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GENERAL STUDIES (TEST CODE : 1394)

Name of Candidate	Vedika Bansal		
Medium Eng./Hindi	English	Registration Number	523359
Center	ORN	Date	09.09.2019

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।

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 calculation helps to formulate policy, depict the growth and development of an economy. Various methods to calculate national income (NI) include value added, income and consumption.

Value Added Method -

It estimates income from the producers side. Value added is calculated by deducting the value of intermediate consumption from the final production. It removes the problem of double counting. Value added by all the firms adds up to the National income. Net indirect taxes are subtracted to arrive at factor cost.

Income Method - It is estimated from the distribution side. It incorporates all the factor payments received in terms of rent(R)+profit(P) wages(W), interest(I)

GDP = R + W + P + I.

Problems in this method are due to the self-employed, computation of imputed rent, etc.

Expenditure Method - It is estimated from the expenditure side of various sectors i.e. - -

(i) Consumption Expenditure by individuals (C)

(ii) Government Expenditure (G)

(iii) Investment by firms or Government (I)

(iv) Net exports - Imports - Exports : (X - M)

∴ GDP = C + I + G + (X - M)

Thus, national income is calculated in these three ways.

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 sector is a catalyst for socio-economic transformation of India. It helps to fulfill the objectives of employment generation, reduction of poverty and industrial development.

Growth engine of economy :

(i) Contribution to GDP : MSME sector contributes more than 8% to the country's national income

(ii) Employment - The sector provides employment to more than 120 million people in India.

(iii) Industrial output - It contributes 40% to the manufacturing output.

(iv) Exports - MSME accounts for more than 47% of exports in foreign trade.

(v) Development of backward regions - MSME stimulates development in regionally backward areas.

The MSME, though contributes enormously to the growth of economy faces certain challenges.

Challenges faced by MSME

- Lack of access to market
- Lack of infrastructure
- Outdated technology used
- Lack of access to credit
- Cumbersome legal and labour law issues

Thus, to solve the above challenges, the key reforms required are:

(i) Providing access to credit facilities - Financial institutions like MUDRA Bank should be further empowered to issue credit without the issue of collateral security.

(ii) Improving skills and imparting training in the midst of rising competition

(iii) Promoting research and development in the areas to help in solving infrastructural bottlenecks

(iv) Establishing a separate e-commerce platform for widening reach of products like handicrafts (Phulkari), bamboo of Assam. This will reduce dependence on private e-commerce players.

(v) Transparency ~~and~~ in the procurement of finished products by the Government through GeM portal will help solve the issue of lack of market.

The India MSME Report, 2018 further highlights that an entitlement approach that has the potential to compel all stakeholders to work on a common national agenda and solutions under scientifically structured framework.

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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 Agriculture Census of 2015-16 depicts the rise in operational holdings by 5% and the size of average landholding decrease from 1.15 hectares to 1.08 hectares specifying the issue of fragmentation of land.

Reasons for the fragmentation:

(i) Increase in population
(ii) Psychological attachment to land
(iii) Law of inheritence
(iv) The division of land by big industries to sharecroppers.

The fragmentation leads to various challenges:

(i) Makes modernisation difficult - It gets difficult to increase productivity of land through use of tractors, sprinklers etc. when the land is very small.

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(ii) Increased litigation due to border disputes - The boundary disputes rise due to this and hence increases the pressure on farmers.

(iii) Wastage of land - In Punjab, more than 6% of land is wasted due to drawing up of boundaries itself. Thus, a lot of land gets wasted, where production could happen.

(iv) Decreased productivity of land - leading to problem of loss in the incomes and further dependence on moneylenders.

(v) Disguised unemployment

Thus, fragmentation doesn't bring in any benefits to farmers and only leads to challenges and issues.

Measures that can be taken :

(i) Economic holdings -

- A ceiling or a limit could be

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introduced for holding of land which would be economically beneficial

- Establishing agro-processing industries in order to reduce the pressure on land.

(ii) Consolidating land - It should be done in a scientific manner wherein the land is divided in a compact manner first and then divided.

(iii) Creating employment opportunities through schemes like MGNREGA to shift the surplus labour not needed to industries.

