VISION IAS

www.visionias.in

GENERAL STUDIES (TEST CODE : 1394)

Name of Candidate	Kavya. C		
Medium Eng./Hindi	English	**Registration Number**	584225
Center	Online	**Date**	14.12.'19

INDEX TABLE

Q. No.	Maximum Marks	Marks Obtained
1	12.5	
2	12.5	
3	12.5	
4	12.5	
5	12.5	
6	12.5	
7	12.5	
8	12.5	
9	12.5	
10	12.5	
11	12.5	
12	12.5	
13	12.5	
14	12.5	
15	12.5	
16	12.5	
17	12.5	
18	12.5	
19	12.5	
20	12.5	

Total Marks Obtained:

Remarks:

INSTRUCTIONS

1. Do furnish the appropriate details in the answer sheet (viz. Name, Registration Number and Test Code).
   उत्तर पुस्तिका में सूचनाएं भरना आवश्यक है (नाम, प्रश्न–पत्र कोड, विद्यार्थी क्रमांक आदि)।
2. There are **TWENTY** questions printed in **ENGLISH & HINDI**
   इसमें बीस प्रश्न हैं अंग्रेजी और हिन्दी में छपे हैं।
3. **All questions are compulsory.**
   सभी प्रश्न अनिवार्य हैं।
4. The number of marks carried by a question/part is indicated against it.
   प्रत्येक प्रश्न/भाग के अंक उसके सामने दिए गए हैं।
5. Answers must be written in the medium authorized in the Admission Certificate, which must be stated clearly on the cover of this Question-Cum-Answer (QCA) Booklet in the space provided. No marks will be given for answers written in medium other that the authorized one.
   प्रश्नों के उत्तर उसी माध्यम में लिखे जाने चाहिए जिसका उल्लेख आपके प्रवेश पत्र में किया गया है और उस माध्यम का स्पष्ट उल्लेख प्रश्न–सह–उत्तर (क्यूसीए) पुस्तिका के मुख्य पृष्ठ पर अंकित निर्दिष्ट स्थान पर किया जाना चाहिए। उल्लिखित माध्यम के अतिरिक्त अन्य किसी माध्यम में लिए गए उत्तर पर कोई अंक नहीं मिलेंगे।
6. Word limit in questions, if specified, should be adhered to.
   प्रश्नों में शब्द सीमा, जहाँ विनिर्दिष्ट है, का अनुसरण किया जाना चाहिए।
7. Any page or portion of the page left blank in the Question-Cum-Answer Booklet must be clearly struck off.
   उत्तर पुस्तिका में खाली छोड़ा हुआ पृष्ठ या उसके अंश को स्पष्ट रूप से काटा जाना चाहिए।

16-B, 2nd Floor, Above National Trust Building, Bada Bazar Marg, Old Rajinder Nagar, Delhi-110060

Plot No. 857, 1st Floor, Banda Bahadur Marg (Opp Punjab & Sindh Bank), Dr. Mukherjee Nagar Delhi- 110009

1. **Contextual Competence**
2. **Content Competence**
3. **Language Competence**
4. **Introduction Competence**
5. **Structure - Presentation Competence**
6. **Conclusion Competence**

Overall Macro Comments / feedback / suggestions on Answer Booklet:

1.

2.

3.

4.

5.

6.

All the Best

Answer all the questions in NOT MORE THAN 200 WORDS each. Content of the answers is more important than its length. All questions carry equal marks.

12.5X20=250

1. Explain the value-added, income and expenditure methods of estimating national income.

राष्ट्रीय आय के आकलन की मूल्य-वर्धित, आय और व्यय विधियों को स्पष्ट कीजिए।

Gross Domestic Product is the measure of goods & services produced within the territory of a nation in a financial year. Its a measure of growth of economy. National Income is Net National Product at factor cost.

1) Value added Method:

The sum of value added by all firms in the economy is gross value added in the economy.

∴ Thus GVA = Value added by all firms in the economy.

This does not include the value of intermediate good.

Thus GVA = Value added by all firms − Value of intermediate goods

(2) Expenditure Method :

The total sum of expenditure by all the entities in the economy adds up to the total value of goods & services produced in the economy.

Hence in expenditure method :

$\boxed{GDP = C + I + G + Nx}$ where,

C = Consumption expenditure

I = Investment "

G = Govt "

Nx : Exports – Imports or Net Exports.

