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GENERAL STUDIES

Name of Candidate

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Test Code

M104

Schedule

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Place

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Time

2-5

Module

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.			
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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 by the invigilator.
8. The Examinee has to submit the answer sheet to the invigilator after completion of examination.
9. However, he/she is allowed to take away the question paper.

1(b)

Post liberalisation and economic reforms of 1990s India has been steadily growing into an economic power. Moreover, in the last decade India witnessed tremendous growth reaching as close to 9%. However, post 2008 crisis there has been a steady decline in growth and output and presently the growth projections are lowest since 2004.

Despite the slowdown India's growth rate still remains one of the highest in the world. However, the 2008 crisis and the Eurozone crisis has busted the 'decoupling theory' myth. India is no longer insulated from external shocks, and recession or slowdown in the western world influences investments and exports of India as well.

Thus, the booming Indian economy of pre-2008 period has suddenly slowed down along with whole of the world. The corporate world and industries are demanding second generation reforms such as labour law reforms, land acquisition, environmental clearances and growth stimulation packages. This is pressing the government hard already under pressure due to twin deficits

and its commitment towards social sector schemes.

However, despite the fact that lumbering elephant of Indian Economy has emaciated a bit, it is definitely on its way to recovery. This however requires both short term and long term measures.

Short term measures include tackling the challenges of inflation and price instability through synchronisation between monetary and fiscal policy.

Long term measures include building infrastructure, land acquisition reforms, labour law reforms, fiscal discipline, ~~and~~ Skill upgradation and human development.

1(c)

The GDP/GNP measures the gross output produced by a nation or the gross national income. It is therefore a macro-measure of the wealth of a nation in a particular year. While a rising GDP indicates higher disposable income, rising output, and economic growth - it may not necessarily indicate overall well being of all the people of the country.

Welfare of a nation is not just measured by per capita income but other socio-economic indicators such as inequality, poverty, state of health (IMR, MMR etc), education, political participation, rule of law etc. In this regard GDP has severe limitations. It does not highlight the underlying inequalities and sufferings of people, even when nation is achieving a high economic growth.

The GDP/GNP also does not take into account the environmental and social costs associated with growth and economic development. For example, if a power plant is built in an area by deforestation - the loss of

natural capital and pollution taken is not taken into account. Similarly, displacement of people and influence on their social relationships and culture is also not taken into account.

It is therefore imperative that we take into account social, economic and environmental costs while measuring welfare. This requires a reconceptualisation of the term growth and development.

The new measure of welfare say GDP+ should involve natural resource accounting, human development indices in a quantified manner. An example in this regard is system of Gross National Happiness that is calculated by Bhutan to measure welfare of its people.

(d) National Manufacturing Policy envisages to increase the contribution of manufacturing to GDP to 25% by the year 2020. To achieve this target policy support from other sectors such as financial, infrastructure, transport, energy, environment would be required.

Some of the policy measures/reforms that are required are:

- Land Reforms: It is important that Government comes up with a balanced law on land acquisition, rehabilitation and resettlement. The law should ensure that people whose land is acquired are adequately compensated and rehabilitated.

- Labour Law Reforms: Archaic labour laws are one of the biggest hurdle in growth of the sectors. The sector needs flexibility in labour laws in order to compete in the world market. Further, provisions of collective bargaining and worker-management participation need to be strengthened to guard incidents that happened in Monesha.

- Environment Impact Assessment and Clearances
There is a need for an independent authority to assess environment-impacting various proposed projects and a coordination

mechanism between: the Ministry of Environment and other stakeholder ministries to avoid delays in approval.

- Foreign Investment: More liberal norms for FDI in green field projects and a stable policy environment is required to attract investment.
- Human Capital: We need effective policies on skill development, health and education in order to truly reap the benefits of demographic dividend. National Skill development mission, is a right step in this direction. We also need Universal Health Coverage and stronger social security for workers.

Thus, there is a strong need for convergence of policies from different sector to develop a stimulating ecology for manufacturing in India to grow.

Q2(a) The current globalised world is a large global market where several trans-national companies operate. In order to facilitate free movement of goods and professionals countries enter into bilateral agreements on trade, investments and avoidance of double tax. These measures are necessary to boost trade. However, these treaties should not be used by companies as an instrument to avoid their tax liabilities. In this regard General Anti-Avoidance Rules are important to prevent abusive use of these benefits.

