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GENERAL STUDIES

Name of Candidate	Pavan Agrawal	Test Code	29B
Schedule	B (Flexible)	Registration No.	1649
Place	DELHI	Time	2:00PM	Module	GS(M) 2013
Classroom	✓	Distance Learning		Classroom & Distance Learning	

EVALUATION INDICATORS

1. Alignment Competence
2. Context Competence
3. Content Competence
4. Language Competence
5. Introduction Competence
6. Structure - Presentation Competence
7. Conclusion Competence

INDEX TABLE

Q.No.	Page No.	Maximum Marks	Marks Obtained
1.	11-20		
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9.			

Total Marks Obtained

Remarks:

Signature of Examiner

INSTRUCTIONS:

1. Do furnish the appropriate details in the answer sheet (viz. Name, ID Number and Test Code) The Candidate should fill the index table, especially for him/her.
2. In the left margin, she/he should write only question number and in the right margin, nothing should be written.
3. The page number should be coded by the candidate himself and the range of page number related to the answer of the question should be used to complete the index table.
4. All Parts of the questions should be written at one place.
5. No Supplementary sheet shall be provided by the management. So the candidate is advised to accommodate required information within the space provided.
6. The candidate need not write anything in his/her answer that derogates the dignity of an individual or an organization.
7. The candidate should respect the instructions, given be the invigilator.
8. The Examinee has to submit the answer sheet to the invigilator after completion of examination.
9. However, he/she is allowed the take away the question paper.

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3/7/13

India requires large amount of investment in infrastructure (about 1 trillion USD in 12th plan). This requires funding from different institutions. As Infrastructure finances/debt are long term and with long gestation periods, it creates a asset-liability mismatch for commercial banks.

Infrastructure debt funds are an instrument to take care of long term financing needs of infrastructure projects and to avoid asset-liability mismatch for the banks.

Infrastructure debt funds will be for the purpose of direct lending as well as for other options like take out financing. Infrastructure debt funds will target the long term funds like pension and insurance funds so that their resources can be leveraged for meeting the need of infrastructure finances.

India's 1st Infrastructure debt fund was established recently. More such funds are required for greater investment in infrastructure to bring back Indian economy on its high growth ~~trg~~ trajectory.

Ans-③(b) In recent times, Indian economy has suffered because of infrastructural bottlenecks. Investments have suffered because of various problems like acquisition of land, forest and environmental clearances and rehabilitation issues.

Also there are conflicting issues of environment and development. In this context, proper coordination between various ministries and different tiers of government is an utmost necessity.

Establishment of Cabinet committee on investments is a welcome step because it will help monitor the investment projects from the top level. Also it

will help coordinate ~~to~~ between different ministries for example power, coal and environment ministries so that bottlenecks can be removed.

Also Cabinet committee on investment will give a positive signal to the investors (foreign as well domestic) that government is serious about issues related to investment, thus attracting more investment.

Thus Cabinet committee on investment is a good move but need of a strong political will is there so that it does not fail like National investment board which was established earlier.

Ans-③ (C) Indian climate is a monsoon climate. Indian agriculture is largely dependent on Monsoon. More than half of India's population is directly involved in agriculture. About 15% of India's gross domestic product is from agriculture sector.

In the content of large population of India involved in agriculture, Monsoon plays a very important role in economic policy of India. Failure or excess of Monsoon rains has catastrophic effects like drought and flood.

~~Failure~~ In large rain-fed areas of India, failure of Monsoon leads to very less agricultural productivity forcing migration to towns/cities. This creates a problem.

Also as agriculture production declines, it creates inflation in the agricultural commodities specially food stuff. With India having such large population, import of food stuff does have severe financial effects. Failure of Monsoon also affects the industries which are directly dependent at agriculture like cotton, textile and sugar.

In essence, Monsoon is one of very critical determinants of India's

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economy policy as it affects the most of Indian population.

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Ans-4(a) Zero based budgeting is a budgeting system which starts from zero during every budget cycle. It aims at removing programmes, policies which are obsolete or are of low priority. This is an approach to counter the incremental budgeting ~~ta~~ tendencies leading to wastage of resources. However zero based budgeting is not very useful in case of developing countries because of establishment and administrative costs associated with policies. Though it can be used in department of science and technology etc.

Ans-4(b) Effective revenue deficit is a economic term used by government ~~term~~ of ~~used~~ India to ~~s~~ represent the fiscal health of country. Effective revenue deficit is revenue deficit minus grant to state for creation of capital assets. Government is of

the opinion that these grants are being used for creation of capital assets hence should be kept out of effective revenue deficit.

Ans-(4)
(d) Commodity transaction tax is the tax on trading of commodities. It is charged on both the sellers as well as buyers as certain percentage of transaction value. This is on the line of security transaction tax. Agriculture commodities are exempt from this tax. The purpose of Commodity transaction tax is to increase transparency and better regulation of commodity market.

