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Test No. /Name	AIM ASSESSMENT TEST 14 TC315
Date	-

(For filling by Examiners only)

S.No.	Max. mark	Max. Obtained	S.No.	Max. mark	Max. Obtained
1.	10		11.	15	
2.	10		12.	15	
3.	10		13.	15	
4.	10		14.	15	
5.	10		15.	15	
6.	10		16.	15	
7.	10		17.	15	
8.	10		18.	15	
9.	10		19.	15	
10.	10		20.	15	

Total Marks Obtained:

Mentor's Comments:

- Note:
1. This booklet is to be used for attempting assessment tests and revision tests only.
 2. This page needs to be attached as first page of every uploaded test.

Q1. FDI, apart from being a driver of economic growth, can also be seen as a non-debt creating financial resource. In this context, what is the relevance of FDI in eco growth of India? What are the issues associated with FDI as a source of growth?

Foreign Direct Investment [FDI] refers to investment made by a foreign entity in India with a view to obtaining ownership of asset or creation of new assets. Presently, India ranks as 7th largest FDI recipient with \$85 bn received in 2023.

RELEVANCE OF FDI in ECONOMIC GROWTH

- (1) Helps in increasing market competitiveness and promote consumer welfare (eg) e-commerce sites like Amazon.
- (2) Helps govt to focus on welfare activities and free resources from expenditure on commerce.
- (3) Technology transfer (eg) setting up of Apple manufacturing plant by Foxconn will provide new technology to India.
- (4) Acts as a good reserve for foreign exchange and protects against market instability.
- (5) Provide jobs to local candidates and increase formal employment.

NEXT IAS

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- (6) Acts as a catalyst for economic growth →
 (eg) PLI scheme by govt pushes firms to invest more in emerging sectors like semiconductors.

ISSUES ASSOCIATED WITH SOURCE OF GROWTH

- ① Volatility & Unpredictability
 - due to global shocks of pandemic, fed tapering, inflation → sudden pulling out of FDI (upto 30% drop by sept 2023)
 - Therefore, unreliable for long term growth
- ② Unequal focus
 - Doesn't consider balanced regional development and invest more in hubs like Maharashtra, Karnataka
- ③ Threat to MSME
 - Over reliance on FDI can lead to increase 'corporatisation' and threaten budding MSME enterprises [are 45% employers of youth]
- ④ Doesn't have a social focus
 - Are profit oriented and can end operation abruptly
- ⑤ Doesn't necessarily lead to technology transfer (eg) India has become more of an 'assembly' place, rather than producer.

Thus, FDI holds the key to great economic growth yet govt. must tread cautiously lest they open economy to vulnerabilities.

Q2. India is no country for working women. In this context discuss the reason for low FLPR in labour force while suggesting measure to improve participation of women in labour force.

Women in India have always been at the receiving end of discrimination as highlighted by global gender gap index, 2023 which ranks India 127/146. Only 21% women are in labour force while 76% men work.