Treaty Shopping and Round Tripping are some of the measures that companies resort to in order to avoid taxation. This requires an effective oversight mechanism in order to ascertain the area of operation of a foreign company that enters Indian market. This also requires regular revision of tax treaties with other nations to fill the loopholes.

There should be effective tax information exchange agreements between countries. India has already signed agreement with countries like Switzerland and others.

To stop abuse of transfer pricing systems of

advanced adjudication should be followed to avoid litigations at a later stage.

One of the reasons for misuse of tax laws is that some-times tax laws themselves are complicated and paradoxical. It is therefore important to revise the tax laws and introduced a uniform and streamlined tax regimes in form of proposed GST, and DTC.

India at present ranks extremely low in terms of ease of doing business index. Transaction costs, and regulatory hurdles act as disincentive and encourage misuse of tax laws. This requires simplification of procedures ~~and~~ by using e-governance. Sevottom Model of service delivery and G2B interaction should be followed to create a friendly environment.

2 (b) The Bretton Woods twins - World Bank (WB) and International Monetary Fund (IMF) were established to provide development and reconstruction aid to poor and developing countries. They also aid, advice and put conditions on political and economic policy reforms in return of financial aids.

The governing structure of these institutions however has been western dominated. This is because the western economies are the major contributors to these institutions and therefore retain the veto over its functioning.

As a convention the head of World Bank is elected from the United States and head of IMF is elected from the European Union. Since the result of election depends upon the quota of contribution the countries make - western countries inadvertently have their say in the election of the heads of these institutions.

Clearly the governing of these institutions is non-democratic in nature as the elected head is not representative of large number of developing countries.

Further, over the years these institutions have been criticised of enforcing aid conditionalities

in form of good governance on the aid seeking countries. These aid conditionalities seek to open up the economies of poor countries which works to the advantage of corporate industry of the western world. As a result western ideology of free market and capitalism includes under developed countries.

The new economic order has witnessed rise of emerging economies such as India, China, Brazil, South Africa. The countries have become engines of growth and have an increasing say in the world economics. As a result, there has been a shift in the quota of IMF towards the developing countries - although West still maintains a virtual veto.

Further, in recognition of rising economic power of these countries - G20 group has been formed that has framed policies for Financial stability and macro-prudential economic policies for member countries. G-20 also provides oversight mechanism and advocates IMF reforms.

BRICS nations have mooted the idea of their own South-south developmental bank to counter the dominance of WB and IMF.

Q 3(e)

Time is ripe for the second generation reforms. Both the internal and external factors demand a change in the policies in order to maintain our growth story.

Externally, the post 2008 western world and Euro-crisis has made the foreign investors cautious and risk averse. This requires a more liberal foreign investment regime and a more friendly environment in terms of transparency, regulation, and rule of law. Thus, reforms are required to combat corruption, improve laws for land acquisition and environmental clearance.

Internally there has been a growing discontent among the labourers and souring of relation between workers and management. This requires labour law reforms and faster implementation of National Manufacturing Policy.

E-governance play an important role in second generation reforms. The National Broadband Plan will extend the digital fibre to rural areas. This will bridge the digital divide and create a vibrant rural market, thereby giving a boost to economic growth.

Q3(b)

Growth and Inflation are not contradictory to each other. Both can be managed at the same time. In fact a moderate level of inflation is considered good for economic growth and signifies steady rise in demand. However, the present situation in the country is that of stagflation - high inflation and retarding growth. This has resulted in a policy dilemma → *

The priority at present should be to counter inflation through short term measures such as policy rates and take long term measures such as improving infrastructure, removing supply bottlenecks, human resource skilling to foster productive growth and healthy but moderate inflation.

The monetary policy can only curb inflation that is caused by excessive liquidity in the market by controlling the money supply. However, inflation caused by structural bottlenecks such as lack of infrastructure and linkages and external shocks such as rise in oil prices. The latter require a complementary fiscal policy that checks unproductive subsidies and creates infrastructure.

Q 3(c) The deadlock of Doha round in WTO has encouraged countries to pursue bilateral and multilateral trade agreements to suit their needs. India too has signed several bilateral economic and trade treaties with countries like South Korea, Malaysia, Singapore, ASEAN, etc.

However, WTO still provides an overarching framework for world trade. The signatories still have to follow the mandate of agreements signed as per the Uruguay Round - such as the TRIPS, Agreement on Agriculture and other services.

However, on the other hand special free trade agreements do undermine the principle of Most Favoured Nation status. This is because a country bound by a bilateral agreement may give preference to its counterpart than another country with which it does not have a bilateral treaty although the country is also a member of WTO.

