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GENERAL STUDIES (TEST CODE : 1394)

Name of Candidate	ARTH JAIN		
Medium Eng./Hindi	ENG	Registration Number	488737
Center	ORN	Date	10/11/19

INDEX TABLE

Q. No.	Maximum Marks	Marks Obtained
1	12.5	
2	12.5	
3	12.5	
4	12.5	
5	12.5	
6	12.5	
7	12.5	
8	12.5	
9	12.5	
10	12.5	
11	12.5	
12	12.5	
13	12.5	
14	12.5	
15	12.5	
16	12.5	
17	12.5	
18	12.5	
19	12.5	
20	12.5	

Total Marks Obtained:

Remarks:

INSTRUCTIONS

1. Do furnish the appropriate details in the answer sheet (viz. Name, Registration Number and Test Code).
   उत्तर पुस्तिका में सूचनाएं भरना आवश्यक है (नाम, प्रश्न–पत्र कोड, विद्यार्थी क्रमांक आदि)।
2. There are **TWENTY** questions printed in **ENGLISH & HINDI**
   इसमें बीस प्रश्न हैं अंग्रेजी और हिन्दी में छपे हैं।
3. **All questions are compulsory.**
   सभी प्रश्न अनिवार्य हैं।
4. The number of marks carried by a question/part is indicated against it.
   प्रत्येक प्रश्न/भाग के अंक उसके सामने दिए गए हैं।
5. 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.
   प्रश्नों के उत्तर उसी माध्यम में लिखे जाने चाहिए जिसका उल्लेख आपके प्रवेश पत्र में किया गया है और उस माध्यम का स्पष्ट उल्लेख प्रश्न–सह–उत्तर (क्यूसीए) पुस्तिका के मुख्य पृष्ठ पर अंकित निर्दिष्ट स्थान पर किया जाना चाहिए। उल्लिखित माध्यम के अतिरिक्त अन्य किसी माध्यम में लिए गए उत्तर पर कोई अंक नहीं मिलेंगे।
6. Word limit in questions, if specified, should be adhered to.
   प्रश्नों में शब्द सीमा, जहाँ विनिर्दिष्ट है, का अनुसरण किया जाना चाहिए।
7. Any page or portion of the page left blank in the Question-Cum-Answer Booklet must be clearly struck off.
   उत्तर पुस्तिका में खाली छोड़ा हुआ पृष्ठ या उसके अंश को स्पष्ट रूप से काटा जाना चाहिए।

16-B, 2nd Floor, Above National Trust Building, Bada Bazar Marg, Old Rajinder Nagar, Delhi-110060

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EVALUATION INDICATORS

1. Contextual Competence
2. Content Competence
3. Language Competence
4. Introduction Competence
5. Structure - Presentation Competence
6. Conclusion Competence

Overall Macro Comments / feedback / suggestions on Answer Booklet:

1.

2.

3.

4.

5.

6.

All the Best

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Answer all the questions in NOT MORE THAN 200 WORDS each. Content of the answers is more important than its length. All questions carry equal marks.
12.5X20=250

1. Explain the value-added, income and expenditure methods of estimating national income.

राष्ट्रीय आय के आकलन की मूल्य-वर्धित, आय और व्यय विधियों को स्पष्ट कीजिए।

National income refers to the total value of goods and services produced by an economy over a period of 1 year.

Approach to calculating NI

① Value-added approach:

- Sums up the value added at each stage. This is also known as GVA.
- It makes sure that intermediate consumption is thus subtracted.
- It is the official method used by CSO to calculate GDP.

② Income approach:

Based on the assumption that income earned is proportionate to value produced.

- It adds up what different factors earn.

[redacted]

Labour → Wages
Capital → Interest
Land → Rent
Entrepreneurship → Profits

This summation for various sectors give the NI.

③ <u>Expenditure approach:</u>

Based on the assumption that amount spent in consumption must equal the total value produced.

$$NI = C + I + G + X M$$

C → Consumption eg: Buying a new car

I → Investment eg: Real estate

G → Government expenditure

X M → Exports − Imports

Theoretically all 3 methods must give same value, however due to reasons such as:

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- Underreporting
- Black money & parallel economy
- Informal sector, which is cash reliant
- Accounting errors,

The 3 approaches give slightly different sums.

Conclusion

Measure of NI is representative of a country's economic potential and size. Both GDP and GNP can be used.

In India,

NI = NNP @ Market price.

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2. Explain why Micro, Small and Medium Enterprises (MSME) sector is regarded as the 'growth engine' of the Indian economy. Suggest key reforms that are required for improving the overall business climate for MSMEs in India.

