


INDIAN ECONOMY

Time Allowed: 3 hrs.

Max. Marks: 250

Q.	Marks	Instructions to Candidate
1.		<ul style="list-style-type: none"> • There are 20 questions. • All questions are compulsory • The number of marks carried by a question is indicated against it. • Answer the questions in NOT MORE THAN 200 words each. Contents of the answer is more important than its length. • Answers must be written within the space provided. <p>Any page or portion of the page left blank in the Question-cum-Answer Booklet must be clearly struck off.</p>
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1. Invigilator Signature 

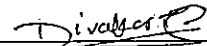
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Name DIVAKARA T.S

Roll No. GSMT.2016.344

Mobile No. _____

Date 04-09-2016

Signature 

REMARKS

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Roll No. _____

Q1. What is decentralized currency and comment on its legality in India? Describe its impact on monetary policy formulation and Central Bank's working? (12.5 Marks)

Remarks

Remarks

Q2. Discuss the major features of the crop insurance scheme? In this context, critically analyse the decision by several state governments to do away with compensation system?

(12.5 Marks)

~~Less~~ less than $\frac{1}{2}$ of Indian farmers have
 Agricultural Insurance. 20m of 120m

Need for agricultural Insurance:

- 50% cultivable rain fed
- dependent on vagaries of monsoon
- monthly weather dependent.
- most farmers are poor.
- Absence of any alternate earning potential

The newly introduced production market financial
 scheme rajand has the following provisions:

- Elaborate
- coverage of crops increased.
 - premium decreased.
 - cap on sum assured is removed
 - available to both loanee & non-loanee farmers
 - govt part harvest loaner as well.

However, this suffers from the following challenges
 as well:

- no coverage for losses due to wild animals
 and intended damage by humans.
- field yield loss analysis in NHII in the
 market merger.

FDI in Insurance must be utilised to improve
 the service and quality of insurance products.

Remarks

Success of insurance scheme depends on using technology to accurately estimate the losses by the insurance companies to improve claim-settlement ratio. Furthermore enough awareness must be generated among the farmer to opt for crop insurance scheme.

(3) The state governments have moved away from compensation scheme, though this helps in fiscal consolidation & improving their fiscal deficit, given that a large no. of the farmer are poor enough awareness must be generated about the need and the attractiveness of the insurance products available in the market so as to provide them with a safety net in case of failure of crops.

- Structure the answer better.
- More emphasis on what is asked.

Remarks

Q3. Evaluate the new Insider Trading Norms adopted by the SEBI? Analyse their significance in context of rising corporate frauds and stock market scams? (12.5 Marks)

Insider trading refers to a corporate fraud where an individual purchases or holds a stock in either purchased or sold with prior confidential information from the company.

The impact includes:

- a. One person's market profit while a whole lot of others lose.
- b. Better erosion in stock market.
- c. Loss of investors.
- d. Stock market crash.
- e. Devaluation of rupee.
- f. Current account deficit increases.
- g. Loan repayment in rupee becomes difficult.
- h. Sovereign credit rating reduces.
- i. Loss of quota in IMF & world bank.

— write relevant to the point

(1/2)

Remarks

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Remarks

Q4. What is the extent of Parallel Economy in India as per various unofficial estimates, why government of India has not been able to curb the flow of black money in India, let alone its recovery? (12.5 Marks)

The estimate of black money in India ranges from 40% GDP to 300% of GDP of India.

The following are the reasons for such menace!

- a. Complex tax laws
- b. overlapping and conflicting
- c. gives a lot of room for loopholes.
- d. minimal care of paying taxes
- e. Lack of awareness
- f. Majority engaged in unorganised sector.
- g. Economic transactions in cash
- h. tax exemption to donation to political parties.
- i. Absence of any strong record keeping practices in many institutions.
- j. Weak regulatory and enforcing agencies.

The parallel economy so created has the following

Consequences:

- a. Low tax revenue: reduced fiscal capacity.
- b. Increased fiscal deficit
- c. Low social sector spending.
- d. Borrowing from outside decreases our foreign credit rating.

Remarks

(4)

- e. Investment in gold and real estate which are idle
- f. no new business ventures or business expansion.
- g. Inflation (↑↑)
- h. Unemployment

Thus it pushes us into a vicious economic cycle. The following steps can be taken to reduce the flow of black money.