Reasons for low female labour participation rate :-

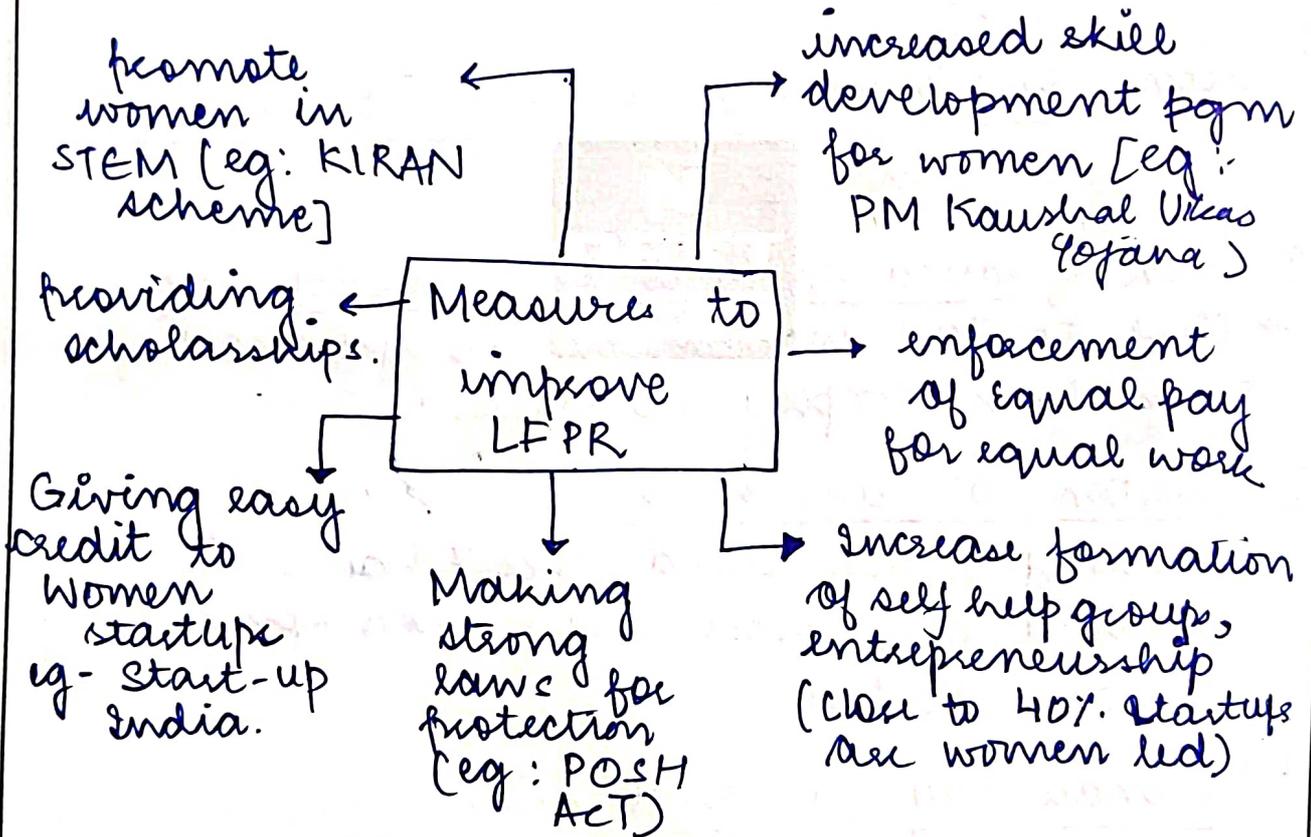
- ① Lack of education and skill development
→ close to 70% women literate yet most of them lack employable skills.
- ② Burden of care work
→ Married women spend over 7 hours in unpaid care work while men spend only 3 hours or less.
- ③ Gender pay gap and discrimination
→ Acc to World Bank, Women earn only 63% of what men earn.
- ④ Declining participation in agriculture
→ from 42% in (2004-05) to 32% women in 2021-22 due to increased reliance of men on agriculture post pandemic.

⑤ Lack of safe job opportunities

- close to 42% of post graduate women are unemployed
- Only 1/3rd women in civil service and 11% police officers.

⑥ Women seen as 'costly employees'

- due to compliance under Maternity Benefit Act, 2017 ; factories Act 1948.



It is not possible for India to become Atma Nirbhar if 50% its population is locked up at home, thus need to empower women to be a productive member of society.

Q 3.

The overfocus on GDP growth rate subsidises the issue of growing inequality & environmental ^{un}sustainability. In this context, highlight limitation of GDP and suggest alternatives to GDP as a welfare of growth rate.