(3) Income Method :

The GDP in the economy can also add up to the Factors of payments made for ~~such~~ FOPs (factors of production) ~~production~~. Thus under

Income method GDP is :

GDP = W + R + I + P

W = Wages for labour

R = Rent for Land / Capital goods.

I = Intreet for Loans

P = Profite for Investment.

Now Gross National Product at ~~Factor Cost~~ Market Price =

$GDP_{M.P}$ + Net Factor Income from abroad.

~~Net~~ Gross National Product at Factor Cost =

$GNP_{M.P}$ − Net Indirect Taxes

Net National product$_{FC}$ / National Income =

$\boxed{GNP_{FC} - \text{Depreciation}}$.

2. Explain why Micro, Small and Medium Enterprises (MSME) sector is regarded as the 'growth engine' of the Indian economy. Suggest key reforms that are required for improving the overall business climate for MSMEs in India.

स्पष्ट कीजिए कि क्यों सूक्ष्म, लघु और मध्यम उद्यम (MSME) क्षेत्रक को भारतीय अर्थव्यवस्था का 'ग्रोथ इंजन' (वृद्धि इंजन) माना जाता है। भारत में MSMEs के लिए समग्र व्यावसायिक परिवेश में सुधार लाने हेतु आवश्यक महत्वपूर्ण सुधारों का सुझाव दीजिए।

Indian economy post LPG Reforms shifted from an agricultural to Service oriented economy skipping the manufacturing phase. Thus Indian economy has failed in capital Intensive sector.

Indian economy has a deficit in Current Account mainly due to ~~defic~~ trade deficit. Massive industrialisation to boost trade requires:

i) Heavy investment

ii) Large gestation period,

for India to become trade surplus. This also makes Indian economy a

Consumption led growth economy. which is not sustainable at long run.

MSMEs can boost Indian trade and help our economy bridge the deficit in trade as MSMEs:

i) Require meagre investments
ii) Gestation period is less.

They can boost employment too as they are not Capital intensive(not heavily mechanized) reducing unemployment the grave danger luring over the economy.

For the above reasons MSMEs are regarded the 'growth Engine of Indian Economy'.

The MSMEs to become functional face threats that needs to be eradicated.

1) Credit gurantee: Measures to ensure credit to enterprise in timely manner is vital. Schemes like MUDRA, 1 crore in 59 minutes could boost the growth of this sector.

2) Non-monetary incentives: As they function in small scale, government can ensure incentives in electricity, land & machinery. Subsidising the above can prove beneficial.

3) Getting away with red tapism: Excessive control of bureaucracy can be leased out for their growth as they lack advantage of economies of scale.

4) Export Credit: These small players have to be incentivized to compete in world market thro' schemes like 'Make in India'.

3. The average size of holdings has shown a steady declining trend over the last three decades. What are the challenges faced by farmers due to fragmentation of land? What needs to be done in this regard?
विगत तीन दशकों के दौरान जोतों के औसत आकार में निरंतर गिरावट की प्रवृत्ति देखी गई है। भूमि के विखंडन के कारण किसानों को किन चुनौतियों का सामना करना पड़ रहा है? इस संबंध में क्या किये जाने की आवश्यकता है?

The success of Land reforms ~~is~~ has high variability across the country. The issue of land fragmentation has hindered the nation's agricultural output for decades.

Land fragmentation in India is due to

i) splitting up land amongst family members.

ii) Tenants mortgaging & selling up land not able to pay dues,

and many other social & economic factors. Due to land fragmentation farmers face undue ~~adv~~ dis-advantages like:

i) Decreased profits - due to lack of advantage of economies of scale.

ii) Fertility of land lost - due to repeated cultivations.

iii) Inconvinience to use machinery as most of them are designed for huge land sizes.

iv) Inability to adopt to scientific methods due to lack of profits or poor yield.

v) Lack of digitization on excessive fragmentations leading to undue advantage on acquisition.

The Government in the centre & states has to pay keen intrest to address this issue of the farmers. The following measures can be adopted:

i) Measures to encourage Cooperative farming:

Technique to ensure collective farming to increase productivity by employing machines & scientific method and profit sharing amongst landholders.

ii) Reallocation of land :

Farmers can be reallocated with land for their fragmented pieces to reduce the degree of fragmentation.

Digitization of land records also needs to be achieved.

Despite these above stated measures - the implementation has to be efficient for the process to be successful.