- a. amnesty scheme with stringent punishment later
- b. Consensus of direct & indirect taxes
- c. Simplification of tax laws
- d. eliminate loopholes in tax laws
- e. Improve ease of paying taxes
- f. Increase awareness.
- g. Increase property tax
- h. Strengthen money laundering act
- i. Big data analysis to curb tax evasion
- j. GST to Incentivize compliance.

Remarks

Q5. The high level of subsidies provided to agriculture sector and various welfare programmes by the Indian government is a big leakage from the government exchequer that impairs the abilities of the government for fiscal consolidation on the one hand and create productive assets and infrastructure on the other. Examine. (12.5 Marks)

Subsidies are ^{negative} opposite to taxes. These money flows from the government to people. The advantages include.

- a. reduced input cost
- b. Incentivises adoption of technology & process
- c. Increased purchasing power
- d. social equity.
- e. Spill over effect in other walks of life.

Thus, the subsidies provided to agriculture and various sectors have created productive assets, increased quality of life, productivity in agriculture, social and economic empowerment.

However, subsidy programmes also suffer from the following problems:

- a. Indiscriminate wasteful consumption.
- b. Heavy burden on exchequer
- c. Fiscal deficit
- d. Inefficient targeting
- e. Rich and well off taking advantage
- f. Leakage and corruption.
- e. distorts international trade.

Remarks

Thus, has hampered the fiscal capacity of the government and made fiscal consolidation challenging.

Following steps must be taken to reduce wasteful expenditure.

- Better beneficiary identification.
- DBT & BAPU to reduce leakage & corruption.
- cap on subsidy to reduce wasteful consumption.
- Graded pricing to discourage over consumption.

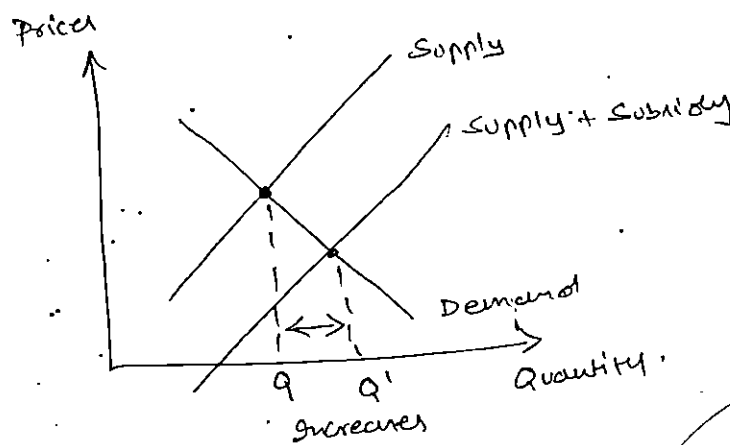


fig. Impact of subsidy

Remarks

Q6. The Bali Ministerial Declaration was seen as an ice-breaker for the struck Doha round of WTO, however, it also seems to have failed on the expectations. Critically analyse. (12.5 Marks)

Doha ministerial round of talks decided upon equitable and sustainable global trade practices considering developed and developing countries as equal partners.

However, individual interests of the participating countries have taken over the utopian agenda and made WTO discussion an unbreakable logjam.

The Bali-ministerial declaration, where an Trade facilitation agreement and a peace clause were agreed upon were seen as a win-win formula for both developed and developing countries.

However, the recent happenings have failed on these expectations as well.

a. Reduction of export subsidies in developed countries.

b. duty-free quota free access to developed markets.

{ c. Special safeguard measures }
 agrees with developing countries demand
 not against Bali/Doha declaration

Remarks

- d. Stringent IPR requirements by the developed countries.
- e. Strong labour laws
- f. No mandatory government procurement
- g. non-tariff barriers.
- e. Indiscriminate use of sanitary and phytosanitary restrictions.

✓ All these issues have overcomplicated WTO agenda. It's failure to beat a working business model and continuing of mega regional trade blocks have only undermined it's future.

- Nairobi declaration not mentioned

Remarks

Q7. What is Pink Revolution? Critically analyse how political developments of recent years coupled with steep inflation in cattle feed prices have impacted the growth of sector?

