.

ii) Skill India Mission for skilling & training.

iii) Relaxation of labour laws for eg → recent Gujarat labour laws

iv) Infrastructure building initiative under National Infrastructure & Investment Fund.

v) Attempts to ease land acquisition & environmental clearances

Other measures required are →

i) Simplification of taxes.

ii) Simplification of land acquisition

iii) Presence of over 150 labour laws which needs simplification.

iv) Incentivising small firms to grow.

v) Avoiding retrospective taxation

Hence, small firms can be encouraged to grow to provide meaningful employment to a large section of the population to harness our demographic dividend.

5. Recent RBI Report has put NPA value at 5% & stressed asset value at 14% for PSBs and less than 4% for private & foreign banks.

Reasons why NPA's are higher in PSBs are →

i) Political interference like loan waivers & loan melas.

ii) Inefficient functioning of Boards of PSBs as said by Nayak committee.

iii) Pressure of serving Government Initiatives like PM Jan Dhan Yojana where over 50% accounts have zero balance.

iv) Lack of technological innovation & efficiency in administration.

v) Pressure of huge employee base & trade unions.

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vi) Limited access to private & foreign funds

Implications of having high NPA in economy →

i) Destabilisation of economy due to fear of collapse of big banks.

ii) Lack of availability of credit to ~~feed~~ boost private investment.

iii) lack of availability of funds to boost consumer investment which will in turn boost private growth.

iv) Pressure on the Government to ~~disalign~~ & breach fiscal consolidation targets which will result in inflation & deq currency depreciation.

v) Overall slowdown in the economy & lack of job growth

Measures Govt taken →

i) Indradhanush plan to restructure PSBs.
ii) Bank Board Bureau to depoliticize board appointments.
iii) Recapitalization support of Rs 70,000.
iv) Creating other modes of credit availability through MUDRA Yojana / Investment funds etc.
v) RBI norms for writing off bad loans for balance sheet correction.
vi) New Bankruptcy Code.
vii) Strengthening of ARCs & DRTs. (Debt Recovery Tribunals)

NPAs are a big problem in banking industry today leading to twin balance sheet syndrome & Government has already started merger of banks for consolidation to tide over this crisis.

6 Disinvestment refers to selling off of Government shares and strategic sale refers to 51% & above disinvestment.

This is important tool for bolstering Government exchequer as →

1) It provides the necessary resources for Government.

For eg → This year's target of disinvestment revenues is Rs 56 000 crore.

ii) It helps Government in its path of fiscal consolidation.

iii) It opens up the sector for greater private participation.

iv) Thus it increases competitiveness & working efficiency of the sector

v) It also leads to technological upgradation & ~~best~~ adoption of global

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best practices.

However, achievements have not been at par expectations as →

1) Government has experienced at least 10% shortfall in realised & expected revenues from disinvestment.

ii) ~~Lack~~ Of Global financial Crisis has prevented inflow of ~~the~~ investment.

iii) Also, weak banking sentiments & high rate of interest has also prevented private investment.

iv) Weak financial markets have depreciated the asset value.

But Government has taken measures to handle this →

1) Disinvestment Department of

Finance Ministry has been renamed as DIPAM & will also involve in buyback of shares.

ii) Banking consolidation is being pursued.

iii) Interest rates has also being reduced to 6.25% to boost investment.

iv) Improvement in ease of doing business rating to 130 rank will also help in improving credit ranking & thus boosting the asset value.

Disinvestment is a critical tool for further liberalisation of the economy & must be promoted to achieve ~~compe~~ efficiency of service delivery.

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7. Hybrid Annuity model is a form of PPP (Public Private Partnership) being proposed by the Government. It is said to be midway between EPC & BOT models of PPP.

Salient features of HAM →

i) Government will pay 40% of construction cost and rest will come from private sector.

ii) Upto 80% of land requirements will be arranged by the Government.

iii) Toll will be collected by the Government & periodic annuity will be paid to the private investor.

iv) There is also a framework for renegotiation of agreement at a later stage.