स्पष्ट कीजिए कि क्यों सूक्ष्म, लघु और मध्यम उद्यम (MSME) क्षेत्रक को भारतीय अर्थव्यवस्था का 'ग्रोथ इंजन' (वृद्धि इंजन) माना जाता है। भारत में MSMEs के लिए समग्र व्यावसायिक परिवेश में सुधार लाने हेतु आवश्यक महत्वपूर्ण सुधारों का सुझाव दीजिए।

MSME secter accounts for ~29% of GDP and ~45% of manufacturing output. It contributes immensely to employment generation.

MSMEs as the growth engine

- Account for least NPAs and hence a key to sustainable growth.
- Inculcate a "local connect" thus promoting inclusive development.
- Due to their ubiquitous presence, they can address regional imbalances, Crucial for growth of economy
- Contribute to employment generation at the local level.
- Contribute to export sector, ~28% of exports are by MSMEs.

Problems faced by MSME Sector

- Access to capital: Heavy reliance on informal sources of credit.
- Regulatory compliance due to red tapism and bureaucratic inefficiencies
- Lack of modern technology
- Cannot exploit economies of scale due to their small size.

Key Reforms/Way Forward

- Portals such as "59 Minutes" can make access to capital easier.
- Randomized inspection to save MSMEs from harassment.
- Mandating PSUs to buy portion of their products from MSMEs.
- Special initiatives for women-led MSMEs.

[redacted]

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- Addressing the gaps in MUDRA Yojana.

Conclusion

MSMEs in India contribute the least to NPAs, putting them in a favourable position vis-a-vis other companies. Tailored initiatives for this sector can thus give great returns.

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3. The average size of holdings has shown a steady declining trend over the last three decades. What are the challenges faced by farmers due to fragmentation of land? What needs to be done in this regard?

विगत तीन दशकों के दौरान जोतों के औसत आकार में निरंतर गिरावट की प्रवृत्ति देखी गई है। भूमि के विखंडन के कारण किसानों को किन चुनौतियों का सामना करना पड़ रहा है? इस संबंध में क्या किये जाने की आवश्यकता है?

The stagnation of agriculture and its low growth rate of 3%. calls for urgent reforms. Of these the issue of land reforms is crucial.

Land Fragmentation crisis

- Average size of landholding was 1.08 ha per farmer, much lesser than 4 ha in 1960s.
- This was a consequence of high fertility rate → division of land among sons.

Challenges

- Productivity decreases, as a farmer is unable to exploit economies of scale.
- Capital costs, such as buying a tractor remain the same, even with smaller land holding.

[redacted]

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This discourages farmers from capital investments.

- Monocropping: Small land holding makes crop diversification difficult, making the farmer vulnerable.
- Low produce (in absolute terms), which keeps the farmers in perpetual debt.

Possible reforms

- Cooperativization (as promoted by Nagpur resolution of 1959) must be explored once again.
- Problem of disguised unemployment must be corrected to increase per capita productivity.
- Use of techniques such as precision farming to ↑ productivity.
  - Use of ICT
  - Drip irrigation
  - SHCs

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- Diversifying to other sectors i.e exploring Inland fisheries / silviculture to augment income.

Way Forward

Recommendations of Ashok Dalwai committee must be looked into, to double the farmers income.
The persistent threat of desertification also makes the issue of land fragmentation much more crucial.

[redacted]

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4. Distinguishing between a flexible and fixed exchange rate system, explain how exchange rate is determined under a flexible exchange rate system.

लचीली और स्थिर विनिमय दर प्रणाली के मध्य अंतर स्पष्ट करते हुए, समझाइए कि लचीली विनिमय दर प्रणाली के अंतर्गत विनिमय दर कैसे निर्धारित होती है।

Enchange rate determines the rate of interchanging different currencies.

Eg: 1 $ can be exchanged to obtain 72 rupees and vice versa

Types of enchange rate system:

Flenible enchange rate:

Based on the ideology of "laissez faire", here the rate of enchange is market determined. No government intervention takes place.

Fixed enchange rate:

Here the rate of enchange is determined by the central bank of a country. The enchange rate does not reflect the demand of the currency in the global market. Thus that system is not preferred.

Semi-flexible rate: (Float-pegged)

Here the currency rate is largely market determined with occasional interference by the central bank.
eg: China follows this.

Working of a flexible exchange rate

- The rate is determined by the market based on its supply/demand.
- The central bank does not intervene. USA follows this system.

What determines demand?