(iv) Educating the farmers to enhance their productivity.

Various lessons can also be learnt through countries like Israel to use modern technology to enhance productivity

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।

An exchange rate is the rate at which two currencies can be exchanged for each other. The two prominent exchange rate regimes are fixed and flexible and other being managed exchange rate.

Fixed and Flexible rate:

Fixed	Flexible
(1) It is the rate which is determined by Government	(1) It is variated by the forces of demand and supply.
(2) fixed by central bank or the Government	It is variable and depends on the market.
(3) changes in price - Devaluation & Revaluation	changes in price - Depreciation & Appreciation
(4) Speculation takes place when there is a rumor about change in policy	Speculation is very common
(5) operates through variation of supply of money, interest rate.	operates to remove external instability by change in rate.

Exchange rate determined under flexible rate system -

Under, this system the rate is determined through the demand and supply of the currencies.

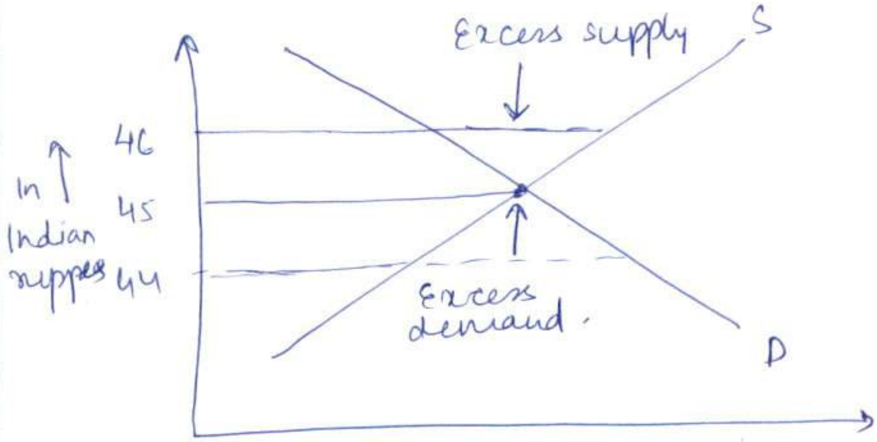
Illustration - Taking Indian rupee and US dollar-

- The demand for dollar in India will come from → individuals, Government, to invest in share market, buy assets, etc.

When the dollar depreciates, fewer Indian rupees would be required to buy a dollar. Thus, the demand of dollars would increase. And, when the dollar appreciates, there would be a fall in the demand. Thus, the demand curve would be a downward sloping curve.

- The supply for dollar will come from the individuals who import goods into USA, Government, etc.

The curve would be an upward sloping curve.



The excess supply would push the prices down and excess demand will push the prices up to the equilibrium exchange rate.

The fixed exchange rate though is certain does not respond to changes in the market. The flexible rate is uncertain and is usually managed by the central bank in times of emergencies.

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।

A NITI Aayog report recently cited that land leasing is an "economic necessity" rather than fuedal agrarian system.

According to Agriculture Census 2015-16, the small and marginal farmers account for more than 86%, however their share in operational landholding is a mere 47%..

Reasons for enacting land leasing laws:

(i) Predominance of small and marginal farmers which are more than 86% of total farmers.

(ii) A proper land leasing law will help incentivise tenants to invest in agricultural productivity.

(iii) Enhance the income of farmers through increase in productivity.

(iv) It will help to bring in more land under cultivation which are currently fallows.

(v) The failure of land reforms in terms of tenancy laws. ~~has~~ and the limitation of Model Leasing Act to not limit a ceiling.

(vi) Increase access to credit as more land will be brought under the framework. collaterals as Land can be provided.

(vii) Land Leasing will lead to less exploitation of tenants.

Thus, land leasing law is an extreme priority currently. The committee on doubling farmers income has also suggested for the same.

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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 is the value of all final goods and services produced in a country in a year. It helps in the calculation of national income. However, it cannot be taken as a qualitative measure.

GDP cannot be taken as an index of welfare due to the following limitations of GDP:

(i) Non-monetised income - GDP does not take into account the services provided by housewives in the houses, the illegal and black money through gambling, etc.