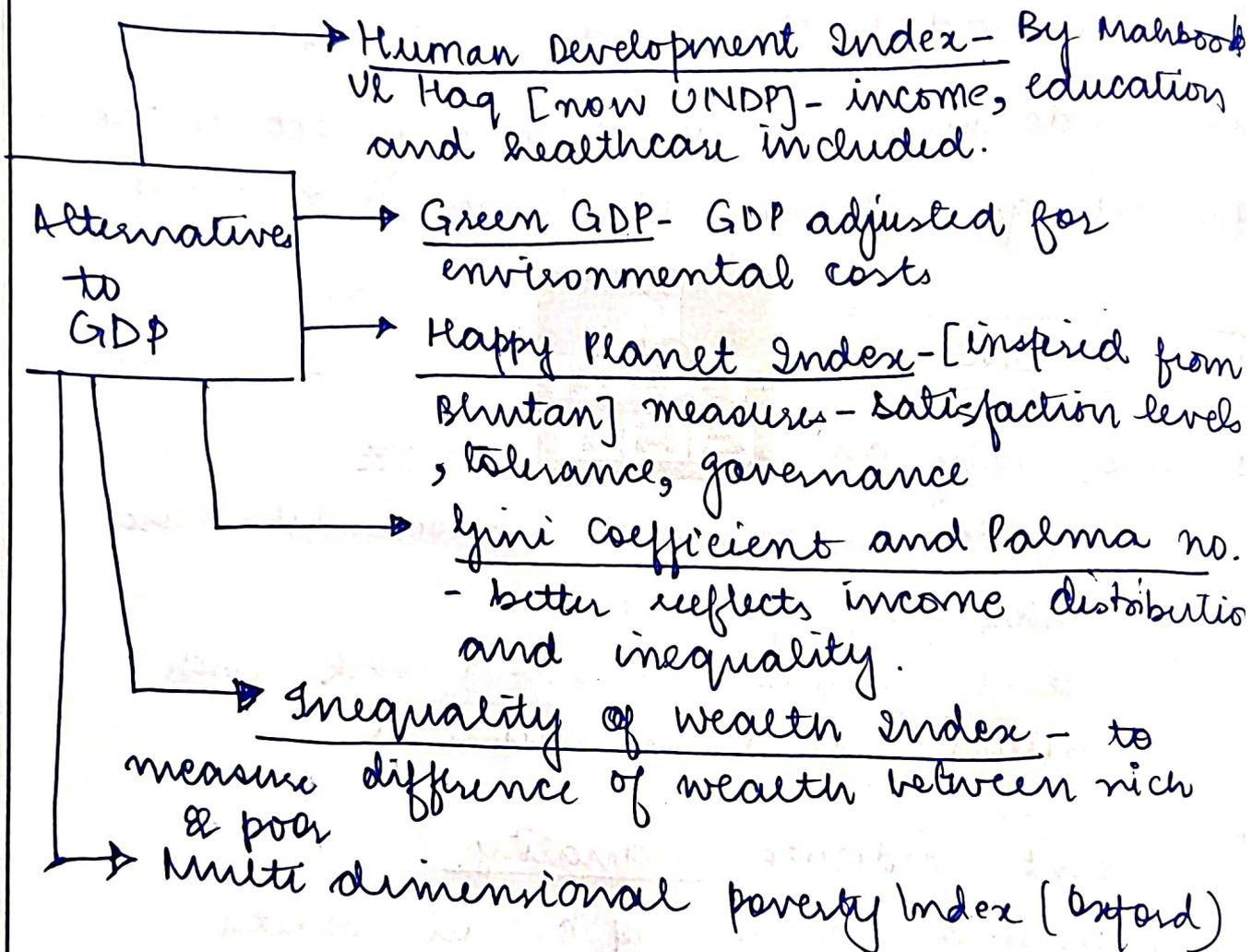
Gross Domestic Product (GDP) has been calculated as a measure of total economic value of goods and services produced in the country and has been a world-wide global indicator of economy. Yet in the growing age and day, its efficacy is reduced.

LIMITATIONS OF GDP :-

- ① Focus only on economic measures
 - exclude non-economic measures like care work, family labour etc.
 - Doesn't include household work worth trillions of dollars if measured.
- ② Doesn't indicate inequality
 - only a measure of overall wealth
 - India is 5th largest economy as per GDP but ranks very low in per-capita income.
- ③ Exclude externalities
 - (eg) Environmental costs due to pollution, health expenditure, decline in working

capacity due to pollution (eg) :- Air pollution reduces ~~per capita~~ age by 5 years in Delhi

- ④ Only has a short term focus and doesn't include measures for long term sustainability
- ⑤ Doesn't account for social problems (eg) pay gap, living condition, erasing poverty.