~~It is an imp~~

v) It will cover both brownfield & greenfield ~~investments~~ projects.

It is an improvement over EPC as →

i) Risk is shared by the Govt. & the private investor as toll is collected by the Govt!

ii) land and partly construction has been taken care of by the government.

iii) It is more in the nature of contract agreement unlike the nature of EPC.

iv) There is a way for grievance redressal as framework for renogotiation exists.

v) It will not lead to harassment of private investor due to shortcomings of the Government.

vi) It has less scope for Governmental interference than EPC.

Hence, HAM is better than EPC and is expected to boost PPP projects which have been experiencing slowdown despite the initial success.

8. India has a number of FTA arrangements ~~w~~ within the multilateral formal of WTO like India-Sri Lanka Japan, ~~A~~ IBSA, ~~SAARC FTA~~ etc

It has served India well as-

i) It has boosted trade & export

ii) It has boosted investment due to which India received the highest FDI in 2015-16

iii) It has also led to technology transfer like Bullet train from Japan.

iv) It has created employment.

v) It has also paved way for regional cohesiveness through trade. and today India accounts for 2.5% of global trade.

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New Mega regional agreements like TPP pose challenges like →

1) Trade diversion from India to countries like
For Eg → In textile
Vietnam which is part of TPP.

ii) Slowdown in growth.
iii) Loss of markets for pharmaceutical industry due to high IPR standard in TPP.

India can effectively deal with challenges by →

1) Negotiating FTA with more countries & concluding the ongoing negotiations like RCEP with Asean & with EU & Australia.

ii) Promoting regional trade like through SAARC FTA & BBIN corridor.

iii) Promoting competitiveness of our exports by addressing technological & infrastructural issues.

iv) Promoting linkages & value addition to agriculture & skilling the population.

In any case joining such agreements like TPP will be against India's interests according to Economic survey & India should be well prepared to face these challenges.

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1. India's export has been declining consistently since last 12 months and almost 15% down than in 2014.

Reasons for decline in India's export →

i) Weak global financial situation & weak aggregate demand which has impacted even countries like China.

ii) Low global oil prices as refined petroleum products form the largest share in our export basket.

iii) Competitive devaluation by China & other economies hurting India's export competitiveness.

iv) Corruption drive in China reducing our market for Gems & Jewellery especially diamonds.

v) Lack of technological & infrastructural capabilities to boost our export competitiveness.
vi) Regional groupings like TPP causing distortions

Measures proposed in FTP 2015 →

i) It aims to ~~achieve~~ increase India's share in global trade ~~by~~ to 5% by 2019.

ii) Provision of duty credit scripts to boost indegenous export.

Overall Make in India project ~~was~~ & ongoing FTA negotiations will help India regain its export ~~[illegible]~~ sector & boost economic growth.

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10) Start Up India Scheme aims to address the rapidly growing startup culture in the country as we are the 3rd largest start up hubs in the world today.

Provisions of Start-Up India Scheme →

i) Income tax exemption for seed funding & incubators of start ups.

ii) Relaxation of labour laws & environmental laws for 3 years.

iii) Facilitating participation in Government procurement by doing away with prior experience & turnover criteria.

iv) Fund of Funds of Rs 10,000 for promoting startups.

v) Fast tracking of IPR requests on low cost & providing support on patent issues.

vi) Setting up of start up parks & clusters
For eg → Oasis hub for start ups in Rajasthan.

vii) Simplifying taxation laws as 65% of startups leave India due to ~~so~~ tax complexities.

Startups will play a transformative role in India's development as →

i) It will transform citizens from job seekers to job providers.

ii) It will help us utilize our demographic divident better.

iii) It will also imbibe a culture of technological innovation & research in India.

iv) It can help transform India into a knowledge hub.

v) It can boost economic growth as many startups have now become unicorn startups i.e. valuation above $1 billion like Flipkart.

vi) It will also increase our exports

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Don't write anything this margin (इस भाग में कुछ ना लिखें)

& help garner foreign exchange.