(ii) Externalities - It also does not incorporate the benefits or harms provided through the production of certain goods and services.

Example - An establishment of thermal power plant in ~~Bokaro~~ may lead to increase in production of coal and power, but also increases the level of pollution which is borne by the people. The pollution increases the cost of living due to frequent illness and reduces standard of living.

(iii) Distribution of income - Though, a country's GDP may be rising, but it is not conclusive that inequalities are rising or not. GDP does not accounts how the income is distributed in the strata of society. Thus, it cannot be used as welfare measure.

(iv) Prices - GDP also rises due to increase in price and not only increase in production.

(v)

Thus, GDP is not the correct way to measure the welfare. Indexes like Human development Index, Gross National Happiness Index are better ways to measure the welfare of people.

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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 is the lowering the value of ~~currenc~~ country's currency as compared to another country's value.

Difference between depreciation and devaluation

Basis	Devaluation	Depreciation
Circumstances	Done by Government	Done by the force of demand and supply in the international market.
Rate.	It is done by using fixed exchange rate.	Done by using flexible exchange rate.
Effect on economy	short - term	Long-term
Changes	No fixed time and doesn't occur regularly	occurs on a daily basis

Affect on foreign trade :

(i) Exports increase - Depreciation of currency leads to increase in exports and the rise in competitiveness of the exports in the foreign Market.

(ii) Reduction in Current Account Deficit - A rise in exports will increase the foreign exchange earnings and may lead to reduction in the deficit.

(iii) Imports become relatively expensive - The ~~rise in~~ imports decrease due to devaluation or depreciation of currency.

(iv) Higher inflation in the economy - The inflation rises in the country when currency depreciates, and as a result there is rise in aggregate demand and lack of adequate supply.

Thus, depreciation and devaluation are though beneficial for the country but only for a period of time. A country should not manipulate its currency in order to garner growth as there are various repercussions to a prolonged period of fall in value of currency.

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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?

Commercial banks are the ones who stimulate credit creation in the economy through which economies function and grow as there is scarcity of resources.

Mechanism of credit creation:

commercial banks (CBs) receive deposits from public which in turn is used to advance loans. ~~and~~ A certain amount of deposits is required to be held by the central Bank i.e. the Cash Reserve Ratio.

Example: (i) The primary deposit is 1000
(ii) Reserve Ratio is 10% at every bank.

Bank	Deposit	Reserve	Loan
Bank A	1000	100	900
Bank B	900	90	810
Bank C	810	81	729
			10,000

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(इस भाग में कुछ ना लिखें)

Thus, the money multiplies. In other words, credit created = Primary deposit × $\frac{1}{RR}$ i.e. $1000 \times \frac{1}{10\%}$ = 10,000.

~~Thus~~, Therefore, banking system stimulates credit in the economy. However, there are factors that limit its creation –

(i) Availability of cash – Higher the cash available, higher credit is created. Thus, cash is an important factor.

(ii) Banking habits of people – this is an important consideration. If people do not use banking facilities, credit will not be created.

(iii) Cash Reserve Ratio – Higher the CRR, lower amount is available to be given out as loans and advances and vice-versa.

(iv) Availability of borrowers – to whom credit is given.

(v) Availability of securities which banks require as collateral. Thus, if the securities are not available, the credit creation will be hampered.

Therefore, credit creation is very much needed in the economy through which it develops and the income is redistributed. Measures should be taken to increase banking habits and objective of financial inclusion through Pradhan Mantri Jan Dhan Yojana should be prioritised.