Even though GDP still remains a reliable indicator for ascertaining health of a nation, need to make it comprehensive.

Q4: How has budgetary process changed since last decade suggest budgetary reforms that can help in better mgt of govt expenditure.

Candidates must not write on this margin

Art 112 of the Indian Constitution mentions about annual financial statement presented in Parliament and represents the annual revenue and expenditure picture of government.

CHANGES IN BUDGETARY PROCESS SINCE LAST DECADE

① shifting of date to 1st Feb :-

- gives time to approve annual grants, finance Bill before the end of FY in March
- provides full budget to ministries to be able to spend comprehensively.

② Removal of distinction between plan and non-plan expenditure

- Increased flexibility to govt adjust expenditure as per needs without strict compartmentalization
- can promote viability gap funding.

③ Removal of Railway Budget separately given

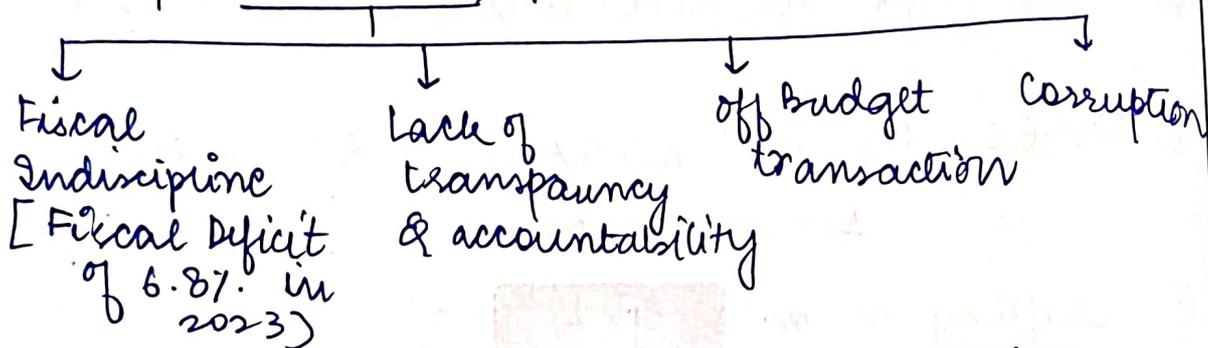
- streamlined into one Budget
- Reflective of reduced importance

of railways vis-à-vis other sectors of economy.

④ Fiscal Responsibility Budget Management

- set a target of 3% deficit
- Govt to also give a macro economic expenditure framework.

As per 2nd ARC, problems still remain



suggested reforms.

- Increase tax collection (90% out of tax bracket)
- Improve DBT and rationalize subsidies
- Integrated Finance Mgt system to track funds and spending
- Realistic and clear Budget estimates to improve investor confidence
- Performance and outcome based Budgeting
- instil strict fiscal discipline.

As we march towards a 'techade', need to add digitization to make our Budgetary process smoother.

Q5.

Inequality has become a major challenge to IG in India. In this context, elaborate on reasons for rising economic inequality in India. Also suggest measures required to reduce eco. inequality in India.

As per World Inequality Report, 2022 top 1% ~~earn~~ holds 56% wealth while bottom 50% holds only 13%. Reflective of grim inequality which hinders in achieving inclusive development.

Reasons for rising inequality

① Failed land reforms

- Land as a valuable asset, concentration in few hands
- Most farmers as tenants and small holder ~ 85%.

② Reduced income from agriculture

- Increased dependence, failure of monsoon
- Reduced productivity of land.