~~Moreover~~ ~~the above ref~~

4. **Distinguishing between a flexible and fixed exchange rate system, explain how exchange rate is determined under a flexible exchange rate system.**

लचीली और स्थिर विनिमय दर प्रणाली के मध्य अंतर स्पष्ट करते हुए, समझाइए कि लचीली विनिमय दर प्रणाली के अंतर्गत विनिमय दर कैसे निर्धारित होती है।

Exchange rate is the number of units of domestic currency for which a unit of foreing currency can be brought.

Thus exchange rate is important component in Open trade.

Exchange rates ~~ore~~ determines the acceptability of a currency in foreign market.

Exchange Rates

Flexible Exachange Rate
- Detemined by market forces.

Fixed Exchange Rate
- Fixed by the Govt or central Bank of the nation.

Indian economy followed

Fixed Exchange Rate system ~~t~~till 1975 the switched to partial flexible till 1991 and complete flexible exchange rate system post 91 reforms.

In flexible exchange rate system the rate is determined by:

1. The nation's GDP
2. The nations foreign reserves.
3. Its trade & foreign exchange policies.
4. The reliability of the currency

5. Discuss why enacting appropriate land leasing laws should be given priority in India.

चर्चा कीजिए कि भारत में उपयुक्त भूमि पट्टा कानूनों के अधिनियमन को प्राथमिकता क्यों दी जानी चाहिए।

Agriculture contributes 17% to Indian GDP. Our population is largely agrarian indulging in primary activities. It employs nearly 49% labour force. Thus government needs to craft efficient policies for benefit of agri-sector.

Colonial Times:

Land tenancy has been exploitive since the British times. Land was leased out to intermediaries who exploited the peasants for their profits. Many peasants sold mortgaged their lands for harsh policies and the dues they had to pay.

Today's Trend:

Even in this digitized age

farming sector has not seen much of digitization— say in land records, lease, tenancy rights. Farmers & tenants face exploitation due to this. Its neccessary to implement land leasing laws as:

1. In reality no firm law exists to protect tenants.

2. Due to lack of digital records:

i) Incentives ~~re~~given by Govt for landholders like PM-KISAN & other incentives does not reach out to the solful owner.

ii) Farmers cannot use them as collateral to get institutional loans ie. from banks instead end up with the brokers who exploit their labour.

3. Women farmers affected most:

Lack of lease records in their names makes them most vulnerable post feminisation of agriculture.

4. The tenants are not paid the fruits of their labour as the brokers & intermediaries exploit them.

The poor, uneducated tenant keeps toiling without earning his due share of profit. To stop exploitation of these tenants it's essential for stringent land leasing laws to bring them out of vicious cycle of poverty.

6. Gross Domestic Product (GDP) of a country can not be taken as an index of the welfare of the people of that country. Analyse.

किसी देश के सकल घरेलू उत्पाद (GDP) को उस देश के लोगों के कल्याण का सूचक नहीं माना जा सकता है। विश्लेषण कीजिए।

GDP measures the growth of the economy. Its neccesarily not an index of welfare of the people as GDP being a quantitative entity cannot completely measure welfare which is qualitative.

1) GDP & its distribution :

More than GDP figures, its distribution across society measures welfare of the society. 97% of India's wealth is concentrated in 10% of the nation's richest. Thus a growth indicator cannot measure its penetration in the diff layers of society

2) GDP never measures the externalities.

Externalities can be

Positive   Negative.

An Industry producing garments, contributing to GDP when polluting the lake nearby (negative externality) affects people's life & environment which GDP never counts on.

The quality of life of people can never be achieved by GDP. Despite being a fast growing nation with 6th largest economy (in GDP terms - we fare poor in

i) HDI- Human Development Index

ii) Gross Happiness Index

compared to our neighbouring states

Bangladesh & Srilanka.

3) GDP cannot account for all goods services in the country

Even today barter is followed in the country and the service provided by home-makers, the unorganized sector is never accounted in GDP. Thus such people don't receive the benefits of their work and their welfare stand unmeasurable.

The above arguments clearly indicate ~~GDP as an~~ that GDP is not an index of people's welfare.

7. Bringing out the difference between depreciation and devaluation of a currency, explain how they affect foreign trade of a country.

मुद्रा के मूल्यह्रास और अवमूल्यन के मध्य अंतर प्रकट करते हुए, स्पष्ट कीजिए कि ये किसी देश के विदेशी व्यापार को कैसे प्रभावित करते हैं।

Depreciation and devaluation of currency indicates that the value of currency decreases ie. more units of the currency is required than usual to buy one unit of foreign currency.