Economic conditions in the country, i.e. how conducive an economy is for business, prevailing interest rates, inflation etc.

Example:

- Country with high savings rate would attract foreign currency thus appreciating home currency.

[redacted]

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- High inflation would lead to weakening of currency.
- External borrowings would increase i.e strengthen currency.

Supply:

- Excessive printing of notes by central bank would increase supply.
- This would weaken currency.

Conclusion

Exchange rate, whether flexibly determined or fixed, has a crucial role in a country's economic interaction with the world.

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5. Discuss why enacting appropriate land leasing laws should be given priority in India.

चर्चा कीजिए कि भारत में उपयुक्त भूमि पट्टा कानूनों के अधिनियमन को प्राथमिकता क्यों दी जानी चाहिए।

Land, as a state subject, has always been controversial due to increased litigation relating to leasing cases.

Need for reforms in Land leasing:

- Archaic laws, which are not suited to needs of today.
- Heavily biased towards tenant, which discourages leasing.
- Slow judicial process, which often locks away capital.
- Land forms an important capital for businesses. Proper leasing will benefit both sides.
- Increasing desertification, ~~has~~ along with increasing population is making land a scarce resource.

↓

Increased population pressure

- Even in case of agriculture, appropriate Leasing laws may allow for cooperativisation or better avenues of contract farming.

What can be done?

- Reforms in LARR Act, that has been a source of contention.
- Model Law on Land Leasing can be drafted by the central govt.
- Pre-leasing agreements must be made more detailed.
- Land leasing laws should be balanced b/w Land owner and tenant.

Conclusion

Increasing population pressure on Land, calls for urgent reforms in land Leasing laws.

[redacted]

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6. Gross Domestic Product (GDP) of a country can not be taken as an index of the welfare of the people of that country. Analyse.

किसी देश के सकल घरेलू उत्पाद (GDP) को उस देश के लोगों के कल्याण का सूचक नहीं माना जा सकता है। विश्लेषण कीजिए।

GDP refers to the total value of goods and services produced by a country (within its geographical borders) in a span of 1 year.

Way of calculation:

- Income method
- Expenditure method
- Value added method

Why "GDP as an Index" fails?

- Imperfect proxy for the social welfare of a country.
- For instance, increased military expenditure or expenditure on sin goods increases GDP but does nothing for welfare of people.
- Does not address inequality:

① Gender inequality is ignored
② Economic inequality is not

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reflected in GDP.

Despite India's increasing GDP, today 1% own 73% wealth. (Oxfam)

- Social indicators such as happiness peace or physcological state are not addressed.
- Even education/healthcare are addressed "quantitatively" and not "qualitatively".
- Regional imbalances are also ignored in calculation of GDP.

What can be done

- Moving to a different index.
  eg: Bhutan bases its policy making on its <u>Happiness index.</u>
- <u>Incorporating inequality:</u> Basing policy making on inequality adjusted GDP - both in gender terms and economic inequality terms.

[redacted]

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- Green GDP: Takes into account environmental damage done.
- Basing policy making on "outcomes" rather than "outputs".

↓

Promote a culture of quality over quantity.

Conclusion

Considering how GDP fails to address crucial developmental indicators, health of an economy must not be solely judged on GDP.

7. Bringing out the difference between depreciation and devaluation of a currency, explain how they affect foreign trade of a country.

मुद्रा के मूल्यह्रास और अवमूल्यन के मध्य अंतर प्रकट करते हुए, स्पष्ट कीजिए कि ये किसी देश के विदेशी व्यापार को कैसे प्रभावित करते हैं।

Depreciation and devaluation both refer to weakening of a currency. This implies the "purchasing power" of a currency diminishes vis-a-vis other currencies.

Depreciation	vs. Devaluation
Determined by free market	Done by central bank of a country.
Reflects the demand of currency in global market.	Is not reflective of prevailing trends in market.
Considered natural.	Considered unethical.

Effect on Foreign trade

- Weakening of currency favours exports over imports, while strengthening favours imports.

- The effects are almost similar in case of both devaluation/ depreciation.

Effect on imports :

- Weakened currency favours domestic exports.
- However since it makes import of raw materials more expensive, some exports suffer.
- Import bill increases: In India, oil bill is very sensitive to currency fluctuations.

Depreciation in Indian context

- India has set a target of increasing its share in global trade from 2.1% to 3.5%.
- A depreciated currency would thus make it more achievable.
- Certain sectors such as electronics or apparel have an inverted duty structure. These will suffer.

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- Weakening of currency can be due to inflation, which would then increase price of exports.

