ECONOMY MAINS QUESTIONS 2023

1. **The stunting of the Indian middle class is the result of the decades long inability to make India a manufacturing hub. Comment.** (10 Marks)

Ans:

Different definitions

- Middle 60% of the households
- Households' earnings from Rs. 5 lacs to 30 lacs
- A genuine middle class should have a certain quantum of consumption that is stable and resilient and should have enough surpluses after routine expenditure to help them weather economic downturns and be able to bounce back without having to contract their consumption too much for too long – only top 20% of households (25 crore people) will fit into this definition

As per different definitions, India's middle class may vary between 5 crore to 10 crore households which is just 20% to 30% of the total population.

A genuine middle-income class is created when the surplus labour is moved from agriculture to manufacturing. Labour intensive manufacturing has the capability to generate jobs which are more productive and results in higher wages moving the people into middle income category

90% of our labour force is stuck in informal sector where productivity and wages are quite low.

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Services like IT, finance, BPO, Trade can increase wages but it can provide jobs to only few people.

So, the structure of our labour force is such that most of them are either trapped in in-formal sector and agriculture where productivity and wages are quite less and very few have been able to move into the wage bracket which can be considered middle class.

Way Forward:

As the missing middle class is a structural challenge, there does not exist a short-cut. Government has therefore already started focussing on building infrastructure, reducing compliance burden and attracting private & foreign capital which in the long run will give a boost to the manufacturing sector and create a genuine middle class.

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2. **The primary objective of WTO is to serve as the mechanism through which international trade can become the means for supporting economic development of member countries. Comment.** (10 Marks)

Ans:

World Trade Organization was established in 1995 as a multilateral rule-based institution with its fundamental objective of improving the welfare of people around the world.

The various objectives of WTO are:

- Supporting economic development of member countries
- helping its member countries to use trade as a means to create jobs
- improve people's lives
- help exporters and importers to conduct trade
- to raise living standards

The WTO has provided various flexibilities in its trading rules to support economic development of member countries like:

- Special and Differential Treatment example Generalized system of preferences
- Duty Free and Quota Free market access for least developed countries
- Waiver in intellectual property rights to produce and export Covid-19 vaccines
- WTO has exempted The World Food Programme (WFP) for humanitarian food purchases from export restrictions
- MFN and National Treatment

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But in the last few years, increasing protectionism, inadequate members in the Appellate Tribunal for dispute resolution, increasing number of Regional and Free Trade Agreements have raised questions on the efficacy of WTO as an institution which was meant to ensure free trade.

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3. **What are the various drivers of economic growth in India? How higher inflation poses a hindrance in their effectiveness in achieving higher growth trajectory?** (10 Marks)

Ans:

Economic growth is defined as change in real Gross Domestic Product (GDP). The economic growth of a country may be measured from the output side (value added method) but its demand come from the expenditure done by the various sectors on the goods and services produced in the economy. And this expenditure drives the growth of the economy.

Thus, the various drivers of the economic growth are:

- Private final consumption (61%)
- Govt. final consumption (11%)
- Investment/ capital formation (31%)
- Net Exports (-3%)

Higher inflation will impact the above growth drivers in the following ways:

- Private consumption: will decline due to reduced purchasing power
- Govt. final consumption: will decline as rupee will loose its value due to higher inflation
- Investment/ capital formation: higher inflation will lead to higher interest rate resulting in increase in cost of capital and decline in investment
- Net Exports: Our exports will become costlier and loose the market share in the international trade

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So, if the inflation is on a higher side, then the drivers of economic growth will not run at full throttle resulting in dampening of the growth trajectory.

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4. **How far the inflation targeting framework has been effective in controlling inflation in India. Do you think that it has given flexibility to RBI to also focus on growth without undermining its inflation control objective?** (15 Marks)

Ans:

Government of India and RBI signed a new 'Monetary Policy Framework' in 2015 which provides for flexible inflation targeting by RBI.