Though quantitatively both refers the same they differ in following aspects:

Depreciation	Devaluation
The currency depreciated's based on market trends.	Done intentionally by the nation's govt/Central bank with a purpose say to make exports cheaper.

Depreciation & Foreign trade:

1) ~~Ex~~ Exports becomes cheaper.

2) Imports becomes costlier.

3) Can lead to inflationary trends - cost push inflation.

4) The country becomes favourable source for investments.

Devaluation & foreign trade:

The above factors are experienced in this case too, but repeated currency devaluation (say to bridge BOP deficit) will lead to currency wars, as the case with China (devalued its currency) & USA. This can affect other world economies too.

8. Explain the mechanism of credit creation by the banking system in an economy. What are the factors that limit such credit creation?
अर्थव्यवस्था में बैंकिंग प्रणाली द्वारा साख सृजन की क्रियाविधि को स्पष्ट कीजिए। ऐसे कौन-से कारक हैं जो इस तरह के साख सृजन को सीमित करते हैं?

The Central Bank or RBI is the primary authority for credit creation. This cannot be achieved ~~thro'~~ without help of commercial banks and their reserves.

The RBI ensures credit availability in economy thro' its monetary policy. It also sells foreign currencies & assets to ensure credit availability.

The RBI also manages the credit leverage of commercial banks thro' rates like SLR. This ~~is~~ determines a bank's credit leverage in its business.

Factors limiting credit creation:

i) Poor financial literacy of people

ii) Inefficient use of bond markets - myths associated with them.

iii) Unorganized sector dominating - Indian economy.

iv) Banks reluctant to transfer rate cuts making credit costlier & not very attractive.

v) People wish to park savings in land, gold & other assets sucking out money in circulation.

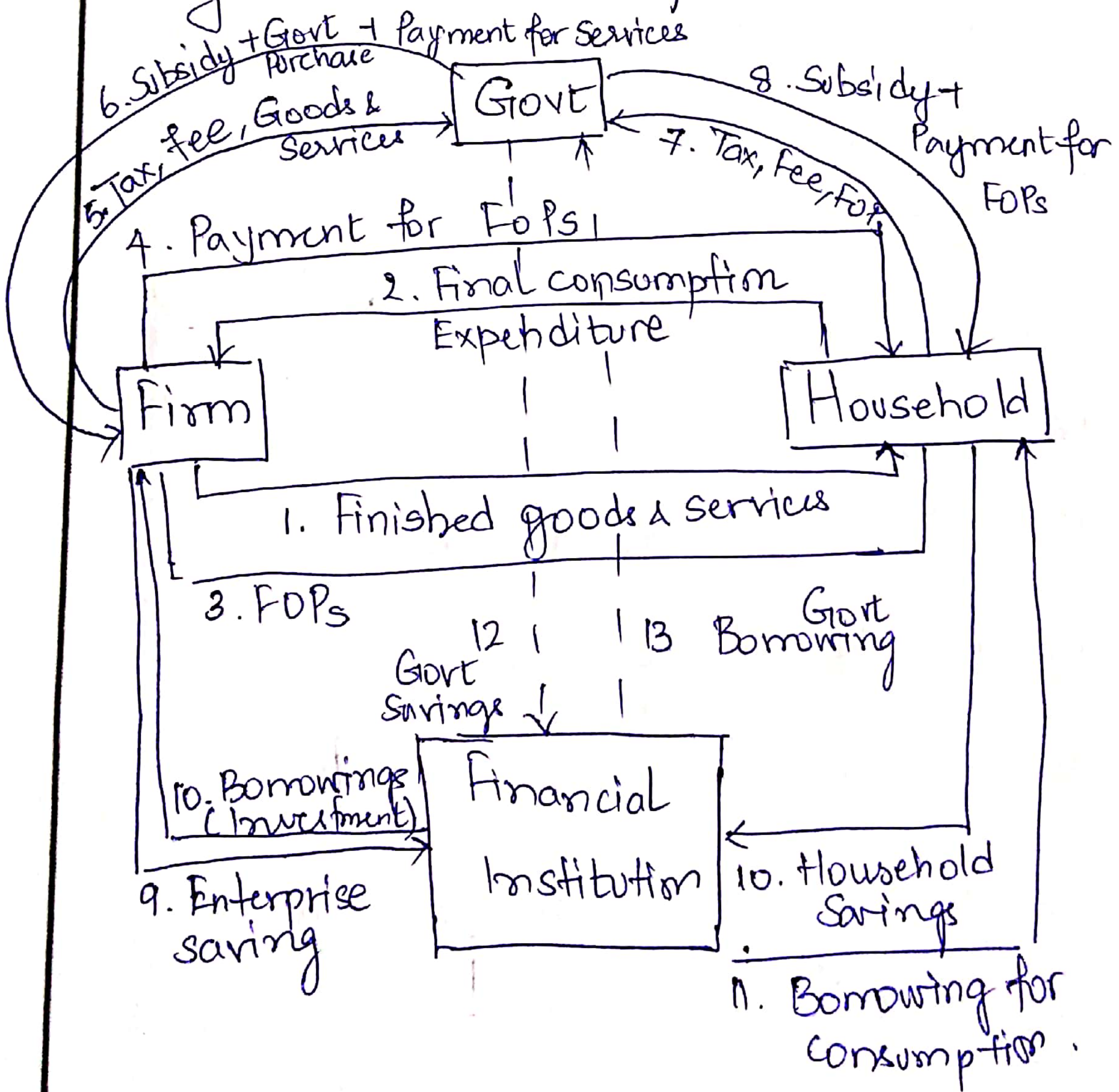
Don't write anything this margin
(इस भाग में कुछ ना लिखें)