Conclusion

Exchange rate is crucial in determining the health of country's external sector. With India's aim of safeguarding domestic interests, a slightly depreciated currency is acceptable.

8. Explain the mechanism of credit creation by the banking system in an economy. What are the factors that limit such credit creation?

अर्थव्यवस्था में बैंकिंग प्रणाली द्वारा साख सृजन की क्रियाविधि को स्पष्ट कीजिए। ऐसे कौन-से कारक हैं जो इस तरह के साख सृजन को सीमित करते हैं?

Credit creation is the basic essence of the banking system.

$\boxed{\text{Mechanism of Credit creation}}$

- A bank has both assets and liabilities.
  liabilities → savings accepted. assets → loans given out
- It gives out loans at higher interest rates and accepts savings at a lower interest rate.
- The difference in the rates correspond to a bank's profit.

$\boxed{\text{Money multiplication}}$

- Loans given out, lead to consumption or investment which generate further income.
- This income is deposited in another bank. The cycle continues.

This is known as credit creation.

Bank 1
↓ Credit — $\times 0.9$
Bank 2 — $\times 0.9$
↓
Bank 3
⋮
∞

money multiplier

Limitations on credit creation

Reserve ratios: High value of CRR/SLR forces banks to keep a portion of their assets aside. This decreases the quantity available to lend.

Financial inclusion: Significant section of society still does not have access to proper banking facilities.

Rise of NPAs: Leads to wealth being locked away. The gross NPAs currently stand at Rs. 9.1 lakh crores.

Banking frauds: Lead to loss of faith in banking system and public withdraws their wealth.
eg: PMC Bank scam.

[redacted]

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Way Forward

1. Projects / Schemes like Jan Dhan Yojana can increase financial inclusion.
2. NPAs can be tackled by Project Sashakt or IBC 2016.
3. Digital literacy must be increased to make "net banking" accessible.

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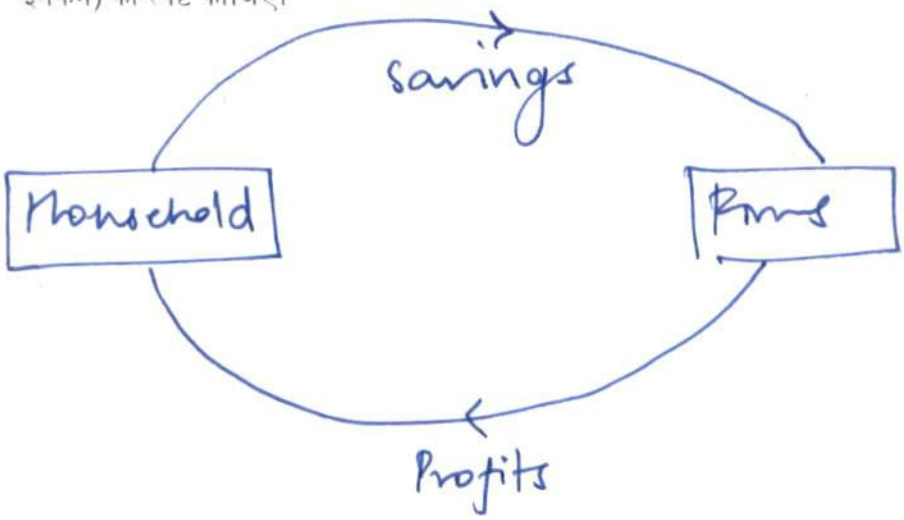
9. With the help of a diagram, explain the circular flow of income in a simple economy.

एक रेखाचित्र की सहायता से, सरल अर्थव्यवस्था में आय के वर्तुल प्रवाह (सर्कुलर फ्लो ऑफ़ इनकम) को स्पष्ट कीजिए।



In a simple economy, the circular flow of income explains how households and firms mutually reinforce each other.

Working

- Households invest their savings in different places, eg: Banks, bonds, stock market.
- These savings act as the source of capital for firms.
- Firms engage in business activity and generate profits.

[redacted]

- These profits are used to pay ~~wages~~ wages of workers.
- These workers are the earning units of households.
- Thus income flows back to households.

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10. Explain the meaning of Balance of Payments and give an account of various components included within current and capital account.

भुगतान संतुलन का अर्थ स्पष्ट कीजिए तथा चालू और पूँजी खाते में सम्मिलित विभिन्न घटकों का विवरण दीजिए।

Balance of payments refers to the net value of economic transactions of a country's citizens with the rest of the world.