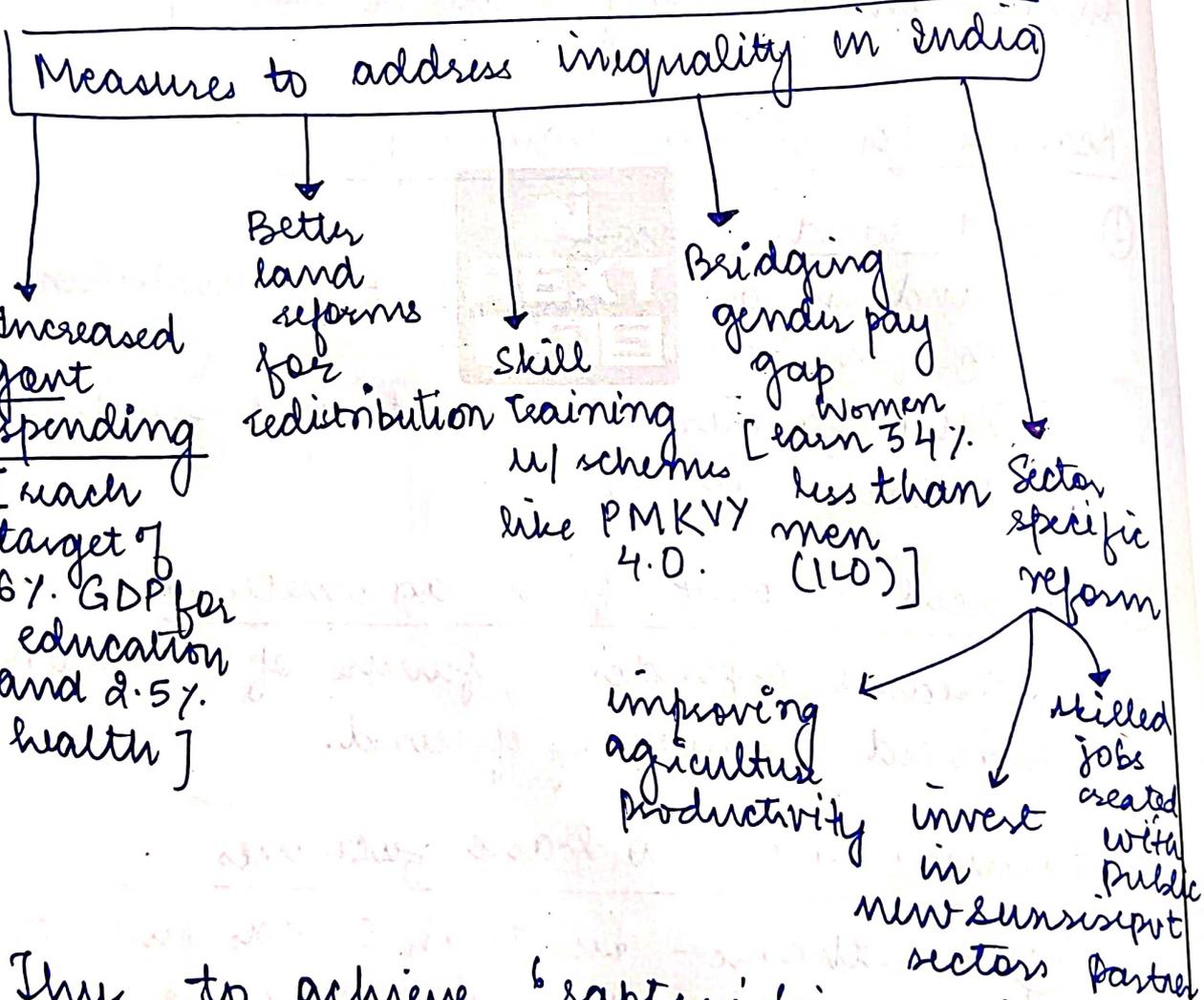
③ Reduced access to basic facilities

- (eg) healthcare - less than 5 beds per 100000 population, not reached 2-5% GDP expenditure by govt \therefore \uparrow out of pocket expenditure

④ Educational & skill gap

- COVID-19 disrupted education for 500 mn children in India, mostly from lower strata.