9. With the help of a diagram, explain the circular flow of income in a simple economy.

एक रेखाचित्र की सहायता से, सरल अर्थव्यवस्था में आय के वर्तुल प्रवाह (सर्कुलर फ्लो ऑफ़ इनकम) को स्पष्ट कीजिए।

The simple economy comprises of a firm, household, Govt & a financial institution.

Dig 1: Circular flow of income



The diagram below depicts the entities & the flow of income betn them.

① Firms provide finished goods & services (G&S) to households

② Households pay for such G&S.

③ Households extend their Factors of Production like :
Land, Labour, Entrepreneurship, Investment to firms.

④ The firms make factor payments to the households for the FoPs.
Rent, wages, Profit & Interest.

⑤ The govt makes purchases from firms & ~~pays~~ firms pay fees & taxes.

⑥ Govt pays for its purchases extends

subsidies to the firms.

(7) The Households extend FoP, pay taxes & fee for services govt renders.

(8) The Govt extends subsidy & Factor payments to households.

All the above entities save with banks – but each borrow for:

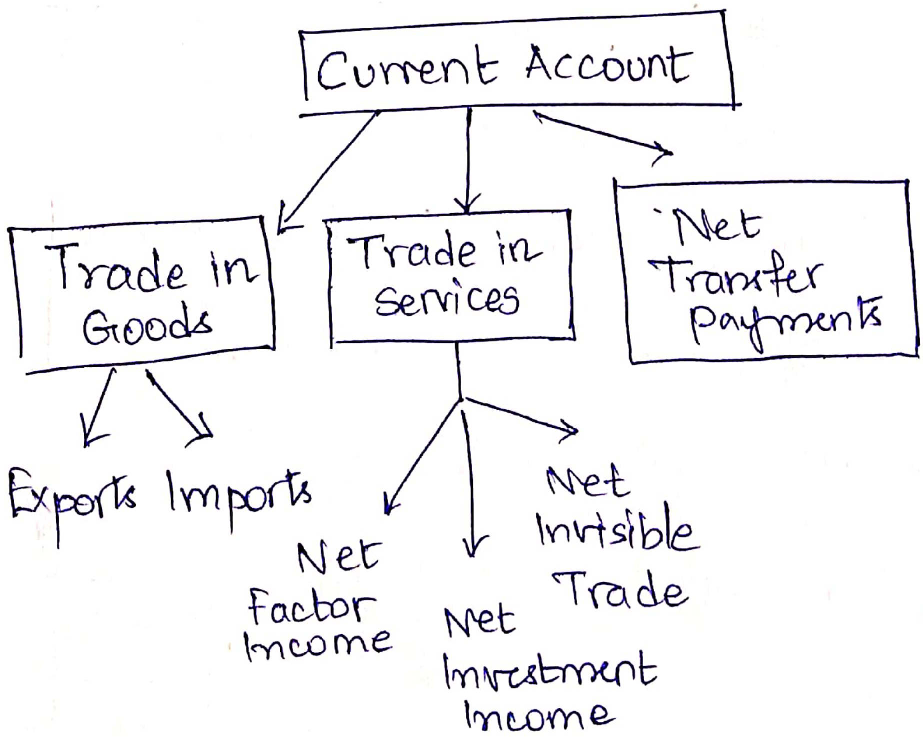
Firms borrows to invest.
Household " to consume
Govt " for its expenditure – developmental & non-developmental.