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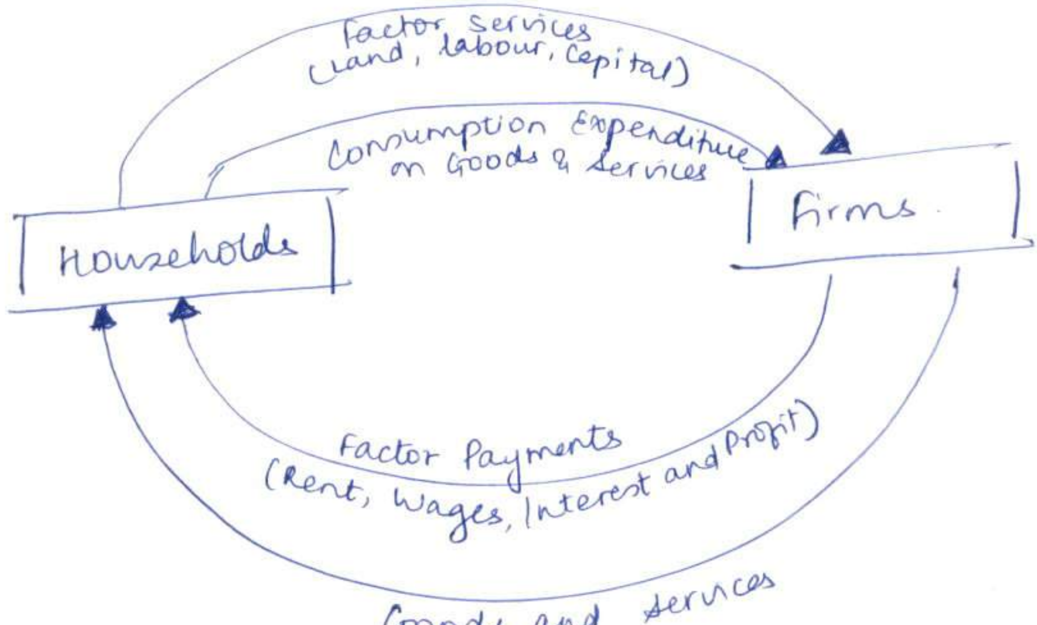
9. With the help of a diagram, explain the circular flow of income in a simple economy.

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

The circular flow of income in a simple economy involves two sectors i.e. firms and households.



- The outer loop of the above diagram shows the real flow i.e. flow of factor services from households to firm and corresponding flow of goods and services to households.
- The inner loop shows money flow i.e. flow of factor payments and for consumption expenditure

- In this model, it is assumed that there are no savings and that everything earned is spent.

- It is also assumed that firms produce goods and services and sell entire output to households.

Conclusions of the circular flow of income of a simple economy:

(i) Total production = Total consumption
(ii) ~~Total~~ Factor payment = Factor income
(iii) Consumption Expenditure = Factor income
(iv) Real flow = Money flow

Thus, this ~~sect~~ model does not involve Government and external sector and is easy and simple to understand. It depicts how the money ~~flow~~, and goods and services flow in an economy.

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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 (BoP) is a systematic account of the transactions done by the country with the rest of the world in a period of one year.

BoP follows the system of double book accounting principles and shows items which are debited or credited.

It comprises of current account, capital account, errors and omissions account and financial account.

The prominent accounts are that of current and capital.

Current Account – This account comprises of

Visible trade
- Trade of goods and services i.e. merchandise trade.

Trade in invisibles,
- Trade in services like shipping, transportation
- Grants, aid, gifts,

transfer payments received and paid, Income receipts and payment to and from abroad

Capital Account

It causes a change in assets or liabilities of the residents of the country or its Government. Components are:

(i) Borrowings and lendings to and from abroad - examples include receipts of loans and repayment of loans,

(ii) Investments to and from abroad - in shares of foreign companies, real estate, etc.

(iii) Change in Foreign Exchange Reserves

These are the financial assets of the Government held in the central bank. A change in reserves serves as the financing item in India's BOP.

- A surplus in capital account arises when credit items are more than debit items - net inflow of capital.
- Deficit capital - net outflow of capital.

Thus, the BoP accounts help to understand the standing of the country in ~~state~~ foreign trade which helps in the policy making further.

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 is the general rise in the level of prices of goods and services over a period of time. It is mainly caused by demand-pull factors or cost push factors.