$\boxed{\text{Components of BoP}}$

- Current Acount
  - Visibles
    - eg: Goods
  - Invisibles
    - Services
    - Transfer payments
- Capital Acount
  - Debt
  - Non-debt

Capital Account

Involves payments that either create debt or reduce liabilities or lead to a change in capital assets.

Examples:

- External borrowing comes under Capital recipts as a debt.

- Disinvestment (to a foreign company) would be a capital receipt (non debt)
- Investment in a foreign plant would be a capital expenditure.

Current Account:

Visibles: These given an account of trade in goods i.e merchandise.

India → Exports ~ $330 bil
India → Imports ~ $510 bil

Invisibles: Such as trade in services or transfer payments.
eg: IT service comes under this.

Examples:
It includes all those that involve revenue expenditure or revenue receipt.

$\underbrace{\text{revenue expenditure}}_{\text{Salary of employees}}$ or $\underbrace{\text{revenue receipt}}_{\text{Interest on loans}}$

CAD: (Current account deficit)
Is the net difference in expenditure and receipts. India has a CAD ~ $ 54 billion.

[redacted]

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Current account surplus: Opposite of CAD.

Implications of BoP

- High CAD must be compensated by a ~~current~~ Capital account surplus, else it would deplete forex reserves.
- Capital Account surplus brings in FDI/technology that helps in economic development.
- Sustained CAD, which is not compensated by CAS will lead to outflow of forex → weakening of currency.

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(इस भाग में कुछ ना लिखें)

11. Explain the demand-pull and cost-push factors of inflation in India.
भारत में मांग-प्रेरित और लागत-जनित मुद्रास्फीति के कारकों को स्पष्ट कीजिए।

Inflation refers to the continuous increase in prices of commodities over a time period.

Types of Inflation

Demand pull: Caused due to increase in either aggregate demand or increase in demand of a specific commodity.

Examples:

(1) Increase in income would lead to increase demand & hence inflation.

(2) Decrease in supply would lead to a "relative increase" in demand and hence inflation.
eg: Case of Onion prices

Cost push: Caused due to structural changes that increase the cost of production and hence the overall price of products.

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Examples

(1) Decrease in availability of labour would make final product more expensive.

(2) Increase in prices of raw materials.

Impact of inflation

- High inflation is not conducive to economic growth. Can also lead to hyperinflation in extreme cases.
- Poor people and people on fixed incomes suffer.
- Mild inflation is desirable for an economy and benefits businesses.
- Extremely low inflation could lead to deflation → deflationary spiral, eventually leading to recession.

What can be done?

- Addressing structural reforms, that lead to a decrease in cost of production

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- Acting against black marketing & hoarding (under Essential Commodities Act) to stop artificial rise in prices.
- Increasing interest rates that discourage borrowing.
- Performing OMOs to decrease money supply.

[redacted]

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

12. Explain the different quantitative and qualitative policy tools used to regulate money supply in the economy.

अर्थव्यवस्था में मुद्रा की आपूर्ति को विनियमित करने के लिए प्रयुक्त विभिन्न मात्रात्मक और गुणात्मक नीतिगत साधनों को स्पष्ट कीजिए।

Under monetary policy, RBI undertakes measures to regulate the money supply and ensure financial stability.

Tools

Quantitative:

(1) Increasing / decreasing repo rates to regulate the supply of money. Increase in repo would discourage borrowing and encourage saving.

(2) Performing Open Market operations (OMOs) - This was extensively carried out during the 2008 financial crisis.

(3) Changing reserve ratios such as CRR/SLR. Decrease in CRR would lead to an increase in money supply.

Qualitative:

(1) Moral Suasion: Informal / formal meetings b/w central bank and other

banks to enforce desired plan.

(2) Credit rationing: would lead to change in availability of credit.

(3) PSL Norms: This can change the distribution of credit, thus indirectly influencing money supply in economy.

Effectiveness of Tools

- Transmission of change in benchmark rates is below par.
- Moral suasion may not always work.
- PSL norms are often exploited by using legal loopholes.

Way Forward

- Linking bank rate with repo rate in a transparent manner. As done by RBI in relation to MCLR.
- Increasing venues for PSL to increase voluntary compliance.

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

- Keeping optimal CRR/SLR that does not interfere with lending while ensuring sufficient reserves in case of a bank run.

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13. What is liquidity trap? Discuss its implications on the economy.