(vii) Many startups are also working in social sectors & will help in social development of India too. For eg → Practo working in telemedicine

Start up India scheme along with Digital India & Make in India Mission can transform India's development story & help it achieve superpower status.

11. Cashless economy is a global trend now due to –

i) Digitisation of world space.
ii) fight against black money
iii) Inherent advantages of cashless economy like protection from theft or lost and convenience
iv) Global growth of e-commerce.

India, is a highly cash dependent economy with cash transaction accounting for 95% of trade by volume but in developed countries it is only 40-50%.

Challenges faced by India →

i) low level of digital penetration like electronic payment methods & e-commerce.
ii) lack of internet penetration
For eg → Only 20 crore Indians use internet

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iii) Presence of a large parallel black economy thriving on cash.

iv) lack of incentive for cashless payment. For eg → Convenience fee charged for digital transactions.

v) Lack of literacy.

vi) Bulk of cash transfers takes place in small transactions due to low purchasing power which is difficult to digitise.

vii) Cultural reasons like bargaining habits also prevent transformation into cashless economy.

These challenges can be overcome by →

i) Promoting literacy & e-literacy

ii) Increasing the purchasing power of people.

iii) Increasing internet penetration

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iv) Providing incentives to cashless transaction.

v) Stringent anti-corruption & black money measures.

vi) Securing cyber threats through cyber security infrastructure.

vii) Unified Payment Interface (UPI) is a big step towards cashless economy

Hence, according to SIT on black money, cashless economy will help integrate India's black money & also boost tax revenues & boost growth & development.

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12 In India, only 3% of the ~~worker~~ ~~are~~ adult population is formally skilled while the figure is over 90% for S.Korea, Japan etc.

Factors responsible for this scenario →

i) Lack of focus on vocational training & skill development.

ii) ~~Dace~~ Faulty education system with higher emphasis on rote learning.

iii) Lack of Government-Industry collaboration.

iv) Weak manufacturing sector base is also a reason.

v) Lack of Government investment in vocational training.

vi) Poor quality of higher education with a report stating that only 20% of technical graduates are employable.

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Measures taken by Government to address this →

i) PM Kaushal Vikas Yojana & Skill India Initiative to ~~train~~ skill 40 crore workers by 2022.

ii) PM Apprentice Protsahan Yojana to boost apprentice growth.

iii) Industry collaboration to skill industry employable workers.

iv) Demand based skill training.

v) Ustaad scheme for minority youth for skill enhancement & provisioning of bridge courses.

vi) Make in India Mission to drive manufacturing sector to boost employment growth.

vii) Skill Certification programmes as per industry standards.

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Hence, skilled workforce is essential to achieve our demographic dividend & prevent it from turning into demographic curse.

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13. Women participation in workforce ratio in urban areas in India is a mere 20% compared to over 80% for men.

But recently women are entering urban workforce in large numbers.
For eg → 30% of employees in IT industry are women.

But most are only able to find marginal work in informal economy due to →

i) lower educational levels in women.
For eg → literary rate is 64% for women by 82% for men.

ii) low skill set, thus getting employed in low wage industries like textile industry.

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iii) Lack of flexibility & mobility in women as much as men to pursue better work opportunities in distant places.

iv) Lack of bargaining power of women

v) Dual responsibility on women of work as well as family also prevents them from full time job.

vi) Lack of creche facilities & other facilities also prevents them.

vii) Patriarchal family norms condemning women to be indoors is also a reason.

viii) Also, widespread glass ceiling in urban workspace is also a reason.

Hence, women are relegated to low paid jobs which undermines women empowerment measures & also harms the economy in the long run as said by IMF.

14. In 10 years of existence MGNREGA has won laurels & has been called as a "Stellar Example" by World Bank. of rural development.

Positives from NREGA has been →

i) Provided ~~pee~~ rural population with alternate source of income especially during lean period & drought times.

ii) Also helped in rural infrastructure development.

iii) 60% employment has been provided to SC, ST & OBC. furthering inclusive growth.

iv) Over 50% are women beneficiary above the legal mandate of 33%.

v) Helped as a wage bargaining tool.

vi) Also strengthened democracy by empowering Gram Sabhas.

vii) Boosted rural demand.

