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GENERAL STUDIES

Name of Candidate: ASIM ANWAR

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Classroom:

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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

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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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Question No. (प्रश्न संख्या)

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1.
(a). The disinvestment policy currently employed by the Government of India is a one in which a minority share in profit making PSUs is sold in the public market through an initial public offering or a further public offering. It does not envisage a strategic sale of the company, that is, giving away control to any private party, as was the policy adopted by the previous NDA government. It is in this context that the lack of wider national consensus needs to be evaluated.

One of the objectives that the government hopes to achieve by divesting small stakes of 5% - 10% to the public market, is to improve corporate governance. This objective clearly helps keep PSU management wary of activist institutional shareholders, who may oppose any decision that adversely impacts shareholder value. This check on decision making will ensure that valuation enhancing decisions are given top priority, which in turn benefits retail shareholders, who are part of the larger public. This was demonstrated in the case of Coal India Ltd, where a minority shareholder 'The Children's Fund', opposed sale of coal at below market prices to power companies.

A demonstration of the consensus for the disinvestment policy is manifested in the way the Coal India IPO was oversubscribed several times, leading to a valuation discovery that made Coal India one of the top three most valued companies in India in terms of market capitalisation. This price discovery of the stock that is now in the hands of the general ~~public~~ public (either directly or through mutual funds set up by institutions), ~~hep~~ helps in providing an attractive option to channelise the savings of the people.

The policy clearly indicates that the Government will retain at least ~~51%~~ 51% shareholding, so any ~~concern~~ concern on decision taken that are not in the ~~larger~~ larger interest of the people by private parties, does not arise.

Another key factor to consider, is the use of the proceeds of the disinvestment. The Government has created a National Investment Fund (NIF), that will use ~~#~~ a large part of these proceeds for social development schemes of the Government, which in turn benefits the people.

In light of the above, one can conclude that the disinvestment policy still ensures that the equity in PSUs still belongs to the people, and is in the nation's larger interest.

(b) The argument of the economic thinkers of the Indian economy becoming a ~~sb squeki~~ squeaking mouse, is primarily ~~as~~ for the following reasons:

- Reduction in GDP growth rate: The GDP growth rate for 2011-12, based on advance estimates, is 6.9%, as compared to 8.4% over the last two years. Among other things, this can be attributed to a weak global economy, owing to the debt crises in Europe.

- ~~a~~ — High Current Account Deficit and Fiscal Deficit: ~~This~~ is Current Account Deficit ~~to~~ for 2011-12 was 3.6%, mainly on account of increasing imports (due to high crude prices), and exports being subdued due to lack of global demand ~~a~~ owing to the crises. Fiscal Deficit for 2011-12 was 5.9%, ~~again~~ due to ~~lack of~~ reduced tax collection, and a high subsidy bill leading to a revenue deficit.
- Fall in Rupee value: The rupee has depreciated by almost 15% over the last 18 months, mainly on account of flight of foreign capital, moving to US dollar as a safe haven. Reduced confidence in India as an investment destination is also a factor.

The key challenges that lie ahead for the economy, are as follows:

- Managing high GDP growth with inflation: With RBI predicting a sticky inflation rate of 7%, any reduction in interest rates to bolster investment will increase inflation that affects the common man.

– Impact of agriculture: – A poor monsoon, as is evident with a rainfall & deficit of nearly 20%, will reduce agriculture production and will not meet the target 4% growth rate. This will further stoke inflation.

– Subsidies: – Reduction in subsidy bill to ~~be~~ less than 2% of the GDP is a goal for this year in the budget. This will require policy changes, especially in deregulation of fuel prices, particularly diesel.

– Trade deficit: Exports are lower than imports. ~~due to the global~~ This needs to be corrected to an extent by actively improving manufacturing sector through setting up of clusters and SEZs for specific export oriented goods.

– Foreign Investment: India as an investment destination needs to be made more attractive, and this can be achieved through a more liberalised FDI policy in sectors such as retail and aviation.