तरलता पाश (लिक्विडिटी ट्रैप) क्या है? अर्थव्यवस्था पर इसके निहितार्थों की विवेचना कीजिए।

Liquidity trap is a situation where transmission of relaxation in interest rate is unable to pass on to the final borrowers.

i.e Despite the central bank decreasing its repo rate

Either banks don't decrease lending rates

OR

Lending still doesn't take place with low interest rates

$\boxed{\text{Causes of Liquidity trap:}}$

- Improper transmission of benchmark rates.
- Uncertainty in economy, which leads businesses to hold back investments for a while.
- Political uncertainty, particularly near general elections.
- Global uncertainties like trade war or protectionist policies.

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(इस भाग में कुछ ना लिखें)

Implication on Economy

- Slow down in consumption and investment.
- May lead to recession.
- Unemployment increases, which can lead to social unrest.
- Capital formation decreases, growth thus decreases or becomes unsustainable.
- Trade is hampered, as domestic manufacturers face cash crunch and aggregate demand is low.

Possible Measures

- ~~Stert~~ Open market operations directly by central bank to increase money supply.
- Making it mandatory for lending rate to be linked to repo rate thus ensuring transmission of policy.

- Possible liquidity boosting measures such as tax cuts or recapitalisation

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14. Why is the RBI called as the 'lender of last resort'? What other functions are performed by RBI while acting as a banker to commercial banks and the government?

RBI को 'अंतिम ऋणदाता' क्यों कहा जाता है? वाणिज्यिक बैंकों एवं सरकार के बैंकर के रूप में कार्य करते हुए RBI द्वारा और क्या कार्य सम्पादित किए जाते हैं?

RBI is envisaged as the central bank of India under the RBI Act, 1934.

Lender of last resort

- In case of liquidity mismatches, banks can borrow from other banks.
- When this is not possible they can undertake short term lending from RBI @ repo rate.
- In case of long term liquidity mismatches, RBI has provisions such a MSF - Marginal Standing Facility.

Other Functions of RBI

- Banker to both private banks and the government.
- Regulates private banks and PSBs under Banking Regulation Act, 1949.

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- In charge of printing currency.
- Keeps the foreign exchange of the country.
- Performing OMO/ Sterilisation measures to control money supply in economy.
- Budget deficit was earlier monetised, which involved printing notes by RBI.
- Regulates money supply by adjusting CRR/SLR.
- Ensures distributive justice through Priority Sector Lending (PSL) norms.

Monetary Policy Framework

- Under this RBI has been ~~to~~ mandated to target inflation.
- The target of 4 ± 2 % is based on the consumer price index (CPI).
- It also decides the repo rates and the economic stance every 60 days.

[redacted]

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Conclusions

Apart from acting as the lender of Last resort, RBI is envisaged as the regulator of money supply and guardian of financial system of India.

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15. What are the key issues in fiscal management in India? How can these issues be addressed?

भारत में राजकोषीय प्रबंधन में प्रमुख समस्याएं क्या हैं? इन समस्याओं को कैसे दूर किया जा सकता है?

Fisal management refers to government policies such as adjusting spending levels or tax rates. It is intended to achieve desired economic outcomes like reduction in inflation/unemployment.

Fisal management
- Fiscal discipline
- Fiscal prudence
- Fiscal consolidation

$\boxed{\text{Key issues in fiscal management}}$

- Strict target of 3% fiscal deficit is often difficult to achieve.
- Strict adherance to targets of deficit leave less fiscal space for goverment expenditure.
- Low tax-to-GDP ratio of 17%, is a constraint on the revenue side of the government.

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- Populist measures such as loan waivers, free electricity come with a high fiscal cost.

Implications of fiscal management

- High FD leads to inflation and weakening of currency.
- Sustained FD leads to accumulation of high debt, creating a situation for a debt trap.
- Can lead to crowding out of private sector.
- Make interest payments a substantial expenditure. Currently at 20% of annual budget.

Reforms

As per N K Singh Committee

1. Fiscal deficit of target of 2.5% must be achieved by FY23.
2. Establishing a FISCAL COUNCIL to address the issue of fiscal management.

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(3) Debt-to-GDP target of 60% (combined) and 40% for centre.

(4) Rationalizing subsidies.

↓

eg: Food subsidy alone amounts to 0.8% of GDP or ~Rs. 1.5 lakh crores.

Conclusion

Fiscal management is a key for sustained economic growth.

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16. What is sterilization? Explain how it is deployed by RBI in stabilizing the money supply against external shocks.

स्थिरीकरण (स्टरलाइजेशन) क्या है? समझाइए कि बाह्य आघातों के विरुद्ध मुद्रा की आपूर्ति स्थिर रखने में RBI द्वारा कैसे इसका उपयोग किया जाता है।

Sterilization measures are carried out by a central bank to stabilize money supply and prevent any excess inflation.

