TEST - 03

GS SCORE
ESSAY TEST SERIES 2015

Roll. No. ESS TS15066

Essay

Time Allowed: 1½ hrs. *Max. Marks: 125*

Excellent!
Good structure
Logical/Analytical
All encompassing organically linked
Just keep it up!

Instruction to Candidates

- Attempt one essay
- The test carries 125 marks.
- Write the essay in about 1000-1200 words.
- Any page left blank in the answer-book must be crossed out clearly.

(Examiner will pay special attention to the candidate's grasp of his/her material, its relevance to the subject chosen, and to his/ her ability to think constructively and to present his/her ideas concisely, logically and effectively).

67/125

1. *Invigilator Signature* ____________
2. *Invigilator Signature* ____________

Name Ishan Pratap Singh
Mobile No. ____________
Date 26/09/2015
Signature ____________

1. We don't see things as they are; we see them as we are.

2. Credit Rating Agencies have proved that the only function of economic forecasting is to make astrology look respectable.

②

It was in the winters of 2013, India's Central Bank Governor Doctor Raghuram Rajan was taking a memorial lecture in his Alma Mater and one of the premier institutes of country, IIT Delhi. Question answers were pouring in from inquisitive and visibly dazzled students as India was in midst of a slowdown. Suddenly Mr. Rajan stopped abruptly and looked at his watch. With a grim face, he apologized to his audience as he had to go to an urgent meeting which could possibly decide the fate of investments in next few years. It was not with the head of states but representatives of credit agencies. This is the kind of influence these organisations have on the economic future of the county in modern interconnected economic world. They hold great power and leverage but as they say, with great power comes great responsibility but though indispensable in modern frameworks of investments, the record of economic forecasting has been visibly shady at best.

Economic forecasting is nothing new to the State policy makers and economists. In search of predictibility both players in economic framework and investors look for a forecast. The "bandobast" of Todarmal in Akbar's regime & price policy of Allauddin Khalji aimed to provide a sense of Stability and pattern. In ~~this~~ the modern world this role is largely played by credit rating agencies. They are national or International organisations which rate the investment options both government and private on the basis of investibility on certain parameters. The rise of international financial markets and coming of exceedingly complicated products have made their jobs quite complex. ~~nevertheless~~

But their jobs is not only complex, its exceedingly important too. The recent ~~ctw~~ unfortunate demise of great mathematician and founder of game theory, John Nash is a grim reminder of the importance of information in a capitalist market. Information assymetry or availability of information to some and not to others impedes the most efficient distribution of resources. Credit Ratings play important part by giving information about future to investors. They alleviate risk and induce confidence and thus prevent the money going to visibly safe assets like gold to more productive ones like government bonds for infrastructure. In doing so they provide impeccable inputs to enterprises and countries themselves and keep them on ~~my~~ their feet.

Though, it was in 2008 when New York Stock Exchange collapsed and television channels accross the world showed moving pictures of teary eyed pensioners whose life long savings dissolved, when they had invested in most top rated financial instruments in the opinion of all major agencies. Corporations collapsed and all major banks faced stresses and pressures. Till very recently, some "in reccession" economies like Cyprus, ~~g~~ Greece and Spain were shown to have better ratings than emerging countries like India. But, it is not only limited to credit agencies. Economic forecasting has been a shady exercise always. When was the last time that all predictions and targets of a five year plan in India came true. Leave planning, even in budgets forecasts have been grossly inaccurate raising concerns and demands for better 'fiscal marksmanship'.

Though it is acceptable that unlike Astrology which is non scientific, forecasting is based on established and tested Statistical models yet their job is inherently difficult. Firstly economics itself is a fast changing and unpredictable pursuit as the recent Chinese market collapse will show.

Secondly, when there is an economic bubble of overpriced assets and enhanced risks waiting to burst, credit agencies like all other economic actors find themselves inside it thus being unaware as well as having stake in it.