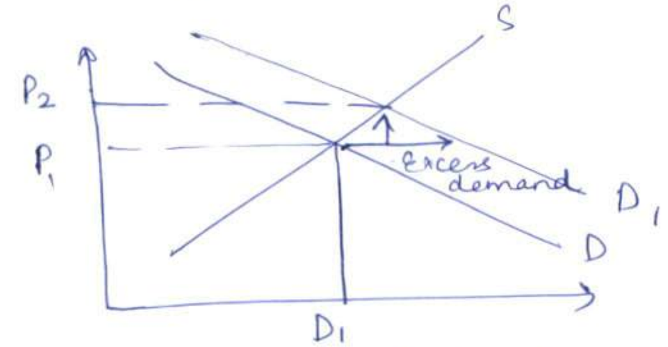
Demand-pull factors of Inflation :

(i) Aggregate demand - When the aggregate demand rises without simultaneous rise in supply pushes the prices up.
For Example - The demand for masks in Delhi during pollution after Diwali and the lack of supply led to its rise in price.

(ii) Monetary factor - Increase in the Money supply i.e. too much money chasing few goods situation.

(iii) The rise in Government expenditure- is also a factor of demand pull inflation. Rising Government expenditure raises the demand and liquidity in the market.

(iv) Depreciation of currency - making exports cheaper also pulls the prices up.



[D - Demand curve, S - Supply curve, P_1 & P_2 are prices].

In the above figure, when the demand rises the demand curve shifts and pulls the price up leading to inflation.

Cost-push factors - This involves the rise in prices due to rise in cost of inputs of factors of production.

(i) Rise in wages - The demand for rise in wages pushes the prices up and creates a wage-price spiral.

(ii) Rise in price of raw materials - The price rise will make cost of

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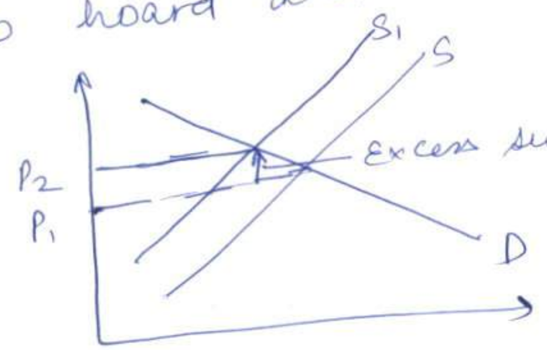
production high which producers would like to shift to the consumer by increasing the price.

(iii) Monopolistic - profit push factor - where a monopoly of an industry to gain profit ~~leads~~ increases prices.

(iv) Expectation of inflation further pushes up inflation as people show tendencies to hoard and reduce the supply.



Thus, the inflation caused by these factors can be corrected by various fiscal measures, monetary measures and price controls.

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।

The money supply in the economy is regulated by the central bank through its monetary policy. The policy uses various tools to control and regulate the supply.

Policy tools

Quantitative
- Cash Reserve Ratio
- Stautory Liquidity ratio
- Bank Rate
- Repo Rate, Reverse Repo Rate
- Open Market Operations
- Marginal standing facility
- Call Money Market

Qualitative
- Directing
- Moral suasion
- Rationing

Quantitative tools

(i) Cash Reserve Ratio - It is the amount required by banks to be kept with RBI.

→ ↑ CRR → ↓ credit creation

→ ↓ CRR → ↑ credit creation → ↑ money supply

A 1% difference can inject or take away liquidity of 98,000 crore.

(ii) Statutory Liquidity Ratio - A ratio which commercial banks are required to be kept as investment in securities. Higher the rate, lesser the liquidity.

(iii) Repo Rate - rate at which RBI lends money to banks on an overnight basis

(iv) Reverse Repo - rate at which RBI borrows from the banks. This measure will help to absorb liquidity.

(v) Open Market Operations - the buying and selling of Government securities.

- Buying → Money flows into the economy.
- Selling → Money supply decreases.

(vi) Call Money Market - Term repos and money market used to provide funds to banks on short-term basis.

Qualitative tools

(i) Directing banks to follow prudent norms to regulate the money supply

(ii) Moral suasion - persuade banks to control supply

(iii) Rationing

(iv) Raising marginal requirements for loans.

(v) Credit control measures.

Thus, Central Bank through its various tools help to control and regulate money supply in order for the economy to function properly.