(12.5 Marks)

Pink revolution aimed at increasing the production of meat and allied products.

However, the industry has been recently facing problems due to:

- a. ~~Meat~~ ^{beef} ban by many state governments.
- b. Religious laws banning ~~meat~~ ^{beef} eating.
- c. Animal right activists protesting against meat industry.
- d. Change in the dietary habits of people and increasing vegetarianism.
- e. Small & fragmented land holdings.
- f. Unplanned urbanization & shrinking of grazing area.
- g. Drought like situation & unavailability of fodder.
- h. Mechanization in agriculture reduces cattle rearing.

not relevant

However, this industry has the following advantages.

- a. production in meat, milk, eggs etc
- b. Highest export potential
- c. easier to rear.
- d. Low input cost.
- e. Additional source of income.
- f. Insurance against crop failure.

5

Remarks

But the recent slowdown has the following impacts,

- a. Decreasing meat export
- b. Local leather industry suffers
- c. closed meat shops leading to unemployment
- d. burden on farmer to look after old cattle
- e. Inflation in other product

Thus, several steps need to be taken to revive the industry.

- a. modern slaughter houses
- b. skilled labour
- c. Cold storage & warehouses
- d. packing, grading & standardisation
- e. food testing to match international CODEX standards.

Given the huge export potential of this industry, pink revolution is the next big thing.

- correct answer well

Remarks

Q8. What do you understand by the term, Mossack Fonseca, why it was in news recently?
Critically analyse on its working and its impact on global economy including India?
(12.5 Marks)

⑥

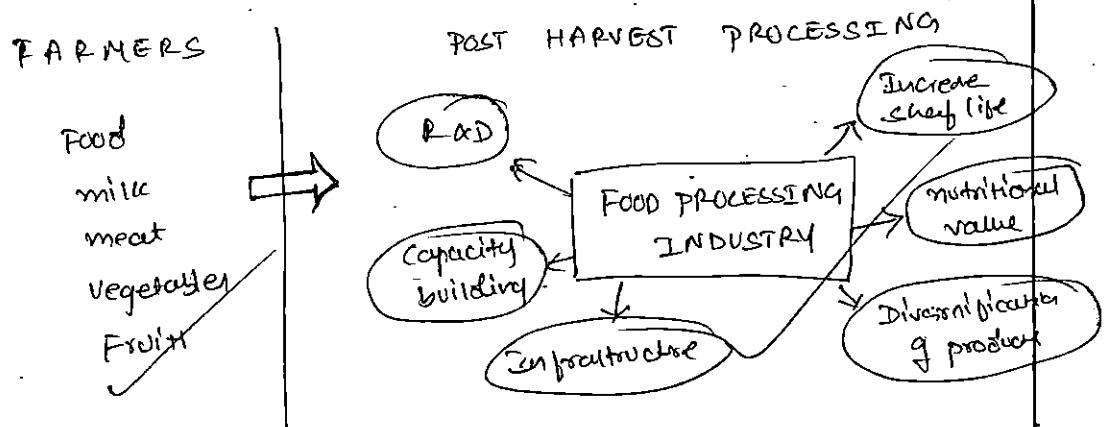
Remarks

Remarks

Q9. Given the geography and climate of India, which regions are most suited for the establishment and growth of food processing industry in India, considering the upstream requirements? What are the problems in establishing industry in those regions?

(12.5 Marks)

Food processing industries are the backbone industries in the Indian economic development.



The following geographic regions are the most suitable areas for development in food processing industries.

- Easy access to the production sites.
- Availability of skilled labour.
- Availability of huge tracts of barrow land.
- Cheap power supply.
- Established supply chain.

However, the food processing industries are facing the following problem.

- Small land holdings resulting in small quantities of varying quality production.

Remarks

One asks which region! → what specific problems

4

- 5 standards
4
Quality
Check
- b. Lack of institutional credit
 - c. Lack of skilled resource
 - d. Fragmented supply chain
 - e. Unorganized retail sector
 - f. Low R&D
 - g. High cost of land and power
 - h. Inefficient food and safety institutions
 - i. Overlapping and conflicting laws.
 - j. Delay in approval
 - k. Entire burden of safety on end producer

Given the importance to absorb people from agriculture into upstream industries, food processing industries occupy a prime spot. Supporting infrastructure, capacity building, skilled human resource and efficient food safety institutions are required to realize its full potential.