The simple economy advances to a complex economy with an external sector

10. Explain the meaning of Balance of Payments and give an account of various components included within current and capital account.
भुगतान संतुलन का अर्थ स्पष्ट कीजिए तथा चालू और पूँजी खाते में सम्मिलित विभिन्न घटकों का विवरण दीजिए।

Balance of Payments is the sum of current & capital accounts of a nation which determines its economic status in the world. There can always be a surplus or a deficit based on the components of these accounts - current & capital.

Current Account :



Don't write anything this margin (इस भाग में कुछ ना लिखें)

Current account of a country lodges all international transactions made by the country within a year.

There can always be:

Trade Deficit = Exports − Imports < 0

Trade Surplus = Exports − Imports > 0

In India we alway have a deficit in Trade, but a positive trade surplus in Services – due to ~~surplus~~ Net invisible trade (IT, BPOs etc) & Net factor Income (Factor Income brought by Indians from abroad – Factor Income taken by foreigners from India).

But the excessive trade deficit, makes a Current Account Defict.

Capital Account

- Foreign Investment
  - FDI
  - FPI
- ECB
- External Assistance

The Capital Account has:

1) Foreign Investment:

FDI – Foreign Direct Investment – in Capital intensive sector for a longer duration.

FPI – Foreign Portfolio Investment
Fly cash or investment in capital markets – like shares bonds.

2) ECB – External Commercial Borrowings:
Any loan taken by Govt, firms from foreign institution

3) External Assistance: to India from institution like WB, IMF. & any foreign govt.

11. Explain the demand-pull and cost-push factors of inflation in India.

भारत में मांग-प्रेरित और लागत-जनित मुद्रास्फीति के कारकों को स्पष्ट कीजिए।

Inflation is the ~~general~~ increase in general price levels for a long period of time. It can be caused due to many factors but classified into 2 broad terms:

Inflation

Demand Pull | Cost Push

Factors

Demand Pull

1) Increase in income levels

2) Increase in govt spendings - including deficit financing.

3) Lifestyle changes- change in choices

4) Black marketing hoarding.

Cost Push

1) Infra bottlenecks

2) Increase in import prices of essential inputs.

3) Absolete technology.

4) Currency Depreciation

5) Decrease in agri outputs

6) Increased Labour charges

These are the factors of demand-pull & cost-push Inflation in India.

Generally Inflation is tackled by 3 ways which are:

Inflation Handling

Fiscal ~~Policy~~ measures

Monetary ~~Policy~~ measures

Administrative measures.

Don't write anything this margin
(इस भाग में कुछ ना लिखें)

12. Explain the different quantitative and qualitative policy tools used to regulate money supply in the economy.
अर्थव्यवस्था में मुद्रा की आपूर्ति को विनियमित करने के लिए प्रयुक्त विभिन्न मात्रात्मक और गुणात्मक नीतिगत साधनों को स्पष्ट कीजिए।

Monetary policy is managed by the Central Bank/ RBI of India. It employs 2 kinds of tools to manage money supply

Monetary Policy Tools

Quantitative Tools
1) Repo & Reverse Repo
2) CRR & SLR
3) MSF - Marginal standing Facility
4) Bank Rate
5) OMO - Open Market Operation

Qualitative Tools
1) Moral suasion
2) Rationing credit
3) Credit Margin.
~~4) Credit Control~~.

1) Repo & Reverse Repo –
• RBI sells securities to scheduled banks at Reverse Repo with a repurchase obligation (~~to suction money~~ ~~supply~~
• Similarly it buys securities ~~to~~ at Repo with an obligation of resale.

2) CRR – Cash Reserve Ratio: The rate at which Banks have to maintain reserves with RBI (Currently 4% in India)

SLR – Statutory Liquidity Ratio:
The rate at which the banks maintain liquid assets with themselves is SLR.

3) MSF – The penal rate at which banks borrow from RBI to meet short term cash crunch (mostly overnight)

4) Bank Rate: The rate at which Bank borrow from other commercial banks and RBI.

5) OMO – The means thro' which RBI buys & sells securities.

Qualitative:

1) Moral suasion – to transmit rate cuts to the people.