The important features of the framework are:

- Primarily maintain price stability, while keeping in mind the objective of growth
- RBI should keep the inflation @4%+/-2%
- Primary objective is price stability, while keeping in mind the objective of growth
- RBI shall be seen to have failed if inflation is more than 6% or less than 2% for three consecutive quarters

Since the inflation targeting framework came into effect in 2015, RBI has been able to keep the inflation (CPI combined) around 4%. It was after Covid-19 which caused supply side disruptions that resulted in inflation going beyond 6% for consecutive nine months from January 2022 to Sept. 2022.

So, RBI failed once to keep the inflation within the range provided. But we need to understand that inflation is cause by two major factors. One is demand side and the other is supply side. This failure was mainly because of

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the supply side bottlenecks and base effect where RBI may not do much to control the inflation. As covid is once in a century crisis, so we cannot attribute this failure to 'inflation targeting framework' as during this period inflation breached the targets in most countries around the world.

As the inflation targeting is flexible in nature i.e., it is not fixed @4% rather RBI has been given a flexibility to manoeuvre +/-2%, there is enough room for RBI to focus on growth also while targeting inflation in this range.

Since the onset of the Covid-19 crisis and even before, the RBI had been focussing on growth — it had cut interest rate by 115 basis points, maintained an accommodative stance, and made a commitment to maintain the stance as long as necessary to revive growth, even though inflation had been inching up due to supply side constraints. This led to a sound and resilient recovery in economic growth to above 9% in 2021-22 and above 7% in 2022-23.

RBI has to walk a tightrope to balance growth-inflation dynamics. The accountability measures incorporated in the inflation targeting framework ensures that while focussing on growth, the inflation management objective is not lost.

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5. **While India is trying to increase its labour productivity, it should be accompanied with generation of more employment opportunities. Comment.** (10 Marks)

Ans:

Productivity of labour is defined as output produced per unit of labour. Apart from the level of human skills, the quantity of raw material and the technology employed are also responsible for the productivity of labour.

The productivity of labour (human resources), being an important input beside land and capital, play a significant role in determining the overall economic growth of a nation. Govt. has taken several measures to increase productivity of labour like:

- Attracting foreign investment and technology
- Skilling through various govt. initiatives
- Reforming labour laws
- Expenditure on infrastructure

When the labour productivity in the economy increases, we require less labour to produce the same unit of output. This results in labour becoming surplus. For example, mechanization of agriculture has left a large number of people in the agriculture sector redundant. The artificial intelligence will definitely increase the labour productivity but it will also lead to labour becoming surplus.

India is already having a huge labour force of 56 crore out of which majority of them are stuck in low

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productivity jobs. As the productivity of labour is increasing, we need more jobs for:

- The labour becoming redundant/surplus
- The already unemployed labour
- The new labour entering into the market

Hence, our policy makers need to facilitate generation of more good quality jobs.

Govt. has initiated several reforms in the last few years which has the potential to generate more good quality jobs like:

- Insolvency and Bankruptcy Code 2016,
- Goods and Services Tax
- Reduction in corporate taxes
- Aatmanirbhar Bharat reforms

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6. **What is reserve currency? Discuss the recent steps taken by the RBI to internationalize rupee.** (10 Marks)

Ans:

A reserve currency is typically a globally-recognized foreign currency that central banks or other financial institutions hold in large quantities as part of their country's foreign exchange reserves. It is utilised for:

- Global transactions involving trade and investments.
- Used by central banks to pay for international debt obligations and to influence their domestic exchange rate
- A large proportion of commodities, from gold to oil, are priced in the reserve currency.

Thus, other countries have to hold this currency to pay for these commodities.

At present, the US dollar is the world's predominant reserve currency.

An international currency is one that is freely available to non-residents, essentially to settle cross-border transactions. It is a process that involves increasing use of the local (rupee) currency in cross-border transactions i.e., international markets.