Ans-(4)
(e) Inflation link bonds have been announced by government of India.

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These are aimed at hedging the investors against Inflation risks, so that (small investors + household) do not take recourse to investment in gold. In Inflation indexed bonds the principal is indexed to wholesale price index and certain rate of interest is provided.

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Ans-5(a) Pareto optimality is a concept of economics which says that all variables can not be optimised simultaneously in an economic system. If one is optimised than other will be sub-optimal. For example if growth is optimised then inflation will be affected.

Ans-5(b) Sunset legislation is a type of legislation which expires after certain period of time specified by the legislature who enacted it.

Ans-5(c) Core inflation is the inflation in core sectors of economy. This does not take into account food and fuel inflation as they are highly volatile and do not represent true picture of economy.

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~~Ans-1(b)~~ Economics and politics are basic determinants of a budget. Whereas economics is more concerned with receipt and efficiency of past budget.

Politics decide the spending priorities as it is the political will that determines how expenditure

Please check from here

Ans-5(d) GDP deflator is the ratio of GDP at current/market prices divided by GDP at fixed prices.

Ans-5(e) Gold ETF – gold exchange traded fund is traded on stock exchange. Its value varies according to price ~~of~~ gold.

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Ans-(1) (b) Economics and politics of a country are basic determinants of a sound budgetary process. Economics decides the generation of resources whereas politics decide the spending priorities of the budget.

In this content good economics and bad politics can't go together. Good economics and good politics is required for a sound budget process.

In India, despite having good economics part policies fail because of bad politics. For example location of certain industries in certain areas related to politicians. This is done without regard for raw material requisement, market requirements leading to inefficiency and failure.

Also, sometimes political parties make issue of certain measures

which could be good economically. Also, ~~in~~ every year lots of token provisions are made for various schemes. These token provisions divert money from existing schemes leading to delays as well as time and cost overruns.

In order to have, a sound budgetary process which will lead to stronger economic growth, it requires stronger political will devoid of secterian and regional and personal biases so that economics direct the budget not politics.

Also a good budgetary process should not be determined by narrow and short sighted political gains but by larger interest of the country based on sound economic principles.

Ans-1 (c)

Inclusive growth is a growth process which ensures equality of opportunity. It makes sure that every individual is allowed to develop to its full potential without regional, sectoral or social differences. ~~Total~~ Inclusive growth is concerned not only about pace but pattern of economic growth.

Financial inclusion is related to extension of financial services, credit availability to every citizen of the country. Financial inclusion leads to economic empowerment. As evident in success stories of various self help groups, financial inclusion can definitely lead to upliftment in standard of life which is basic requirement of inclusive growth.

Government of India is striving ~~the~~ towards achievement of the target of providing bank

account to every household of the country. Schemes like Swabhiman, banking correspondent scheme, zero-frills account etc are targetted at achieving ~~fiscal~~ financial inclusion. It is also relavant in content of ~~the~~ cash transfer scheme, an ambitious direct programme of government of India.

However in order to achieve the target of true inclusive growth, their is need to go beyond financial inclusion. It requires empowerment of masses through skill development, education and vocational training so that they can reap the benefits of financial inclusion and become part of growth story of India.

Thus financial inclusion is, in a way important for inclusive growth however aspects like social discrimination etc are needed to be taken care of to achieve Inclusive growth.

Ans-① (f)

Indian economy in recent times has been affected by various internal as well external factors, which has led to very low growth relative to previous years.

The most important macro-economic challenges that India is facing is related to growth-inflation, external sector vulnerability, fiscal consolidation. All these issues are interrelated as well.

Growth is hampered because of various regions which include lack of investment, lack of action on policy front. Exports are declining because of slowdown in west specially European Union. Also inflation level is high in India majorly because of supply side constraints.

Vulnerability of external sector has led to decline in the foreign investment in India which is affecting growth. Also as India's

exports are declining, rising current account deficit is a cause of concern. In this content there is need for diversification of trade as well as improving export competitiveness. Focus market, focus product scheme are a step for that purpose.

Also, one of the biggest challenge on the macroeconomic front is of the fiscal consolidation. Rising subsidy bill has limited the fiscal space of the government. The problem becomes rather serious taking in account the volatility of petroleum prices in the international market. This requires stronger political will so that rationalisation of subsidy can take place and target of fiscal consolidation can be achieved.

Thus for India to grow at 8-9%, these macro-economic challenges need to be taken care of.

Ans-1 (e) India's growth rate hit decade low of 5% in 2012-13. This is because of a combination factors which include domestic as well as international.

On domestic front, high inflation is persistant because of supply side problems. High inflation has led to tight monetary policy by the reserve bank thus leading to hampering the growth.