- lack of skilling & automation threat.
- ⑤ Failure of manufacturing sector to take off
 - (eg) lack of employment - only 16-17%.
- ⑥ jobless growth - From 2004-05 to 2019-20, fewer jobs created than previous decades.
- ⑦ Rise of gig work and informal labour - 60% of new employment in gig work (NITI)

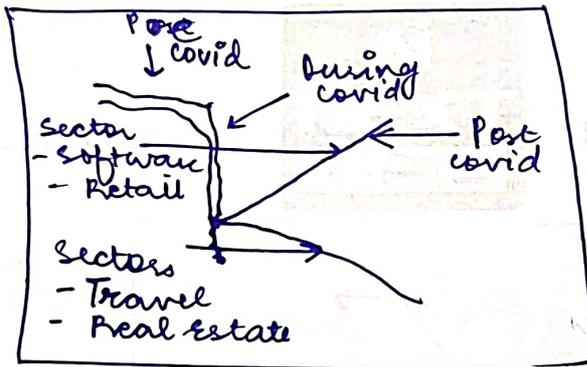


Thus, to achieve 'saptarishi goals' of reaching last mile and growth of all need to reduce inequality and strive for an equal India @ 47.

Q.6. Do you agree that India's growth trajectory in post covid era has been K shaped? Substantiate with reasons.

India's recovery post COVID-19 has been analysed by different economists by different tools. K shaped recovery means there is a divergence in growth of some sectors vis-a-vis others indicating growth of inequality.

ARGUMENTS IN FAVOUR OF K-SHAPED RECOVERY



K - Shaped Recovery

(1) Segments showing lag - sectors like travelling, hospitality, real estate couldn't grow post Covid due to lack of govt support and non-favourable investor sentiment.

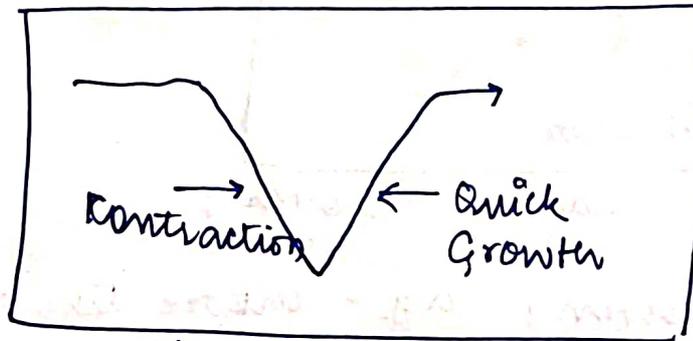
(2) Segments showing growth → some sectors like technology, software etc. growing @ fast pace because govt support and increased interest of people.

(3) Rise of inequality

- Rich 1% own 58% wealth (Global Inequality Report, 2023)
- Some people reaped benefit during COVID while others lost earnings
- Over 50 lakh people lost jobs immediately post COVID and couldn't get same paying job back.

(4) Asset-price inflation

- While upper middle class enjoys due to higher valuation of service sector, IT jobs, poor suffer due to loss of wages in informal sector.

RECOVERY HASN'T JUST BEEN K-SHAPED

V shaped recovery

① V shaped Recovery

- means quick fall due to major events but steady recovery because of resilience of economy & favourable policies
- Was seen in post recession in 1930s & 2008.

② India's V-shaped recovery

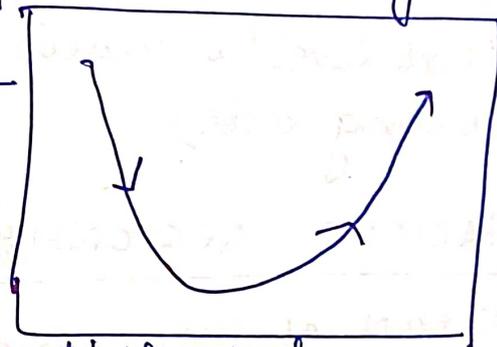
- Growth of Sensex and Nifty - even though steep falls in 2020, rose by over 16% and later touched all-time high
- Provision of Atma Nirbhar Bharat - Providing relief package, moratorium in IBC, increased welfare spending \Rightarrow growth quickly
- Achieved growth rate of $\sim 6\%$ by 2023 (pre-COVID levels).

② Some argue that recovery is more likely an elongated U shaped -

→ Still selling of threats of war, Fed tapering, reduced FDI

→ Growth is not quick

→ loss of income, job, education \rightarrow still affects economy (ES-2023)



Ushaped

Yet, it can't be denied that India's recovery has been K shaped owing to increased inequality \rightarrow inter sector and inter-groups. It is important to have a periodic assessment to enable big-picture decision & policy making.