The rising FTA among regional countries is also creating a balkanised world economy with several customs and trade unions such as ASEAN, EU, CELAC, SAARC..

Eventually these FTAs may lead to convergence in the Doha rounds of WTO, as well - but it may take time. At present the FTAs seem to be the priority among the countries ~~and~~ role of WTO has definitely relegated.

and

Q4(a) LIBOR and EURIBOR are inter-bank transaction rates. They are the benchmarks that influence bank transactions and financial markets. Barclays Bank was found guilty of rigging these bank rates. As a result it created a leverage for its traders who took advantage of this arbitrage.

The issue highlights pervasive perversion of ethics in corporate and financial world. Cut-throat competition and win at all cost seems to be the 'norm'. It also indicates that white collar crimes are a serious threat to a nation's economy and political stability.

The financial high-handedness of commercial banks and ~~the~~ their collusion with the governments has caused widespread discontent among the western world masses. Several movements such as the - Occupy Wall Street Movement - are a result of this discontent.

The incident also highlights the need of strong regulation of financial sector. hefty bonuses despite recession, and rigging of rates such as these cannot be tolerated - specially in a globally connected world where event in one place influences other through a domino effect.

Q 4(b)

Russian entry to WTO is a positive sign for the world economy and for the world economy. Russia is not only one of the largest producer of oil. It also has large potential in agriculture. Climate change and global warming are actually increasing agricultural growth potential of Russia. Thus, Russia's entry to WTO is good for both energy and food security of the world.

Russia's entry would also give a boost to the deadlocked Doha Round. Now, negotiations may move forward at a faster pace. Russia's presence at WTO also helps BRICS nations to increase their bargaining power in negotiating trade barriers and discriminatory practices of the western world.

Russian entry would also foster better trade among the BRICS countries. There will be increase in investments and better protection of intellectual property rights.

Q.570) Measures taken by government and RBI to contain food inflation are:

Administrative measures

- Restricting exports of certain essential commodities such as rice, wheat, onions.
- Introducing technology such as GPS, Aadhar to curb leakages in the PDS system.
- Retrofitting the godowns to prevent rotting of the food grains.

Fiscal measures

- Government has introduced 100% FDI in single brand retail and has mooted the idea of FDI in multibrand retail. This will help in building infrastructure such as cold storages and will also reduce the influence of intermediaries.
- Amending the APMC Act - so that farmers are not restricted only to mandis for selling their product.
- Subsidies to farmer to reduce their cost.

Monetary measures

- RBI has been raising the policy rates in order to control inflation. However, the results of such measures will be limited and their success will depend upon structural measures taken by the government.

Q5 (b)

Indian Rupee faced, plunged significantly in recent times. This was owing to decrease in exports of India and decrease in investment from the European countries.

Some of the measures taken by government to stabilize the value of Indian Rupee are:

- The FDI, FI norms have been liberalised even more with the limit of portfolio investment increased.
- Investor base of government securities has been increased by allowing sovereign wealth funds, pension funds to invest in government securities.
- The limit of investment in government securities has been increased.
- Government sold some of its ~~to~~ foreign reserve to improve the rupee-dollar paration.
- Government is also mooted the idea of Sovereign Wealth Fund for India.
- The deposit limits of NRI deposits has been increased.
- Norms for foreign exchange management have been improved.

Q4(d) | The Rangarajan Panel on public expenditure has recommended rationalisation of subsidies and removal of artificial difference between plan and non-plan expenditure.

The rising subsidy burden is adding to the fiscal deficit. Further, in many cases subsidies are not reaching the intended beneficiaries. For example in case of fertilizers, it is believed that larger portion of subsidy is consumed by the companies. Similarly diesel subsidy is being exploited by the car manufacturers and elites through large vehicles like SUVs.

The difference between plan and non-plan expenditure creates wastage of resources. Generally most funds are allocated to plan expenditure which result in creation of new assets and infrastructure but their maintenance is neglected as not enough funds are allocated to non-plan expenditure.

Further, plan expenditure is allocated by Planning Commission whereas non-plan by Finance Commission. However, there is hardly any coordination or convergence between the two bodies. This results in dysfunctional programmes and policies. According to Panel the Planning Commission's

role should become more reforms oriented
and budgetary and plan allocation
matters should be handled by
Finance Ministry and Finance Commission.

Q 4 (f) In the era of liberalisation - the role and nature of planning has changed. However, its importance remains. From directive planning, the planning has become more indicative in nature.