Thirdly, Credit rating agencies in particular and economic forecasting in general use data as feedstock and if government and corporations manipulate that as Greece did, Credit agencies and forecasters can hardly be blamed and finally government engages in an unpredictable way with economic system. Quantitative easings and pullouts can hardly be predicted and so is their impact.

But, it can hardly be said that all vagaries of economic forecasting are based on bona fide mistakes. As the 2008 crisis showed, forecasters ~~...~~ like moody and S&P were themselves in a coterie and nexus with major players like banks and insmance companies. What can be a better example of conflict of interest when forecasters engage in ~~the~~ investing in same instruments that they rate. It is also a complete irony that forecasting which seeks to allay an important deformity of free markets ie Information assymnetry is plagued by another ie monopoly. All credit agencies more or less act in Pandem. Not only that, collectively they dont act as independent observers of markets but active agents of developed world pushing conditions on developing countries to mould economies in particular way and predicting economic future and growth rates which a lot of time dont come true.

Said that, everything is not completely wrong with forecasting. While ~~exep~~ exceptions are visibly too loud and frequent, majority of times these forecasters have been upto the task. From keeping countries on their toes for fiscal discipline bringing positive reforms like Fiscal Responsibility and Budget Management Act in India to warning investors about potential risk and problems in particular products, they have done indispensable work. They have also been great learners by providing invaluable statistical inputs to reforms like Basel norms for banking to make economic structure of world safe and reliable.

It is a safe assumption, thus, that forecasting cannot be done away with but it can surely be reformed. Better oversight from intergovernmental panels and groupings like G20 will help to inculcate good practices. Bringing more competition especially by raising domestic credit rating agencies like CRISIL in case of india is great step forward. It will ensure that customer has multiplicity of inputs to chose. Along with that a consultative mechanism to make transparent not only ratings but methodology is an important step which needs to be taken by countries in collectivity.

It was the same Raghuram Rajan mentioned in introduction that predicted the onset of 2008 recession as IMF chief economist, before anyone could think of it making an example of fact that economic forecasting, if done honestly has an indispensable ~~place~~ in economic infrastructure. What it lacked then and it does so now is giving same heed to multiple voices. Credit ~~As~~ Ratings mustnot become the sole criterion ~~and~~ of investment nor they should be seen as singular forecasters. It is only by enhanced regulation, oversight and perhaps more importantly by more and equitable competition that it be ensured to have these organisations play on the side of consumers and investors instead of ~~a~~ in coterie and nexus with developed world and big players of financial markets enhancing trust, reach and quality of economic forecasting.

Is it Impossible
* Raghuram Rajan Predicted crisis.

Credit Agencies + Economic Forecasting.

(John Nash) — Intro

India → given Bad rating

ROUGH

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* Dependence on Intl. Agencies.

Credit Rating Agencies
① What they are

→ ② Why is their job difficult
① Economics itself an unpredictable pursuit.
Interconnected world — Eg Chinese Market
② When Economic bubble exists they are themselves inside the bubble.
③ Data depend on countries Companies etc
↳ Conflict of Interests
④ Govt. engages in an unpredictable way.

③ Why is it Important!
① Risk Mannaering
② customer Information → Investors
③ Increase Investment by allaying Risk factor infact countries depend on it.

④ Why is it been shady
① Story of Intl. Crisis 2008 + ② Indian planning Experience very rarely projections have been accurate.

⑤ Mala fide Intentions → ① Lobbying → ② Coterie ↳ Nexus / Too many bonuses Conflict of Interests.
Agents of developed countries → push for reforms.

⑥ Perform good work too → keep erring countries upto the task. → give viable information generally. while exceptions exist they are rare.

* Should be at side of Customer instead of being part of Enclosed coterie

Conclude ⑧

⑦ You cannot do away with them → reform + competition

another inefficiency monopoly

downside

① Intro.
② Historical Anecdote
③ Why is it Imp.
④ Bad performance → India / Internationally
⑤ Why is their Job difficult
⑥ Malafide Intentions
⑦ But largely done well → frame of reference
⑧ ↳ cannot be replaced reform
⑨ Conclude