On policy front, lack of clarity in tax law (eg. GAAR laws) as well as production sharing contracts in gas projects has led to low investor confidence, affecting investment.

Underperformance of core infrastructure sectors like power has also affected growth. It has been affected because of fuel supply problems which is due to land acquisition, rehabilitation-resettlement issues and also because of environmental and forest clearances. This has affected investment in transport sector also.

Internationally also because of crisis in Eurozone, India's exports as well as ~~recession~~ slow down in USA, as well as foreign investments to India have been affected. It has led to rising current account deficit of India further shaking confidence of investors. Rising petroleum prices have created problems of fiscal consolidation.

All these problems have plagued India which needs to be rectified. This requires stronger political will and action to revive investor confidence and to implement the pending projects. Recents steps like cabinet committee on investments and also rising gas prices from Godavari gas fields is step in right direction. Also various caps for foreign investment in different sectors are being increased.

Thus based on strong policy and proper implementation and monitoring India should achieve growth target

of 9% by end of 12th plan.

Ans-① (d) Lewis model of economic development is based upon assumption of infinite supply of labour. According to this model as supply of labour stops the growth also stops.

This model assumes two sectors in the economy. One is agriculture or low wage sector, other is industrial which has slightly higher wages than the agriculture sector.

According to the model, higher wages attract labours from agriculture to Industrial sector and based on that economy grows. The difference in the wages should be good enough to attract the labour. However as supply of labour stops, the growth of economy also stops.

In content of India, this

model is relevant because in agriculture sector of India large population is involved. It has very low productivity and also a lot of disguised unemployment is present.

Indian planning model is also influenced by the lewis model, as it also assumes that as basic industries in India grow, they will be able to absorb the excess agricultural labour so that productivity will be increased.

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Ans-(c)

Foreign investment by Indian companies for improving prospects of energy security are very important. Indian companies are acquiring coal, gas, petroleum assets in foreign countries including Sudan, Venezuella, Kazakasthan, Nigeria etc.

These foreign investments are very important for securing the energy demand of the country. This will help India to remain on its growth path which will not be possible without uninterrupted supply of energy.

Also Indian companies are entering into joint ventures with the foreign firms. This will lead to technology & experience sharing which will improve efficiency of production.

However these are various

challenges faced by these companies. One impostant aspect is competition ~~of~~ from other countries specially China who is also striving for energy. Other important challenge is security situation in many of the countries. Due to unstable regimes, Indian companies have not been able to reap the benefits of investment.

Thus government needs to further promote investment in foreign energy assets financially as well as diplomatically and to safeguard Indian investment.

Ans-2(f) Government of India has taken various measures to achieve the goal of inclusive growth. Extensive use of Information and communication technology has been done. Unique

identification project and 'Aadhaar' card are steps in the direction of inclusive growth.

National optical fibre network is aimed at connecting all villages of India to broadband thus ~~de~~ eliminating the rural-urban divide.

Growth of agriculture sector particularly in rainfed areas can contribute to achievement of inclusive growth. For this purpose drough resistant and high yielding, salinity resistant seeds have been developed using biotechnology.

Also sattelite based mapping of agricultural practices and forecasting of weather have also helped.

~~To~~ There are other technological initiative required to bring vulnerable and marginalised sections of society in the main stream.

(e) Public sector units are considered 'white elephants' in India. The government of India has taken various steps to improve the performance of public sector units. These include-

① Categorisation - The public sector units have been categorised in Maharatna, Navratna, Minirratna categories. The Maharatna category has been ~~[illegible]~~ given highest managerial and financial autonomy so as to increase performance.

② Memorandum of understanding have been signed between Public sector units and government to increase efficiency, transparency.

③ Government has resorted to policy of strategic disinvestment of public sector units. In this way the money raised ~~has~~ in a past

has been used to modernise the public sector units. Government has policy of retaining majority (51%) shareholding.

These steps have helped public sector enterprises to improve performance.

Ans-(2) (a) India's 12th five year plan targets infrastructure investment of about 1 trillion USD. More than half ~~of it~~ of it is to be from private sector. In this content, investment from private sector is very important.

However private investment in infrastructure has not been upto the mark. It is because of variety of reasons which include-

① lack of clarity in tax policy eg. GAAR.

② Production sharing contracts under NELP lack clarity on

pricing.

③ Forest and environmental clearances

④ Rehabilitation and resettlement issues

⑤ Land acquisition problems.

⑥ Fuel supply problems affecting investment in power sector.

These reasons have affected the investor confidence and private investment. Also volatile international scenario has not helped it.

One more important ~~factor~~ problem of private sector investment is that it is highly sector specific. Most of the private investment is in transport and power, communication sector. This has left agriculture based infra-structure, social infrastructure totally dependent on government.

All the hinderances of private investment should be

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removed and a broad policy framework is required to make private investment more inclusive.

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