Role of RBI

- In case of excessive money supply in the economy, RBI conducts OMOs to decrease money supply.
  OMOs → Lead to a decrease in money supply.
- In case of too less money in the economy, reverse OMOs are conducted.

Money supply & External Shocks

- Flow of excess foreign capital into the economy, which increases the demand for local currency.

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- Effects of global crisis. eg: 2008 crisis led to firing of many MNC employees in India.
- Oil shocks can increase import bill.
- Periods of high inflation / or hyper inflation are characterized by increased money supply.
- Protectionist policies - such as withdrawal of GSP hamper exports.
- Currency volatility: RBI may end up buying dollars, which would lead to infusion of rupee. This would need to be sterilized.

Conclusion

In order to maintain the stability of financial system of India, RBI conducts sterilization measures whenever money supply sharply increases.

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17. Bringing out the difference between fiscal deficit, primary deficit and revenue deficit, explain the implications of a high fiscal deficit on the economy.

राजकोषीय घाटा, प्राथमिक घाटा और राजस्व घाटा के मध्य अंतर स्पष्ट करते हुए, अर्थव्यवस्था पर उच्च राजकोषीय घाटे के निहितार्थों की व्याख्या कीजिए।

Deficit simply means excess of expenditure over revenue.

Types of deficit :

① Fiscal deficit: ~~Revenue~~ expenditures exceed ~~revenue~~ receipts. The balance is borne by borrowings.

② Primary deficit : Type of fiscal deficit in which interest payments are excluded.

③ Revenue deficit: Deficit dealing with excesses in revenue expenditure without taking into account grants for creation of capital assets.

Implications of high FD

① Leads to accumulation of debt. Debt-to-GDP currently stands at 68%. (combined).

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(2) Makes interest payment more and more expensive over time.
eg: 20% of annual budget ~ Interest payments.

(3) May create a situation of a debt trap.

(4) Leads to crowding out of private sector.

(5) May lead to weakening of currency.

(6) High FD due to excessive expenditure leads to inflation.

(7) Economy becomes non-conducive for investment opportunities.

Way Forward

As recommended by NK Singh panel
(1) FD target of 2.5% by FY23.

(2) Creation of a fiscal council to look into remedial measures.

(3) Achieving a combined debt to GDP ratio of 60%..

(4) Rationalizing subsidies.

eg: Fertilizer subsidy annually costs Rs. 70,000 crores.

18. What do you understand by fiscal policy? Explain its key objectives.

राजकोषीय नीति से आप क्या समझते हैं? इसके प्रमुख उद्देश्यों को स्पष्ट कीजिए।

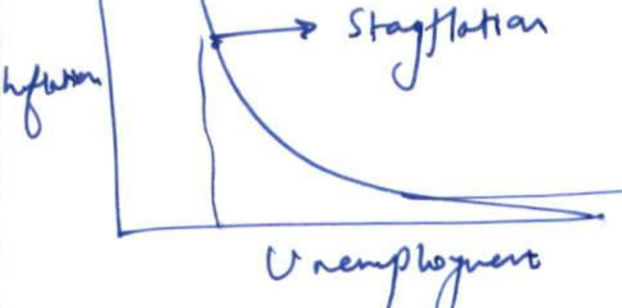
Fiscal policy refers to the macroeconomic measures such as adjustments in government spending or tax rates.

~~It is intended~~

Key objectives

- Economic objectives such as reducing inflation or reducing unemployment need to be met.
- Targeting a sustainable fiscal deficit.
- Adjusting tax rates that favour investment and promote ease of doing business.

Generally, inflation & unemployment have a tradeoff.



Thus some ament of inflation can help reduce unemployment.