Once a currency becomes an international currency, then central banks will start holding it as forex reserves. RBI has taken the following steps to internationalize Rupee:

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1. Developing mechanism to trade with Russia in Indian rupee
2. Developing mechanism for invoicing and trading of goods and services and transfer of remittances with UAE in Indian rupee
3. India's UPI and Singapore's PayNow have been integrated to enable faster Remittances between the two countries
4. Govt. of India securities will be very soon joining the global bond index 'Euroclear'

The preconditions for rupee to become an international currency are - size of the Indian economy and a dominant share of global GDP, globally dominant businesses, extraordinary military capabilities etc. which can be achieved only in considerable time.

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7. **Discuss the structural reforms introduced in the last decade which resulted in quick recovery and resilient economic growth in the post Covid-19 period. Also discuss the macro-economic risks which the Indian economy may face in the near future.** (15 Marks)

Ans:

Structural reforms are measures that change the fabric of an economy, the institutional and regulatory framework in which businesses and people operate. They are more fundamental in nature which frees the economy from the control of the government and allow markets to allocate resources.

Structural reforms:

- GST
- Financial Inclusion (Jan Dhan Yojana)
- Digital Public Infrastructure (e-KYC, UPI, e-RUPI etc.)
- Aggressive push on physical infrastructure
- Direct Benefit Transfer

Due to the above reforms already implemented, the macro fundamentals were quite strong which resulted in resilient and swift recovery of the economy post covid. Economic growth bounced to above 9% in 2021-22 and 7.2% in 2022-23.

Macro-economic risks:

- Geopolitical tension may result in less global growth resulting in decline in exports and economic growth

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- Increase in CAD due to higher crude oil prices and other imports resulting in decline in forex reserves
- Higher central and state govt. debt
- Higher fiscal deficit due to increased Govt. spending
- Higher inflation resulting in rupee depreciation

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8. **Government's emphasis on developing digital public infrastructure has been a game changer in enhancing productivity and potential growth of the economy. Comment.** (15 Marks)

Ans:

Digital Public Infrastructure (DPI) refers to online platforms such as identification, payment, data exchange systems that help countries deliver vital services to their people. DPI comprises foundational population-scale technology systems on which the digital economy operates.

Examples of DPI are Aadhar, UPI, Co-WIN, ONDC etc.

DPI has led to enhancing productivity and potential growth in the following ways:

- Aadhar is used in authentication for Direct Benefit Transfer in various govt. schemes which has led to reduction in leakage and better resource allocation
- Better delivery of food under public distribution system to migrant labour through One Nation One Ration Card through Aadhar authentication
- Co-WIN has led to better delivery in Covid vaccination which resulted in faster economic recovery
- e-KYC, digital signature, digital repositories (Digilocker) have supported financial inclusion by improving access to formal financial services and reducing transaction costs
- UPI has led to faster payment systems resulting in increase in productivity

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DPI has led to improving financial literacy, innovation, entrepreneurship, employment generation, and empowering beneficiaries.

DPI led to improving financial literacy and greater financial inclusion. This resulted in access to credit which has incentivised higher consumption and investment, leading to higher economic growth.

With its strong forward linkages to the non-digital sectors, digitalisation has strengthened potential economic growth through various channels such as higher financial inclusion, greater formalisation, increased efficiencies and enhanced opportunities.

In case of India, the three growth drivers that acted as catalysts for DPI growth were favourable demographics, vast expansion of the middle-class, and digital behaviour patterns. By leveraging these growth drivers, India has built a competitive digital economy that has raised its growth potential.

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9. **The reforms done in the last few years form the foundation of a resilient economy but further reforms are needed to ensure that economic growth can both accelerate and sustained at higher levels. Comment.** (15 Marks)

Ans:

Reforms in the last few years

- GST
- IBC
- Digital Public Infrastructure
- Aggressive push towards modernizing physical infrastructure through PPP
- Strategic Disinvestment
- Allowing private sector participation in Railway, Defence, Space, Coal etc.