The role of planning in present times is to set the agenda and direction of economic growth. The government through its plans identifies the areas of priorities and encourages the private sector to collaborate with it in these sectors. The government also lays down detailed plans and policies in social sector schemes which remain totally in its domain.

Thus, the plan document is an important source of information regarding the government's vision and mission. This helps the private sector in its own planning and strategising its actions.

The planning commission is increasingly moving towards the role of Systemic Reforms Commission. In this role instead of making new plans and programmes it sets up expert-panels to study the local in plans and administrative implementation. Thus, planning commission through plan document -

recommends necessary policy changes and
administrative reforms, that are
necessary to successfully achieve the
plan objectives.

Question No.
(प्रश्न संख्या)

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Q 6(b)

Compulsory Licensing: A 'public interest' measure in patent laws - which allows a government to open a patent to licensing when the patentee is unwilling to license it, to other organisations. Such a measure is taken ~~where~~ in cases ^{such as} public health emergency, and to balance the ^{commercial} interest of inventor with the public interest. Recently, Bayer's Nexovar drug was licensed to Natco as it was a conceal drug and was being sold at very high price.

(b)

Blue Box Subsidy: Subsidy that is allowed in agriculture by the government but with certain limitations. The subsidy is used to improve productivity in agriculture. It is one of the three subsidy allowed by WTO agreement on agriculture. The other two being green and amber.

6(d) The persons with disability Bill 2011 provide for:

1. Allowing persons with disability to carry ^{support} animals ~~with~~
2. Creating a national authority for persons with disability that will act as monitoring, oversight body and formulate norms for implementation of the Act.
3. The Act allows for ~~equal~~ equal access to public places. The government-offices and organisations have to retrofit their places to be disabled friendly within a stipulated time.

Q6(e) Objectives

1. Awareness and Education programme to prevent young teens and adults to fall victim of alcoholism and drug abuse.
2. Provide proper rehabilitation programme for addicted persons.
3. Fund NGOs which are engaged in process of de-addiction.
4. Regulate sale of substances such as whitener which are frequently abused.
5. Special protection and rehabilitation of children.

addicted to substitutes.

6 (g)

Basel III - norms are a follow up of the Basel II norms which set guidelines for financial sector in terms of provisioning of assets, capital adequacy ratio, counter-cyclic buffer etc. The Basel III norms are stricter than Basel II norms.

Q7(b) Monetary Consensus is agreement among the nations to converge their monetary policies. For example members of eurozone have a monetary consensus.

Q7(c) Beyond GDP initiative is an effort to introduce elements of environmental cost, - social cost, human development induced in the measurement of welfare of a nation. The initiative is to make growth of a nation human and ecology centric rather than economic centric.

7(d) Rajiv Gandhi Equity Saving Scheme - introduced in 2012-13 budget, to promote retail investors in equity investment so as to better utilise their savings. Mutual funds are not allowed to invest in the scheme.

7(f) CRIS: a comparative index of sovereign ratings developed by the Ministry of Finance. The index is improvement over the ratings used by the Big-3 rating agencies.

8(a)

Indicative Planning - to indicate priorities, goals, agendas of the government in various sectors and incentivising private sector to invest.

Directive Planning: here the government makes micro-plans. i.e. the government decides the allocation and expenditure in all the sectors. The government also decides what goods are to be produced and in how much quantity. The government also decides the prices and distribution of goods.

8(b)

NEER: nominal effective exchange rate.

Real Effective Exchange Rate : (REER)

↳ based on purchasing power parity.

Q 9 (9)

Marginal Standing Facility : stands at a rate 1% above the repo rate. It is used by banks to meet their liquidity needs and mismatches.

~~(b) White Labelled ATMs~~

(c) Baltic Dry Index : measures the trade on sea through volume of ship movements.

(d) Twin deficit : The current account deficit and fiscal deficit are together called twin deficit. They are governed by following equation:

$$(G - T) + (S - I) = \text{Import} - \text{Export}$$
$$(\text{Fiscal deficit}) + (\text{Savings} - \text{Investment}) = \text{Trade deficit}$$

(e) Structural Unemployment : When there is a gross mismatch between skills of the work force and the nature of work. Structural changes such as introduction of technology and automation also cause structural unemployment.

(a) Swabhimaan Scheme

Financial Inclusion scheme which involves 'Bank-Soothis' who carry mobile ATMs to provide banking facility to financially uncovered areas of the country.