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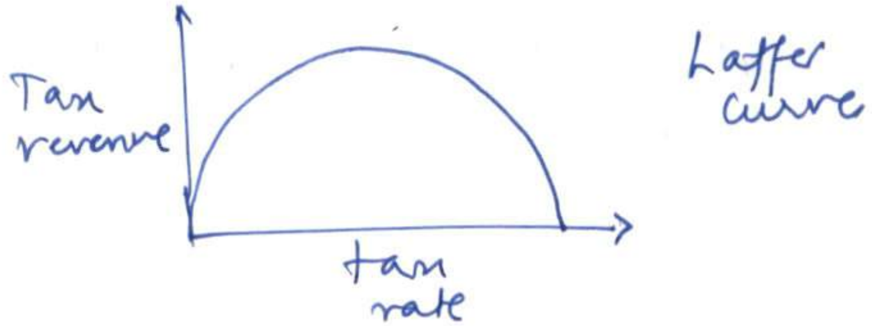
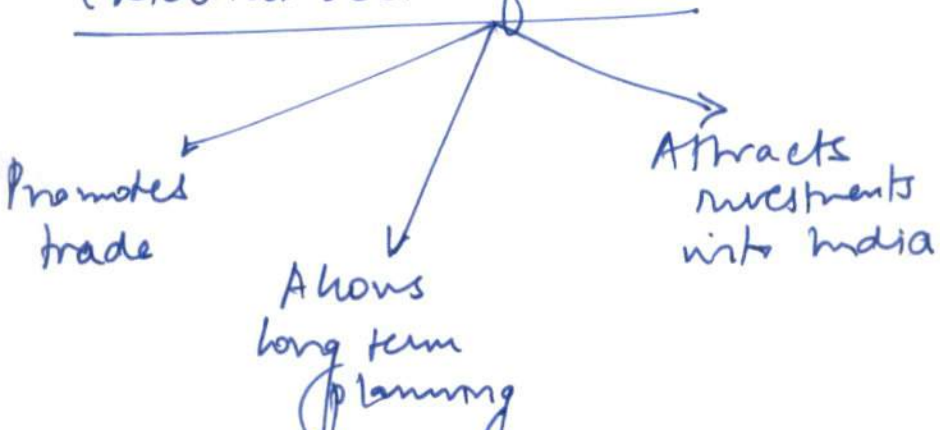
- Even tax revenues are observed to be linked to tax rates.



- Currency stability is crucial for external sector of India.



- High unemployment can lead to social unrest which is not good for economy.

Conclusion

A good fiscal policy must be based on the broad objectives of fiscal discipline, fiscal prudence and

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fiscal consolidation.

In view of these, recommendations of N K Singh panel can be explored.

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19. Explain, in brief, the various components of budget receipts and expenditure.

बजट प्राप्तियों और व्यय के विभिन्न घटकों को संक्षेप में स्पष्ट कीजिए।

Budget outlines the incomes and expenditures of a govt. It has been provided for under Article 112 of the Constitution.

Budget Receipts

① Tax sources: Such as GST, Income tax, Corporate tax, additional customs duty etc.

Annually Corporate Tax > IT > GST. for central govt.

In case of state govt + central govt, Indirect taxes >> Direct taxes

② Non tax sources: Such as sale of spectrum, profits and dividends of PSUs, fees, royalty charges etc.

Budget Expenditure :

① Devolution to states: As per 14th FC, ~42% of budget is devolved to states.

(2) Interest payments: Presently amount to ~20% of the budget.

(3) Revenue expenditure: Such as salaries of government officials.

(4) Central Sector Schemes

(5) Centrally sponsored schemes

(6) Distribution b/w various ministries.

↓

eg: Defence ministry got ~Rs. 3 lakh crores in 2019 Budget.

Conclusion

Outcome budgeting must be ~~adopted~~ enforced strictly that links budgetary proposals with quantifiable outcomes.

This secures the accountability of the executive to the public.

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20. Highlight the monetary and fiscal measures that can be taken to address the phenomenon of inflation. Also explain their limitations.

मुद्रास्फीति की परिघटना से निपटने हेतु उठाए जा सकने वाले मौद्रिक और राजकोषीय उपायों पर प्रकाश डालिए। साथ ही, उनकी सीमाओं का भी वर्णन कीजिए।

Inflation refers to the sustained increase in general prices or those of a group of commodities.

Monetary Measures:

① Decreasing money supply via OMOs to decrease inflation.

② Increasing CRR/SLR to decrease the quantity of loanable assets.

③ Increasing repo rates to make borrowing more expensive.

Fiscal measures:

① Fiscal discipline: Achieving the 2.5% target of FD as outlined by NK Singh panel. Controlled expenditure

② Fiscal prudence: Cutting down on extravagance.

③ Fiscal consolidation: Ensures that

debt payment does not become costly.

4. Increasing tax rates to decrease the amount of disposable income in hand.

Limitations of above approaches:

1. Policy transmission is not always effective. May lead to a situation of liquidity trap.
2. Increasing taxes may discourage business activity and threaten recessionary effects.
3. Political compulsions make fiscal prudence difficult to achieve.

Way Forward

Inflation needs to be addressed urgently as it hurts the poor the most.

Fiscal discipline can be best achieved by rationalizing subsidies and restructuring centrally sponsored schemes.

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