1. (C). ~~Limitations of~~ Gross Domestic Product (GDP) of a country measures its total production of goods and services, within a given period, and ~~it~~ can be calculated by adding the Consumption, Investment, Government spending and exports, net of imports. Gross National Product also takes into account the income earned by Indians based abroad, and deducts the income of foreigners ~~based~~ based in India. Thus both these measures of national income take into ~~account~~ account the overall quantum of economic production in the country.

Limitations of GDP/GNP :

— Do not factor in the income distribution, that is, the level of inequality prevalent in the economy.

— Do not factor in standard of living : A high GDP/GNP does not guarantee that the people have basic amenities to lead a healthy and purposeful life, Eg: healthcare, food, education, sanitation etc.

- Do not factor in non economic activity that plays an important role in social development. Eg. - household work, volunteer work, parenting etc
- Do not factor in sustainable development: The impact on the environment and ecological damage caused by economic activity (eg. industrial pollution), is totally ignored by GDP and GNP.

Alternatives to GDP and GNP could be those that measure the percentage of population that has access to amenities key to a decent living, such as a basic education, drinking water, sanitation etc. A novel way of measuring welfare of a country & could be by measuring the happiness level of its population, as is done in Bhutan, through the measurement of the Gross Happiness Product (GHP).

2.

(a). The General Anti Avoidance Rules (GAAR) is ~~was~~ a concept that is part of the Direct Tax Code (DTC) Bill, and also found mention in the Budget speech of the finance minister. It ~~refers to~~ aims to prevent tax evasion by entities through structuring their business transactions specifically to avoid paying tax. Use of tax havens such as ~~those~~ Mauritius and Cayman Islands is ~~one~~ ~~wo~~ the most common way of this is ~~other~~ achieved by private companies operating in India.

In today's globalised world, businesses with cross-border nature, especially with those involving countries whose tax laws are different from India's, is a reality. India is a signatory to Dual Tax Avoidance Agreements (DTAAs) with several countries including Mauritius, in order to protect businesses having operations in both countries from paying tax in both jurisdictions.

While several companies do misuse these provisions to set up a shell company ~~that~~ in a tax haven that effectively holds all the ~~opesal~~ operating entities in India to avoid paying tax, there could be many others that ~~geniinly~~ genuinely have operations in both countries. If not, they can always make a minor investment in these tax havens to set up an office with some skeletal staff to convince Indian tax authorities that their holding structure is not ~~solely to prevent~~ oriented to evade taxes, but has a legitimate business reason. This effectively defeats the purpose of GAAR.

The government can, instead, adopt the following strategies for misuse of tax laws:

— Simplification: The DTC hopes to reduce exemptions and make the tax laws easier to comprehend, and plug loopholes.

— Broaden the tax base: Reduce overall tax rates and increase the base of the taxable population.

2 (b). The international monetary institutions, namely the International Monetary Fund (IMF) and the World Bank, came into existing ~~fo~~ in the Bretton Woods Conference, which was basically oriented towards the interests of the global economies of the time, that is, ~~of~~ those of the United States and Europe. Unlike other multilateral organisations such as UN, which practise a one country - one vote mechanism, the voting at the IMF and World Bank follows a quota system, with each member having a quota equal to its contribution to the fund. ~~In the~~

In the IMF, the quotas are determined through Special Drawing Rights (SDRs) which is a unit of currency that is pegged to a basket consisting of the US dollar, Pound Sterling, Euro and Japanese Yen. Each ~~con~~ country has its contribution measured in terms of SDRs, that determines its quota. This non democratic set up has led to decisions that are largely in favour of American and European interests, ~~that hold~~ as these countries hold the largest quotas. Till recently, the US quota at the IMF was close to 33%. This non democratic setup was manifested regularly during the election of the IMF Managing Director and the World Bank Governor. Through the quota system, the western countries had managed to always have an American as the head of the World Bank, and a European as the IMF MD respectively.

In light of the economic growth of developing countries, particularly China and India, the quotas of the two organisations have undergone a ~~the~~ change. India and China, along with Brazil have constantly ~~lobbied~~ lobbied for a reforms at these two organisations, and have used multilateral fora such as the BRICS and G-20 Summit to emphasize the changing economic order. In the recent reforms at the IMF, India's quota has increased to 2.44%. The quotas of the developed Western countries has been reduced (The US now has a quota of less than 18%). ~~While~~ The factors that influenced a country's increased quota include its GDP, its share in global trade and its tariff barriers, among others. If GDP is considered in purchasing power terms, India's quota could have been much higher (more than 6%).