Remarks

Q10. 'Traditional mode of land reforms won't work anymore; the need of hour is to understand the legal complications of land acquisition and modern farm technology.' Critically analyse the National Land Records Modernization Programme (NLRMP) in this context?

(12.5 Marks)

Land is a scarce resource and is a
 critical input for any development activity.

Absence of proper land records have
 caused the following problems:

- a. Ease of doing business in 130/182
- b. ease of investment.
- c. stalled projects.
- d. Beneficiary identification for any
 agricultural, housing, electrification
 and other social sector schemes
 is almost impossible.
- e. farmer can't get loan & insurance
- f. Infrastructure problem.
- g. Increased cost of land transactions.

Thus, National Land records modernization
 programme taken a very important step in this
 record.

The advantages include:

- a. move from substantive to
 conclusive title.
- b. ease of land transactions.

Remarks

Pro. of NLRMP → in this context analyse
 critically!

3

- c. Farmer can use it for loan & insurance claims
- d. beneficiary identification.
- e. Increased ease of doing business.
- f. Infrastructure promotion.

Given the importance of land as a resource in our economic development, National land use policy must be formulated to increase the efficiency of land use. This policy must become the basis of land acquisition. Computerisation of land records is only a first step in this regard.

Remarks

Q11. Elaborate the importance of small-scale savings in India. Critically examine the steps taken by government to promote small-scale savings in India. (12.5 Marks)

India's 40% of the population doesn't have access to formal banking institutions.

Thus the small saving schemes provide them with the following advantages:

- promotes savings ✓
- Insurance for any unforeseen situations. ✓
- Investment means - as they provide higher rate of interest than commercial banks. ✓
- Institutional access to credit. ✓
- tapping domestic savings ✓
- agents of social transformation. ✓

Govt of India has taken several steps to promote small savings in India, National Small Savings scheme, Self-Help groups, post offices all support and promote saving culture in India.

However, this novel scheme suffers from the following challenges.

- The rich and the well off are using this scheme for more interest than the needy. ✓

Remarks

check challenges properly.

9

b. Higher interest offered by the scheme has only diminished credit growth in scheduled commercial banks.

c. Low credit growth results in incomplete monetary transactions.

d. Higher borrow rates.

e. Less investment.

Thus, the scheme must be targeted accurately to promote small savings by strengthening the know your customer norm, and cross referencing them with Socio-economic caste census to weed out free-riders.

Remarks

Q12. What are the factors that have pushed pulses prices upward in India in recent times? What steps have been taken by the government for supply side management of pulse prices? Suggest long term measures to make India self sufficient in pulse production. (12.5 Marks)

Pulse prices have been pushed upward indiscriminately in the recent times. The reasons for their increase are:

- High MSP on cereals ✓
- Market volatility ✓
- pulses pushed to marginal lands ✓
- Green revolution concentrated only on rice & wheat ✓
- high input cost.
- low R&D on increasing yield ✓
- Aversion to cultivate by farmers. ✓

However, pulse cultivation has the highest export potential added with other social costs such as leguminous root nodules. Increased fertility, aeration of soil, high water holding capacity and good development of roots.

Recently Government of India introduced production mini-kirish vikas yojana and price stabilization fund to improve pulse productivity and moderate any price volatility in the market.

5

Remarks

However, long term measures include:

- a. MSP should be moderated to cut crop ~~including~~ on the basis of social externalities
- b. awareness about the earning potential
- c. Subsidies to incentivise and reduce input cost
- d. High yield variety seeds for pulses.

It is indeed a paradox that India is the highest producer and importer of pulses in the world. Above mentioned steps are necessary to reverse the trend of imports.

Remarks

Q13. What are the elements of major shift in the approach of the 14th Finance Commission in devolution of resources from the central divisible pool of taxes as compared to earlier Finance Commission? (12.5 Marks)

Art 280 of Indian Constitution provides for the setting up of finance commission to decide the distribution of tax revenues to the Centre and States.