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Criticism of NREGA →

i) Delay & fluctuations in wage payment fuelling rural distress

ii) Lack of coordination between centre & state.

iii) Criticised as "digging & filling of holes" due to absence of productive asset development

iv) Fuelled rural inflation.

v) Corruption & leakages concerns.

Changes required for scheme to be relevant in current scenario is →

i) Wage : Material ratio must be adjusted to address concerns of both wage payment & quality material.

ii) Productive asset building
For eg → in collabration with PM Krishi Sinchai Yojana

iii) Greater cooperation between states & Centre.

iv) Providing adequate funding for NREGA.

v) Promoting digitisation to increase transparency & accountability.

Hence, MGNREGA can be a game changer in changing the face of rural India where over 70% population resides.

15. Power sector reforms, despite India being the 5th largest power producer, has remained elusive.
Reasons for its failure are ⇒

i) High ~~burden~~ financial burden on DISCOMS due to financial impropriety. ~~eta~~ - ~~ea~~ political interference & free electricity subsidy to farmers.

ii) Poor financial status of state electricity boards due to inappropriate tariff structure.

iii) Huge transmission & distribution losses of 25% compared to world average of 15% due to technological backwardness & theft.

iv) Lack of power plants operating at full capacity due to unavailability of dedicated freight corridors for thermal plants.

v) lack of investment in renewable & unconventional sources of energy.

vi) lack of proper utilization of byproducts like molasses & flyash to boost financial status.

Hence, due to these failures, over 30% villages are still said to be unelectrified yet.

UDAY scheme can address the issues of DISCOMS as →

i) It will provide for state taking up their losses in exchange of equity

ii) It will also provide for rationalised tariff structure.

It will improve the entire power sector value chain as →

i) It will improve operational efficiency

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ii) It will also ~~attract~~ free up funds for power generation endeavors.

iii) For this reason, ~~ere~~ many states like M.P., U.P., Rajasthan, Chattisgarh have already adopted UDAY program.

But, it cannot solve the entire problem of power sector & government investment is needed to ~~boos~~ reduce the infrastructural & technological bottlenecks for the overhaul of power sector.

16 Market volatility & vulnerability to weather is a major issue in Indian agriculture as it →

i) denies fair ~~pay~~ remuneration to farmers & pushes up costs for customers.

ii) It also increases the risks associated with agriculture.

iii) With rising climate change, monsoon dependent Indian agri. is hard hit.

For eg → 2014 & 2015 droughts damaged the crops & in 2016 floods damaged the crops in Bihar, & Assam.

iv) It also increases food wastage due to rotten food & undermines food security.

Because of these reasons FAO says that agriculture is no longer attractive for youths.

Importance of PM Fasal Bima Yojana vis-a-vis. National Crop Insurance Scheme (NCIS) & Modified Crop Insurance scheme are

i) It provides for a uniform system of insurance.

ii) Premiums are low @ at 2% for kharif crops & 1.5% for rabi crops.

iii) Unlike earlier schemes where premium on commercial & horticulture crops used to be upto 25%. now it has been fixed at 5%.

iv) Unlike previous time norm of partial recovery, there is no cap on Government in present scheme.

v) Also earlier schemes covered only 25% area while PMFBY plans to cover 50% area ~~by 20~~ in 3 years

vi) Also, unlike previous schemes, post harvest loss is also included.

vii) Unlike previous schemes, more focus has been given to technology like use of smart phones & remote sensing.

viii) Crop loss due to climate change is also included.

Criticism.

i) Scheme mandates risk sharing in the form of 50:50 between centre & state which risks state participation.

ii) Crop loss due to animal attack has not been included.

iii) 50% coverage target in 3years is a tall target.

iv) Need electronic penetration & e-literacy.

~~But~~, PMFBY is a positive step & Economic survey has recommended doing away with agri. subsidies in favour of PMFBY.

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17 HELP is the new licensing policy. It can help cut India's import of petroleum of Rs 7 lakh crore annually.