The above reforms do indicate that there has been an impact due to the changing economic ~~power centres~~. More can be achieved however, through collective negotiations ~~at~~ by the emerging economies in the future.

3.
(e). The India growth ~~st~~ story mainly emerged in the beginning of last decade, that is, post 2000, on account of global interest in India's consumption driven economy. While economic reforms in 1992 ~~where~~ were more need based due to a severe balance of payments problem, they helped the economy attract both FDI and FII, and foreign reserves began to soar, crossing \$300 bn ~~over the last~~ ~~two~~ few years ago.

Given the global economic recession, firstly in 2008, and ~~closs~~ ~~closf~~ closely followed by the European crises, foreign capital is exiting India to safer havens such as the US dollar. To attract this capital, reforms are important, and need to include the following:

- Opening more sectors for ~~f~~ FDI, including multibrand retail.
- Reduce tariffs on imports, to make the domestic industry more competitive.
- Simplify tax rules, ~~and~~ through implementation of the GST and DTC.

3 (b). The monetary policy, set by the RBI, has a delicate task ~~&~~ of balancing economic growth and inflation.

In the current context, RBI is not likely to reduce interest rates further, given that inflation is still high (around 8-9%) and above the comfort level. I agree with the view that until inflation is brought under control (to less than around 6.5%), reducing interest rates is not advisable. Reasons are as follows:

- A high inflation rate directly affects the consumption level of the public, and hence lower savings translate to lower investment, that reduces industrial growth in a large way.
- Reduced interest rates take time to translate to higher gross capital formation, as banks are unwilling to immediately lend at lower rates ~~for~~ to corporates for investment.

Monetary policy has not been able to check inflation because of the supply side (cost push) factors that are affecting inflation. These include:

- ~~Importa~~ Infrastructural bottlenecks in the public distribution system for food.
- High global crude oil prices, that lead to higher raw material costs for industry.
- Power shortages, owing to short supply of coal, thereby impacting industrial production.
- Low agricultural output, due to inefficient use of technology, and unpredictable monsoons.

3.(d). ~~Post facto facto legislatation refers to~~
Post facto tax legislation refers to creating a tax law that impacts events retrospectively, that is, it can lead to the tax authorities examining transactions that have concluded in the past, for tax compliance with the new rule.
In this case of Vodafone, a sale by the Hutchison Whampoa group of its stake in the Indian telecom company ~~&~~ Hutch Telecom to the Vodafone group was a transaction that the tax authorities claim, was ~~to be subjected~~ subjected ~~to cap~~ to capital gains tax, as it involved a sale of an Indian business.
However, Vodafone claims that it bought shares of an overseas company (based in a

tax friendly jurisdiction) from Hutchison, and hence, Indian tax laws would not apply.
While retrospectively claiming tax on transactions that have been executed ~~is~~ ~~that~~ at a time when the law itself was different ~~is a matter that does not~~ ~~and~~ ~~merit~~ is unwarranted (and hence, a lame idea), in the case of Vodafone, it was a clear case of ~~tax~~ avoidance of tax that was applicable at the time of the execution of the transaction. By merely purchasing shares from a shell company ~~that~~ based in a tax haven, whose only material business ~~was~~ was the telecom company in India, Vodafone, in my view, cannot claim non-applicability of the capital gains tax. In this case, the post facto tax liability is justified.

Question No. (प्रश्न संख्या)

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9.

(a). Marginal Standing Facility : Is a facility ~~offered~~ offered by the RBI to lend to banks when they face a shortage of funds, at a rate higher than the repo rate.

~~(b)~~.

(c) Baltic Dry Index : Is an index that determines the cost of shipping goods across the globe, and is a lead indicator of ~~ec~~ economic activity.

(d). Twin Deficit : Refers to the combination of Current ~~Accou~~ Account Deficit and Fiscal Deficit, that is impacting India's economy.

(e). Structural ~~Employ~~ Unemployment : Unemployment caused due to lack of skills and training to perform jobs that are currently available to the population.