14th Finance Commission recommendation in a clear shift from earlier recommendations in:

- higher (42%) devolution of tax proceeds.
- Introduction of forest cover, population Census 2011 (to account for internal migration) in the horizontal devolution.
- All indicators of horizontal devolution have been given more weightage except population Census 1971.
- This will penalize states which failed to reduce fertility rate.
- No special ~~status~~ packages.
- No Backward regional growth fund but a diff. provision

This is a clear shift in federalism continuum. States are given more financial independence, federalism to cater to their needs efficiently without overarching targets. Cooperative federalism

Remarks

4

However, federalism works best when the inequality between states are reduced. But the problems due to these recommendations are:

- a. Many backward states like Bihar get less than before.
- b. Backward regions left to the mercy of respective state governments.
- c. State government administrative machinery are not equal and still rampant.
- d. High level of lower & support staff in state government implies policy making challenges.
- e. Central government left with less revenue to continue many of its social welfare schemes.

Thus financial independence without having administrative efficiency defeats the purpose.

Remarks

Q14. Discuss the role and importance of Venture Capital funds for development of entrepreneurship? Evaluate the status of its penetration in to financial markets in India? (12.5 Marks)

Venture capitalists are promoters of nascent business with strong growth prospects.

The shift from job seeker to job provider in India has seen a corresponding shift in the growth of venture capitalist firms in India.

Access to financial and strong backing by the promoters are needed to the success of any new business venture. Thus the role of Venture capitalists in India are never more important for promoting entrepreneurship.

However, the penetration into the financial markets though encouraging is not upto the mark. The reasons include:

- High Capital gain tax and dividend distribution tax.
- Absence of better in Indian entrepreneurs.

Twitter has not made a single dollar revenue till date but still enjoys strong promoter support. This environment is absent in India.

3 1/2

Remarks

However, the recent start up India scheme brings in a sign of relief to start ups which provides access to capital, taxation benefits, freedom to utilize funds raised, self-certification and relaxation in prior experience required clause in government procurement.

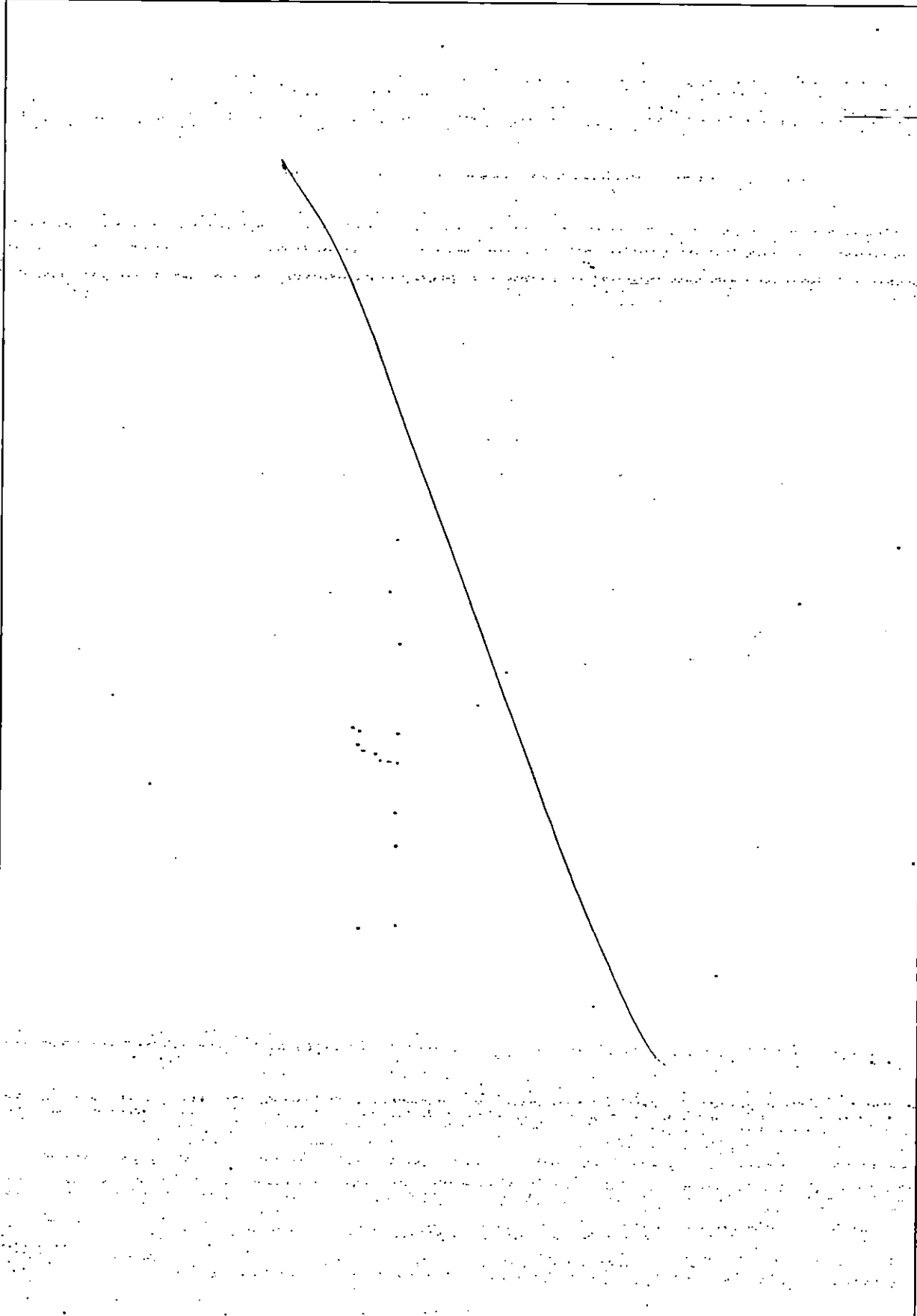
But this scheme only target ^{is} technology start ups. This must be extended to Agriculture & allied industries, pharmaceutical, Biotechnology where there is higher innovation potential.