Further reforms needed (as per Economic Survey)

- Deregulation and simplification of compliances should continue to dismantle the licensing, inspection and compliance regime entirely
- Power distribution companies should be made financially viable
- Education and skilling should match the requirements of modern industry and technologies (Industry 4.0)
- Initiatives to sensitise the population towards a healthy lifestyle and reverse the rising obesity levels
- Monetization of public sector assets for efficiency gains
- Reducing compliance burden on MSMEs and enhancing their access to credit

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The reforms discussed above has the potential to lead to a steady economic growth at around 7% and above. This will result in higher per capita income growth as the population growth has come down under 1%, making India a developed economy by the end of Amrit Kaal in 2047.

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10. **Eradication of poverty and hunger requires provisioning and delivery of public services rather than distributing freebies. Comment.** (10 Marks)

Ans:

Poverty refers to the state or condition in which people or communities lack the financial resources and essentials for a minimum standard of living. While hunger is defined as an uncomfortable or painful physical sensation caused by insufficient consumption of dietary energy.

Poverty, which is basically deprivation of capabilities, is the major reason behind the alarming levels of hunger. Poverty restricts the food choices and has been the causative factor of hunger.

Eradication of poverty and hunger has also been listed as the top two sustainable development goals (SDGs): But its eradication requires provision of public services like:

- Quality education
- Better health facilities
- Infrastructure which creates productive jobs
- Provision of clean drinking water and curbing air pollution
- Financial inclusion
- Social security net

This will result into improvement in capabilities of the people resulting in better jobs and increase in productivity and income.

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Freebies are basically a sub-set of goods and services distributed by the government for free. These are basically populist measures to build vote banks and are not sustainable.

Freebies like income support may help in pulling people out of poverty in the short term but the only sustainable way to eradicate poverty and hunger is provision of public services.

Govt. in the last few years have taken several steps to provide public services like Sarva Siksha Abhiyan, Aayusman Bharat, Housing Scheme, Clean drinking water under Jal Jeevan Missan which has resulted in reducing multidimensional poverty to 15% in 2021 as compared to 25% in 2015-16 (As per NITI Aayog Report).

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11. The majority of capital formation in the economy is financed by domestic savings but India cannot ignore foreign capital inflow. In light of the above statement discuss the potential of foreign direct investment in driving future growth and the challenges it faces. (15 Marks)

12. Investment led growth requires exports to form an integral part of the growth model because higher savings prevent domestic consumption. Comment. (10 Marks)

13. Infrastructure is the backbone of the country but faces major financing challenges. In light of the above statement discuss the role of Development Financial Institutions. (10 Marks)

14. It has been around three decades India embarked on the Public Private Partnership model of building infrastructure for the country. By taking examples from various sectors, discuss the effectiveness of the PPP model in India. (15 Marks)

15. National Monetization Pipeline (NMP) needs to be viewed not just as a funding mechanism, but as an overall paradigm shift in infrastructure operations and maintenance. Elucidate with suitable examples. (10 Marks)

16. Infrastructure contributes to economic development of a country both by increasing total factor productivity and improving the quality of life of its people. Elaborate. (10 Marks)

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17. Logistics efficiency is a function of infrastructure, services and human resources. In light of the above statement discuss how National Logistics Policy 2022 is trying to improve the overall logistics ecosystem in the country. (15 Marks)

18. In light of the new Hydrocarbon Exploration Licensing Policy (HELP), discuss its impact on attracting more investment in this sector and better exploitation of our natural resources. (15 Marks)

19. Energy drives economic productivity and industrial growth and is central to the operation of any modern economy. In light of the above statement discuss the reforms undertaken by the Government to harness India's energy potential and the challenges involved. (15 Marks)

20. Even after three decades of Liberalization, Privatization and Globalization reforms, the income inequality is increasing in India. By elaborating the reasons discuss how it can create an obstacle in achieving the target of India becoming a developed country by 2047. (15 Marks)

21. Insurance, an integral part of the financial sector, can play a significant role in economic development. Comment. (10 Marks)

22. Excessive usage of fertilizers has resulted in loss of soil fertility and stagnating crop yields. In this context, discuss the reforms implemented by the government in the fertilizer sector and how it will result in sustainable agricultural practises. (15 Marks)