It can encourage investment as →

1) It is uniform policy for both conventional & unconventional sources of energy.

ii) It is based on accrual method hence companies need not wait for auctions.

iii) It is based on revenue-sharing model

iv) It is pricing is based on market determined prices.

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18. Smart Cities Mission plans to develop 100 smart cities across India at the cost of Rs50,000 crore.

But it is dependent on the financial sustainability of local bodies because →

i) ~~In absence of financially empowered local bodies it will merely replicate the urban growth story till now.~~

ii) Technological initiatives like smart designs and smart architecture will require finances.

ii) Financial sustainability is also required for proper governance of smart cities.

iii) To boost economic activity, employment & combat pollution also requires financial sustainability

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iv) Moreover, it is required for proper service delivery by the local bodies. & thus deepen democracy.

Constitutional Measures for financial sustainability of ULB →

i) Schedule 11 & 12 for local governance.

ii) It contains list of subjects to be transferred to ULBs.

iii) A243 provides for financial mechanism for ULBs. like octroi, professional tax etc.

iv) Vth & VIth schedule for Scheduled areas

Strategies for raising resource →

i) Creation of Special Purpose Vehicles to invite private investment.

ii) Increasing professional tax as mentioned by 2nd ARC

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iii) Financial devolution by states to urban local bodies

iv) 80:20 ~~perfomance~~ ratio of basic grant : performance grant for ULB as mandated in 14th Finance Commission.

v) Empowering ULBs to collect own ~~taxes~~ resources like entertainment tax etc.

vi) Ensuring accountability through elected mayor

Financially empowered local bodies is essential for success of smart cities as its absence will merely replicate the urban story till now which World Bank called "messy & hidden"

19. Despite being sick, ventures are not able to exit on time.
The ~~recovery ratio~~ time delay is very high for India & recovery value is very less which negatively impacts ease of doing business in India.

Reasons that impede the exit of sick units →
i) Lack of a common Bankruptcy Code.
ii) Multiplicity of laws governing exit like SARFAESI Act, Industrial disputes Act, Sick Industries Act (SICA) etc.
iii) Stringent labour laws like Industrial Dispute Act which requires Government permission before lay offs.
iv) Trade Unions also impedes.

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v) Inadequacies & inefficiencies of Appellate tribunals. & according to RBI Governor, even lack of skilling of tribunal staff.

vi) Bureaucratic red tapism & lack of transparency also leads to delays.

Constraints placed on the economy →

i) Lack of investor trust & failure to invite foreign investment.

ii) loss of employment for thousands like Nokia exit from Chennai.

iii) ~~Lack~~ Dissuades private investment in long run.

iv) Fear of laying off restrictions also impedes employment options which is leading to increased mechanization thus leading to Jobless Growth.

Measures to address the problem

i) RBI Governor suggested cap on appellate seeking behavior
ii) Bankruptcy Code has been unveiled.
iii) Simpler taxation procedures.
iv) Simple entry & exit guidelines.
v) BITs could also help address the problem (Bilateral Investment Treaty).

Hence, proper exit environment is necessary for developing a proper entry environment for private players

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20. Economic Survey has noted that upto 80% of beneficiaries of subsidies like Gold, Petroleum, LPG is appropriated by the well off.

Positives / Advantages of subsidies

1) India has 53% multidimentionally poor population according to UNDP which needs subsidies.

ii) Subsidies also needed for food security & farmer security.

iii) 50% population dependent on agri. so agri. subsidy is needed.

iv) Subsidy also required to control prices & check inflation which adversely affects the poor.

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Disadvantages of subsidy

i) Makes the population dependent on Govt. rather than their empowerment.

ii) 2.5% of GDP is the cost of subsidy.

iii) Problem of free riders, corruption & leakages

For eg → 47% leakage in PDS subsidy.

iv) Distortion of market economy.

v) ~~Bettaa~~ lack of choice to customers.

Hence, subsidy is required but rationalisation of subsidy is the need of the hour for fiscal prudence.

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