Once there is a conducive environment for entrepreneurs to establish business, venture capitalists would automatically flow in.

Remarks

Q15. Evaluate the measures taken by SEBI and RBI to control financial scams and Ponzi-schemes in India. (12.5 Marks)

Remarks



Remarks

Q16. Throw light on the structural change in the composition of agriculture in recent years. Point out the areas where the structural transformation of composition of agriculture is still lacking. (12.5 Marks)

About 55% of the Indian population is engaged in Agriculture and allied activities.

There are a significant structural change in the composition of the agriculture in India owing to the introduction of Green revolution, Minimum support price, subsidies, APMCs and other technological advancements.

The changes include:

- a. self sufficiency
- b. Cereal centric
- c. Irrigated area increased
- d. growth of fertilizer industry
- e. over production in Rice, Sugarcane, soya, wheat
- f. under production in pulses, oilseeds, millets
- g. Low agricultural investment.
- h. Input intensive.
- i. Low efficiency and low productivity
- j. Disguised unemployment.
- k. Lack of mechanisation.
- l. Absence of single incidence of tax since independence.
- m. Environmental impact due to over use of fertilizers and chemicals.

5 1/2

Remarks

However, there are a few thrust areas where attention is needed:

- a. Increase productivity without changing Indian character of agriculture.
- b. HYV needs, fertilisers, Irrigation, mechanisation
- c. Formal credit system.
- d. Bridge term-lab disconnect
- e. Contract farming
- d. Cold storage & ware houses
- c. Agro climate Infrastructure
- f. promotion of sustainable agricultural practices such as organic fertilisers, mixed cropping etc

Thus, Indian agriculture can be made profitable, productive and sustainable.

Remarks

Q17. What is the approach of the government on subsidies to the rich? Suggest measures to rationalize subsidies to the rich in India. (12.5 Marks)

Government subsidies many non-merit goods and most of merit good subsidies are ill-targetted creating bounties to the rich and influential people.

Example: Gold engine duty, low ATF tax, railway, NSS, LPG and kerosene subsidies.

The problems from them are:

- Low of revenue
- Wasteful consumption of resources.
- Social inequality still prevails
- Financial deficit increases.
- Distort international trade.

These leakages must be addressed at once by taking the following steps:

- All non-merit good subsidies must be rationalised and removed at the earliest.
- Merit-good subsidies must be targeted.
- Prevent leakages by using DBT & BAPU.
- Allot a cap on subsidy availability.
- Adopt graded pricing for increased consumption.