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23. What are the objectives of fiscal policy. Discuss the role of India's fiscal policy which led to a robust and sustainable recovery from Covid-19 pandemic. (10 Marks)

24. What is demographic dividend. Discuss the policy interventions which you think have helped in realizing this dividend. (10 Marks)

25. At times when the global growth and global trade is not growing much, export growth will have to come predominantly through market share gains which requires focus on efficiency, productivity, technology, and innovation. Comment. (15 Marks)

26. One of the key drivers of future economic growth in India is the movement of capital from inefficient firms to efficient ones. In this context discuss the impact of Insolvency and Bankruptcy Code (IBC) 2016 and the challenges it faces. (10 Marks)

27. Enactment of the Fiscal Responsibility and Budget Management Act 2003 has led to restraining fiscal deficit and debt within sustainable levels. Critically analyse the statement. (10 Marks)

28. What is an International Financial Services Centre (IFSC)? Discuss the objectives of establishing GIFT-IFSC and the budget 2023-24 provisions to enhance business activities in GIFT-IFSC. (15 Marks)

29. Gati-Shakti will transform the way infrastructure has been built in India. Comment. (10 Marks)

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30. India has allowed 100% FDI in multi-brand retail in case of food products manufactured and/or produced in India. Explain how this policy will ensure livelihood protection for Indian farmers. (10 Marks)

31. What is Tax buoyancy? Discuss the factors driving the buoyancy in Goods and Services Tax. (10 Marks)

32. What is deficit financing? Discuss how it can help in the economic development of the country. (10 Marks)

33. Future growth in farmers income will be driven from allied agricultural activities. In light of the above statement discuss the challenges associated and the reforms initiated by the government. (15 Marks)

34. Fragmentation of farm holdings has necessitated the leasing of agricultural land by farmers. Discuss the statement in light of the "Model Agricultural Land Leasing Act 2016". (10 Marks)

35. Agriculture based clusters are the way to increase rural productivity and farmers income in India. Comment. (10 Marks)

36. What are Farmer Producer Organizations (FPOs)? How it will increase agriculture productivity and farmers income. (10 Marks)

37. Discuss the challenges that contract farming faces in India. How far the recent reforms in agriculture sector will boost contract farming and increase farmers income. (15 Marks)

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38. What is Zero-Budget natural farming? Discuss how it will help farmers in optimizing resource use and increasing their income. (10 Marks)

39. What is 'Protected Cultivation'? Critically analyse its feasibility in the context of Indian agriculture. (10 Marks)

40. What is smart farming? Discuss its potential in transforming Indian agriculture and the challenges it faces? (15 Marks)

41. Agricultural extension plays a key role in boosting agricultural productivity, improving rural livelihoods and changing farmers' preferences and farming practices. Elaborate. (15 Marks)

42. What are the salient features of inclusive growth? Discuss the reasons why India is lagging behind in achieving inclusive growth. (10 Marks)

43. A short and efficient supply chain is a must to ensure better prices to Indian farmers. Elaborate. Mention the reforms taken by the government in this direction. (15 Marks)

44. What is strategic disinvestment? Should government disinvest profit making PSUs? Give reasons to support your answer. (10 Marks)

45. Define Micro, Small and Medium Enterprises (MSMEs)? Discuss the challenges faced by them and the recent steps taken by the government to support MSMEs. (15 Marks)

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46. What are Primary Agriculture Credit Societies (PACS). Discuss the recent steps taken by the Government to improve its functioning and its likely impact on small and marginal farmers. (15 Marks)

47. Discuss the reforms done by the government in the coal sector. Also discuss the challenges and opportunities which lie ahead in commercial coal mining. (15 Marks)

48. Discuss the various direct tax reforms introduced by the government in the last few years. (10 Marks)

49. What are the objectives of the International Monetary Fund? Discuss the reforms proposed by the developing countries in the functioning of the IMF. (15 Marks)

50. Discuss the reforms introduced in the Union Budget in the last few years. Mention the important features of budget 2023-24 which will help in bringing in inclusive growth in the country. (10 Marks)

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