(f). ~~Round~~ Round-Tripping : ~~Circumventing~~
A sale of a ~~good~~ security from one entity of another until the ~~g~~ ~~good~~ security eventually reaches the ~~original~~ original seller, at a higher price. This is commonly used to manipulate the pricing of securities in the Stock market.

4.

(a). The fine imposed on Barclays Bank was for the manipulation of LIBOR rates, that serves as a benchmark interest rate for debt transactions globally. The LIBOR is set by a market mechanism, in which several large banks based in London that are engaged in lending an borrowing funds to each other on a regular basis, come together to disclose each other's lending rates, that is then aggregated to set the London InterBank Rate (LIBOR).

In ~~thise~~ this case, there was an allegation that the banks have manipulated the data provided to the regulator, so that the rate that emerges, is favourable to the positions held by the bank's trading desk, which can then make a profit by closing the position, as the counterparty to the trade is unaware of the insider information. The banks have allegedly coordinated with each other in this process.

As LIBOR is a key benchmark interest

rate, along with ~~Euri~~ EURIBOR, the manipulation effectively means that billions of dollars ~~of~~ have been borrowed or lent at an incorrect rate, which does not correctly capture the credit risk involved. This can have a cascading impact on the global credit markets, as a sudden correction in the rates will impact interest payments and lead to defaults. Apart from Barclays, other UK based banks are also being investigated for ~~this~~ this.

(b). Russia has been one of the major ~~eco~~ economies that has not been a part of the World Trade Organisation, and has maintained a protectionist ideology with respect to its trade. This has adversely impacted its trade relations with most major countries, thereby not only affecting the choices that Russian consumers had, but also preventing Russian products from reaching international markets, where their demand could ~~be~~ be high.

By ~~accedi~~ voting to ratify the WTO entry, the Russian Parliament has paved the way for Russia to be a part of various bilateral and multilateral economic partnership and free trade agreements. While for the WTO, it only furthers the objective of reducing global trade barriers, for BRICS, the opportunities for trade and economic ~~partship~~ partnership are tremendous. ~~BRICS~~ The BRICS countries are home to 42% of the world's population, and are a huge market to tap into, particularly given the ~~higher~~ increase in disposable incomes in India, China and Brazil. While an FTA like ASEAN or ~~an~~ MERCOSUR is still a distance away, the BRICS countries can start with an economic partnership to reduce trade barriers between each other. Establishment of a BRICS development Bank, as discussed in the Delhi Summit, will act as a catalyst for this purpose.

~~5~~.
6.
(a) Compulsory Licensing : A license that can be ~~to~~ issued ~~by a~~ to a company to manufacture a good whose patent it does not posses, ~~fo~~ in case of an emergency, as in the case of pharmaceuticals. Recently, ~~an~~ ~~Indian~~ ~~Natl~~ Natco Pharma, ~~an~~ was given a compulsory license to manufacture Nexavar, a drug used in the treatment of Pancreatic cancer, as the Patent holder Bayer currently sells the drug at a very high price in India. The compulsory license will help the underprivileged buy the drug for less than ₹10,000 instead of more than ₹1,00,000. Compulsory license is covered under the TRIPS agreement of WTO.

(d). The proposed Persons with ~~Dis~~ ~~Disal~~ Disabilities Bill, 2011, serves to replace an older Act that covered the protection of the rights of the disabled and provide them with dignity in day to day life. It covers the following
— ~~A~~ Creation of facilities that can provide

access to all government institutions, and public buildings such as schools and hospitals.
- Provide for access to education for disabled children, and an option to be educated at home.
- Cover employment of the disabled in the private sector. In this case, the Government will contribute towards the provident fund in lieu of the employer.

(g). Basel III Norms :
In light of the 2008 financial crises, the need for an enhanced framework for the risk management of global financial assets was felt, and this led to Basel III. It builds on the requirements of Basel II in terms of ~~cap~~ maintaining capital ~~aded~~ ~~adeda~~ adequacy ratios by ~~no~~ banks, and also ringfence the effect of contagion caused by defaults on derivative assets, such as CDOs etc.
RBI has mentioned in its Annual Report that Indian banks can adopt Basel III Norms by 2018.