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

13. What is liquidity trap? Discuss its implications on the economy.
तरलता पाश (लिक्विडिटी ट्रैप) क्या है? अर्थव्यवस्था पर इसके निहितार्थों की विवेचना कीजिए।

A liquidity trap is a situation in which there are low interest rates and high saving rates.

In this trap, the consumers choose to avoid bonds and keep their funds in savings because of belief that interest rates will rise soon. There's a preference to hold cash rather than debt.

Implications for economy -

(i) Low capital formation - lack of savings will lead to low investment as the credit created will be low.

(ii) ~~Secondary~~ Credit creation without savings will hamper the economic growth.

(iii) Too much liquidity will render tools of monetary policy ineffective.

(iv) The idle cash will lead to rise in aggregate demand which will push prices up, leading to inflation.

(v) The distribution from surplus to scarce would not happen.

(vi) The industrial growth will be hampered especially MSMEs due to lack of access to credit.

(vii) Lack of working capital will lead to layoff of workers leading to unemployment.

Thus, liquidity trap is harmful for an economy. Efforts must be made to induce people to save in order for growth of economy.

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 performs various functions in the economy. ~~One of the~~ The important functions like lender of last resort, banker to banks, supervisor and controller of credit, etc.

'Lender of last resort'

RBI performs this function to save the bank who has crippled financially and has no way to sustain itself. RBI through its lending helps to gain the confidence of the public in order for them to have faith in the banking system.

RBI through this function maintains the efficiency and effectiveness of the financial market.

Banker to commercial banks and Government -

→ To commercial banks -

(i) Ensures smooth and steady payment settlement system.

(ii) Ensures funds through various facilities like marginal standing facility, call and Notice Money Market, etc.

(iii) Enhances trust and credibility of the commercial banks.

(iv) It helps ~~and~~, advises and regulates their banking activities.

→ To the Government - the RBI through its surplus transfers funds to Government, pays dividend and also help in their borrowing programme in order to sustain economic activities.

Hence, RBI is the wheel through which India's economy is functioning. It through its various functions helps in the financial administration of the country.

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?

For better fiscal discipline, the fiscal Budget and Review Management Act was passed in 2003. The FRBM Act led to inculcation of fiscal discipline among central and state Governments.

However, the fiscal management faces certain issues

(i) The missing of targets time and again

(ii) Doing away with revenue deficit

(iii) Excess dependence on borrowings for budgetary allocations.

(iv) Incorporating huge schemes in the budget ~~who~~ during election year taking away the lions share of the budget in the beginning. This leads to crunch of funds at the end of financial year.

(v) The lack of effective parliamentary control due to technicalities present in the budget.
(vi) Absence of a council to supervise the fiscal policy matters.

Addressing these issues would require -

(i) fixed commitment to targets placed in the budget. The missing of targets to be explained with reasons.
(ii) creation of a fiscal Review council to help supervise & monitor.
(iii) A proper roadmap for budgetary allocations to reduce dependence of borrowings.
(iv) Tax reforms - making GST more inclusive and simple to comply with.
(v) widen the tax base.
(vi) Including fiscal discipline as a criteria to give grants to states.

Thus, through these measures fiscal discipline can be enhanced and issues can be addressed.

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

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।

Sterilisation is a monetary action in which central bank seeks to limit the effect of inflow and outflow of capital of money supply. It is mainly done due to exogenous changes or shocks.

This action is usually conducted when the currency is losing too much of its value or the country is facing problems of liquidity.

How it is deployed by RBI -

(i) RBI uses the tool of selling securities in the open market to inject or absorb liquidity. It buys or sells dollars in the market to manage the exchange rate.

(ii) Use of market ~~sterilisation~~ stabilisation bonds to absorb the the excess liquidity

Thus, RBI in order to control the exchange rate in the foreign market uses sterilisation tools to ensure that the currency doesn't depreciate much. It helps to keep a check on liquidity and ensures that the economy doesn't lose on the forefront in financial market.

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।

Fiscal deficit (FD) is the excess of total government expenditure over its revenue.
(FD = Total Government Expenditure - Total Government Revenue)
It shows the extent to which Government needs to borrow to finance its activities.

Primary deficit (PD) - It is the extent to which the Government fails to pay its interest liabilities.
PD = Fiscal deficit - Interest liabilities of the Government.
It is a part of Fiscal Deficit.