2) Rationing credit ensures which sector of economy money is to be pumped & which to be dried up.

3) Credit Margin: The margin amount set to avail loans, to encourage or discourage customers taking loans.

13. What is liquidity trap? Discuss its implications on the economy.
तरलता पाश (लिक्विडिटी ट्रैप) क्या है? अर्थव्यवस्था पर इसके निहितार्थों की विवेचना कीजिए।

Liquidity trap is the case when the banks run out of liquid cash to lend, to meet their lending requirements, interest rates soar high and end up in capital risk.

Recent Liquidity crunch with NBFCs has affected the auto-mob sector which has gone into a slow down. This shows that liquidity trap has a cascading effect in the economy. Its ~~imp~~ other implications:

1. General slowdown in economy.
2. Lead to inflation — mainly cost push Inflation.
3. It can lead to crisis in the economy.

ie. The sub-prime crisis in 2008 in US is an example of bad loans leading to liquidity trap.

4. The impact could be on a global scale leading to recession, job loss.

5. Monetary policies are rendered ineffective.

14. Why is the RBI called as the 'lender of last resort'? What other functions are performed by RBI while acting as a banker to commercial banks and the government?

RBI को 'अंतिम ऋणदाता' क्यों कहा जाता है? वाणिज्यिक बैंकों एवं सरकार के बैंकर के रूप में कार्य करते हुए RBI द्वारा और क्या कार्य सम्पादित किए जाते हैं?

RBI - the central bank of India is addressed as Banker's bank, lender of last resort & so on. It manages the banking sector, the government's foreign reserves and so on.

RBI - lender of last resort

RBI - acts as the lender when bank face a liquidity crunch thro' Marginal standing facility & other measures.

Similarly for the government, when its in need of money - it borrows from RBI - selling G-Secs.

RBI & its functions:

1. It regulates the banking sector In India.

- All scheduled banks have to be registed with RBI – under RBI Act 1934

2. RBI ~~regulatates~~ money supply in the economy thro' its monetary policies.

3. It lends loans both to state & Union govt.

4. Banks also borrow from RBI thro' various measures like OMO, Repo MSF etc.

5. It regulates lending behaviour of banks thro'

a) priority Sector Lending Norms

b) Benchmark Lending rate.

6) It manages the forex reserves of the government.

7) It tranfferes its surplus to govt of India bridging its deficit.

8) It enforces Capital adequacy risks to be followed by all scheduled banks.

15. What are the key issues in fiscal management in India? How can these issues be addressed?

भारत में राजकोषीय प्रबंधन में प्रमुख समस्याएं क्या हैं? इन समस्याओं को कैसे दूर किया जा सकता है?

The fiscal deficit in 2019-20 budget is 3.4% and ~~fi~~ revenue deficit is 2.3% which are both higher than standards set in FRBM Act.

The issues revolving around fiscal management in India include:

1. fiscal spread- caused due to political needs of govt

2. Miscalculation in ~~monetary~~ fiscal figures like GDP affecting policy formulation & implementation.

These issues can be addressed by:

1. Strict adherance to fiscal regulation Acts like FRBM Act, 2003.

2. setting up an autonomous fiscal council - to advise govt on its fiscal policies.

16. What is sterilization? Explain how it is deployed by RBI in stabilizing the money supply against external shocks.

स्थिरीकरण (स्टरलाइजेशन) क्या है? समझाइए कि बाह्य आघातों के विरुद्ध मुद्रा की आपूर्ति स्थिर रखने में RBI द्वारा कैसे इसका उपयोग किया जाता है।

Sterilization is a tool used by RBI to protect ~~negatives~~ ~~can~~ economy due to negatives of cash inflow or outflow into economy.

Best example of sterilization would be to buy & sell bonds in open market.

RBI can also depreciate the value of currency buying foreign currency denominated bond reducing money supply.

↓

On the other hand exports increases (due to depreciation of domestic currency) increasing money supply. This how RBI stabilizes money supply against shocks.

17. Bringing out the difference between fiscal deficit, primary deficit and revenue deficit, explain the implications of a high fiscal deficit on the economy.

राजकोषीय घाटा, प्राथमिक घाटा और राजस्व घाटा के मध्य अंतर स्पष्ट करते हुए, अर्थव्यवस्था पर उच्च राजकोषीय घाटे के निहितार्थों की व्याख्या कीजिए।

The government earns thro' taxes & fee, profits from PSUS etc and it spends for both developmental & Non-developmental activities - all of which is accounted in annual budget.