7.

(c). Beyond GDP initiative has been adopted by the Government of India to measure economic performance and development progress in terms of other metrics, that could better capture the actual impact of policies on the lives of the people. An example ~~coulde~~ could be the Gross National Happiness metric used by Bhutan.

(d). Rajiv Gandhi Equity Savings Scheme:
Introduced in the Budget 2012, as a means to encourage equity investments in India. A tax benefit of 50% will be provided to those who invest up to ~~50%~~. ₹50,000 in the equity scheme, if they have an ~~tax~~ income of less than ₹10 lacs. There will be a lock-in of three years. Recently, SEBI has mentioned that there will be mutual funds that will be available for investing in this scheme.

(e). Pay as You Go Pension Plan:

A pension plan introduced by the Government wherein the employee makes a ~~contribution~~ defined contribution to a pension fund till he retires. The ~~amount~~ corpus that has accumulated, post returns, is available as ~~montl~~ monthly payments once the employee is retired.

8.

(c). Socio Economic and Caste Consensus aims to identify persons below the poverty line, based on certain indicators, including automatic inclusion or exclusion criteria. For example, a household with a government employee, with a motorable three or four wheeler or certain amount of agricultural land is automatically included. On the other hand, scheduled caste and scheduled tribe households, and household where the head is a woman, are included automatically.

The Planning Commission, on the other hand, ~~used~~ uses an expenditure or consumption based approach to determine BPL families. As per the Tendulkar Committee ~~suggestions~~, expenditure of less than ₹32 a day for urban households and ~~₹~~ ₹28 a day for rural households, is an indicator of poverty.

8(e) GDR and FII

While both GDR (Global Depository Receipts) and FII (Foreign ~~Inst~~ Institutional Investment) are types of Foreign Portfolio Investment, GDRs refer to capital raising by an Indian company that lists on an ~~for~~ international exchange. The investors purchase GDRs that are fungible with the shares listed in India. On the other hand, FII refers to foreign institutions that invest in Indian companies through the Indian exchanges, (Eg BSE, NSE), by registering with SEBI.

5.
(a) Steps taken to contain food inflation :

Administrative :

— Localising the Public Distribution System, so that food grains are not transported long distances, adding to ~~costs~~ transportation and storage costs.

— Banning the export of non basmati rice.

— Maintaining the MSP (Minimum Support Price) at manageable levels for food grains.

Fiscal Steps :

— Technological inputs to farmers, in terms of better seed varieties, to increase production.

— Increase ~~produ~~ domestic production of Urea, to reduce dependence on fertilizer imports.

— Diesel subsidy for ~~drought prone~~ farmers.

Monetary Steps :

— Loans at reduced rates to farmers.

(b) Steps taken to stabilize the value of the Indian Rupee:

- RBI has conducted Open market Operations in which the US dollar has been sold out of the foreign reserves. This is called RBI intervention.
- Relax FDI policy : Government is trying to attract FDI in sectors such as multi- ~~to~~ brand retail, in which 100% FDI is now allowed. The inflow of capital will stabilize the Rupee.
- Allow Qualified Financial Investors (QFIs) to invest in bonds - QFIs that are from countries that ~~are~~ a have ratified the FATF (Financial Action Task Force), can invest in INR bonds upto \$10bn.
- Relaxed ECB (External Commercial Borrowing) guidelines for Indian Companies, and allow conversion of rupee loan ~~to~~ to cheaper ~~fore~~ foreign currency denominated loan.

(d) Rangarajan Panel has recommended that the distinction between Plan and Non Plan expenditure be done away with. India should achieve zero revenue deficit, that is, the revenues should fully cover all development on non development revenues of a current nature, and borrowings should only be used to fund capital expenditure.

(e). Role of Small Savings:

Small savings can ~~incres~~ inculcate the practice of thrift in the rural areas and bring the rural areas under the ~~to~~ banking system. Through the use of microfinance principles, these small savings can be lent to self help groups for funding any micro enterprise.

Question No.
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Question No.
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Rough Work

- GDP
- Repo rate.
- fiscal deficits.
- rainfall

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