Remarks

approval of Govt - not written

The success in rationalizing subsidies lies in
adaptation of technology and efficiency of JAM
vehicle.

Remarks

Q18. Elaborate on the pros and cons of the FDI in retail, in the context of increasing threats to the small retail sector from e-commerce? (12.5 Marks)

FDI in retail has the following advantages:

- a. technical expertise
- b. managerial expertise
- c. Infrastructure creation
- d. more capital
- e. more employment
- f. Cold storage & ware house.
- g. diversification of product
- h. more revenue
- i. Small industries can use the marketplace model to sell their products.
- j. Increased customer service
- k. Quality and diversification of services.
- l. growth of logistics industries.

However, they have the following challenges:

- a. obsolete technology
- b. Hot money.
- c. Tax evasion by profit shifting
- d. Infrastructure created in captive
- e. predatory pricing
- f. Threat to local domestic industry
- g. Consumer Subsidies
- h. devaluation of currency

Remarks

It is indeed quite a paradox that FDI in retail was allowed on one hand and Make in India was being promoted on the other.

Given the advantage of democracy, demography and demand India has been an attractive investment destination. Here, introduction of FDI in marketplace e-model is not to be seen as a threat to Indian industries but the capacities so created must be augmented to boost our local economy.

Remarks

Q19. What is e-NAM? What are its functions and objectives? Would it help developing a unified market for agricultural produce in the country? What would be the advantages of e-NAM? (12.5 Marks)

e-Nam is an dedicated e-portal interconnecting all agricultural markets in the nation.

The functions and objectives include:

- single point levy of taxes
- online price discovery
- unified licensing system.

e-Nam portal facilitates seamless movement of agricultural produce between states. It reduces the cost of transaction, there by increasing both the frequency and quantity of trade between states. This, it would help in developing a unified market for agricultural produce.

The advantages of e-Nam are:

- seamless integration of agricultural trade.
- reduced wastage.
- prevent inflation due to price rise.
- increased farmer's income.
- improved agricultural investment.
- cost storage, warehouse facilities
- increased shelf life
- increased nutritional value.

Remarks

However, it suffers from:

- a. absence of strong digital infrastructure.
- b. Not provide vehicles to transport goods from farmer to customer during e-trade.
- c. Agriculture being a state subject in near an encroachment by Centre.

Marketing ~~Agriculture~~ in indeed the weakest link in the Agriculture. e-Nam is a step forward to strengthen it.

Remarks

Q20. What are the spatial differences in availability and type of irrigation in India? How can India optimize the utilization of its irrigation potential? Discuss the main features of Pradhan Mantri Krishi Sinchai Yojana (PMKSY). (12.5 Marks)

About 55% of cultivable land in India are rain-fed agricultural lands. Irrigation is a critical input to agriculture to improve yield.

~~However~~, the spatial difference in availability and type of irrigation in India are:

- make digra
- canal irrigation: > perennial supply of water
[Northwestern India] > soft rocks to construct canal
> availability of labour for desiltation
 - ~~Flow~~ tank irrigation: > non-perennial supply of water
[Central India] > hard rocks
> labour availability for desiltation
 - well irrigation: > Abundant ground water supply
[Southern India & other parts
as well] > supply of electricity to pump water.

However, India's irrigation potential is illutilized due to.

- Evaporation in canal & tank irrigation
- cont. of field application channels high
- balance nature of surplus in well irrigation
- power consumption is more
- use of flood irrigation.
- water use efficiency low.
- evaporation.
- Salinity of soil increases.

Remarks

6

India can optimise the utilisation of its irrigation potential by use of micro irrigation channels.

- a. Improved water use efficiency
- b. reduced input cost
- c. fertigation
- d. ~~Control salinity & fertility of soil~~
- e. Low power consumption

The main features of Pradhan Mantri Krishi Sinchai Yojana are:

- a. Improve area under irrigation
- b. Improve water use efficiency by adoption of micro-irrigation.
- c. Command area development.
- d. Improve ground water resource
- e. convergence with MGNREGS for desalination and greening.

However it faces the following problems:

- a. Micro irrigation are expensive, prone to damage by wild animals and require skilled resource to maintain
- b. Absence of land records & proper beneficiary identification is a problem.
- c. Co-ordination with various ministries delays decision making and implementation.

Remarks