Revenue Deficit - is the excess of revenue expenditure over its revenue receipts.
RD = Revenue Expenditure - Revenue receipts
It shows the extent to which the Government can run its day to day business. It is a narrower concept

than Fiscal deficit.

Implications of high fiscal deficit -

(i) Burden of debt - When the fiscal deficit rises, the burden of debt also rises through deficit financing i.e. through external grants, borrowings or internal borrowings.

(ii) Inflation - the rising fiscal deficit can lead to inflation due to the rising Government expenditure

(iii) Crowding out of private investment leading to fall in the capital formation from private players.

(iv) Hampering economic growth in the future.

Thus, it is highly necessary to keep the deficit under control. As recommended by the N.K Singh Committee, debt to GDP ratio should reach 40% for state Government & 60% for central ~~Govt by~~ Government

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

Key 2023

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 is the building block of macro-economic framework as it provides stability and predictability in the economy.

Fiscal Policy: It is the policy of Government relating to its purchases, tax structure and borrowings.

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 includes systematic demarcation between receipts and expenditure.

Receipts - estimated money receipts

- REVENUE
  - TAX
    - Direct taxes
    - Indirect taxes
  - NON-TAX
    - Profits and dividends received
    - Interest payments received
    - Fees, license fee
    - Fines and Penalties
    - Gifts and grants
- CAPITAL

Capital Receipts - These are receipts which create liabilities or reduce assets. These include

(i) Funds raised from small saving deposits, post offices, PPF

(ii) Borrowings ~~received from~~ internally or externally

(iii) Disinvestment proceeds from sale of stake of ownership.

Expenditure -

Revenue -

Capital

Revenue Expenditure - does not create asset or reduces liability. Example -

(i) Salary of employees
(ii) Interest payments on debt
(iii) Subsidies
(iv) Pensions
(v) Interest payment on loans taken by Govt.
(vi) Grants.

Thus, these usually are incurred on normal running of the Government departments and maintenance of services.

Capital Expenditure - It reduces liability and creates asset (schools, hospitals, etc)

Example -

(i) Expenditure on purchase of land, building, etc.
(ii) Investment in shares, ~~loans by~~
(iii) ~~Central~~ Loans to state Goverment, foreign Governments.
(iv) Repayment of loans

This type of expenditure raises capital stock and also helps to enhance its capacity.

Earlier, the budget's receipts and expenditure was divided into plan and non-plan. This classification into revenue and capital is more inclusive and comprehensive and gives a clear picture of accounts of the Government.

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

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, the persistent trend of rising prices can be addressed through various measures like fiscal, monetary and price controls.

Monetary measures to address inflation:

(i) Increase the Cash Reserve Ratio - so that more funds are parked in by the banks in RBI and less credit is available. This will reduce the money supply in the economy.

(ii) Sell securities in the open market

(iii) Raise margin requirements and regulate consumer credit

(iv) Demonetisation of currency - of higher denominations. ~~Ite~~ It is usually adopted when there is abundance of black money.

(iv) Issue of new currency - adopted when there is excessive issue of notes and economy is facing hyperinflation.

Fiscal Measures :

(i) Reduction in unnecessary expenditure

(ii) Increase in taxes to reduce the ~~p~~ disposable income of people.

(iii) Increase savings so that there is less income at hand among people.

(iv) Postpone the payment of public dept till there's inflation on rise.

Other measures include controlling price, rationing, increasing production and productivity

Limitations of the above measures :

(i) The use of the above are only short term measures. It does not address the root of the cause of inflation.

(ii) Reducing the unnecessary expenditure creates problem to demarcate what is necessary or unnecessary

(iii) The raising of taxes leads to a backlash faced by the Government. The tax revenue will only rise to some extent and then fall as there will rise tendencies to evade taxes.

(iv) Demonetisation has its repercussions whereby economic growth reduces, employment falls, etc.

(v) Printing currency also has costs attained. It leads to creation of vicious cycle of inflation.

Thus, these measures should be complemented with reforms in the sector where the goods prices are rising. long-term measures are needed in order to curb inflation.