The annual budget has four accounts namely

$\boxed{\text{Accounts}}$

- Revenue Receipts
- Revenue Expenditure
- Capital Receipts
- Capital Expenditure.

Revenue accounts -
lodges the receipt / exp incurred for the current year.

Capital ac - lodges the receipt/exp for a longer duration.

a) Fiscal Deficit - is defined as

Total Expenditure - (Total Receipts + Non-debt creating capital Receipts)

Non-debt creating capital receipts can be - i) PSU disinvestments
ii) Sale of assets - spectrum etc
iii) Recovery of past loans.

b) Primary deficit = Fiscal Deficit - Interest Payments.

Low primary deficit is also alarming as most of fiscal deficit is due to interest payments ie. excessive borrowings.

c) Revenue deficits = ~~Total Revenue Receipts - Revenue Exp.~~
Revenue Exp - Revenue Receipts.

Higher revenue deficit indicates govt is borrowing even to meet day to day exp.

Implications of high fiscal deficit

1. Affects global image of economy.

2. Lending by other nations - is hindered.

3. Investment is also affected to an extent.

4. The government borrows further for deficit financing - leading to inflation

5. Slowdown in economy.

18. What do you understand by fiscal policy? Explain its key objectives.

राजकोषीय नीति से आप क्या समझते हैं? इसके प्रमुख उद्देश्यों को स्पष्ट कीजिए।

Fiscal Policy is undertaken by the government to ensure growth in the economy & to tackle inflation in the economy.

Fiscal Policy

Expansionary Fiscal Policy

- Inc govt spending
- To tackle slowdown.

Contractionary Fiscal policy

- Dec. govt spending
- To tackle inflation

The objectives of fiscal policy would be:

1. To ensure growth & inflation to be tackled in the economy.

2) Ensure credit to enterprises - to augment production of goods & services.

3) To ensure consumption capacity to individuals to meet their welfare and needs.

4) To spend on infrastructure and other developmental needs – to increase production in the economy

5) To provide welfare measures – like subsidy, pension schemes to bring equality in society.

6) To make investments which prt sectors do not make – in road construction etc to ease the production in the economy

19. Explain, in brief, the various components of budget receipts and expenditure.

बजट प्राप्तियों और व्यय के विभिन्न घटकों को संक्षेप में स्पष्ट कीजिए।

The annual financial statement is presented in Parliament every year. The budget has 4 accounts namely:

1. Revenue Receipts
2. Revenue Expenditure
3. Capital Receipts
4. Capital Expenditure.

The accounts - in brief

1. Revenue Receipts : It can be 2 types

Tax Receipts
- Direct & Indirect Taxes.

Direct Tax - (Progressive) - Income, Corporate, wealth tax

Indirect Tax - (Regressive) GST, Excise, Custom.

Non-tax Receipts
- Payment for all services rendered by govt.

2. Revenue Expenditure

Developmental Expenditure
- Creating Infrastructure.

Non developmental expenditure
- Subsidies, pensions etc.

3. Capital Receipts : Decreases assets & create liability.

1. Recovery of past loans
2. Disinvestment of PSUs
3. Sale of strategic assets.

4. Capital Expenditure : Creates assets & reduces liability.

1. Exp. on infra
2. Repayment to past loans.

20. Highlight the monetary and fiscal measures that can be taken to address the phenomenon of inflation. Also explain their limitations.

मुद्रास्फीति की परिघटना से निपटने हेतु उठाए जा सकने वाले मौद्रिक और राजकोषीय उपायों पर प्रकाश डालिए। साथ ही, उनकी सीमाओं का भी वर्णन कीजिए।

Inflation is the increase in general price levels. It can be caused due to demad & ~~Cost~~ supply side factors.

Inflation Handlid

Monetary Policy | Fiscal Policy | Administrative Polig.

Monetary measures: Dear money policy, credit is made costlier thro' increasing CRR & SLR. and Repo.

This has inherent defects.

a) It can only manage demand pull inflation, ineff for cost push.

Fiscal policy: Thro' contractionary fiscal policy, reducing govt spending. This would suck up liquidity reducing demand. This also proves not efficient for Cost push inflation.

The most effective means to manage inflation is thro' administrative measures:

i) Cracking down on hoarding.
ii) setting limits for storage of stocks
iii) Invoke ESMA.
iv) Ban on export of essential services.