Q7.

Rising NPAs coupled with twin balance sheet issues have been the most pressing problem of India's economy in recent times. What are the factors responsible for rising NPAs? Elaborate on measures that can be undertaken to address this problem, giving special reference to potential of newly formed NARCL and IORCL.

Non-performing Assets (NPAs) refer to those assets which stop giving returns to lenders. As per Banking norms in India, if an asset doesn't pay return in 90 days, it is declared an NPA. Indian economy faces a twin problem of balance sheet both at Bank level (increasing NPA) and corporate level (rising debt).

FACTORS RESPONSIBLE FOR RISING NPA

(1) Lack of proper due diligence

- Big private players usually get away with proper checks based on past reputation
- India's NPAs touched ₹ 1,00,000 cr with 70% belonging to private sector [corporate]

(2) Collusion of bank employees with firms for smaller gains (eg) - PNB employees in Harshad Mehta scam

(3) Lack of viability studies

- (eg) Power sector produced tenders with very low bids for providing electricity which later became unviable to operate.

(4) Lack of coping mechanisms for slowdown

→ In long term loans, when assets initially good, firms unable to manage in long run

→ (eg) newly emerging sectors like pharma

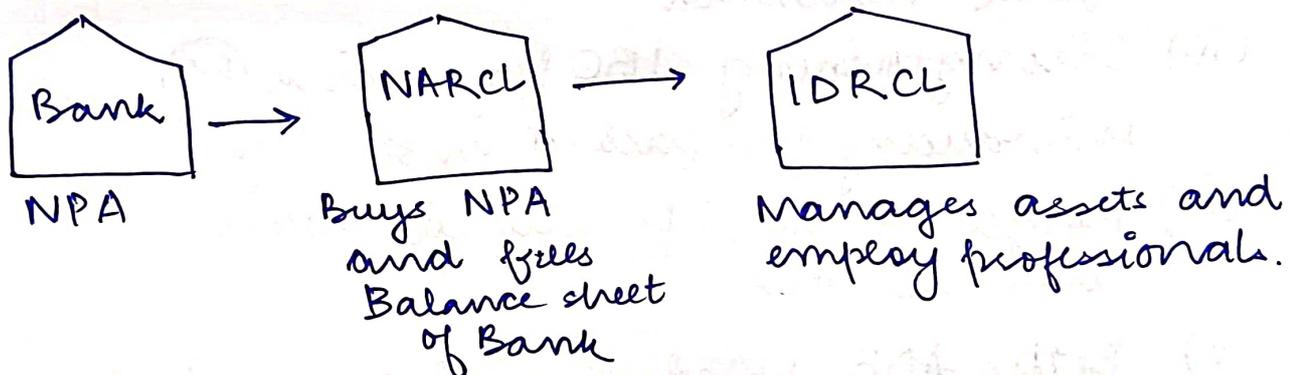
(5) Evergreening of loans - providing new loans to repay old loans ⇒ mounting debt.

(6) Providing unviabile restructuring - tying up unviabile assets with good assets, making latter also NPA.

(7) global shocks such as COVID-19, 2008 financial crises and infrastructure bottlenecks due to inter-related global supply chains.

MEASURES TO BE TAKEN

(1) Potential of NARCL and IDRCL



→ NARCL and IDRCL form 'Bad Bank' and help clear NPAs for banks, infusing liquidity and promoting healthy growth of business

→ Govt backed i.e. even in case of non-purchase, govt gives assurance to

Commercial banks

BAD BANK

Merits

- Can work better than non-functional ARCs as govt backed
- Banks can focus on commercial operations

Demerits

- Only shifting assets from one place to another (Raghuram Rajan)
- Bureaucratic structure due to govt control
- Difficult to find buyers

Need to

- make lucrative deals
- ensure vigilance over these banks.

(2) OTHER MEASURES

- (i) Timely initiating Prompt Corrective Action.
- (ii) Utilizing SARFAESI Act better for quick resolution
- (iii) Strengthening IBC framework (eg) introducing pre-packed insolvency
- (iv) Merger of non-functional banks like SBI did.
- (v) Better ADR based resolution of disputes

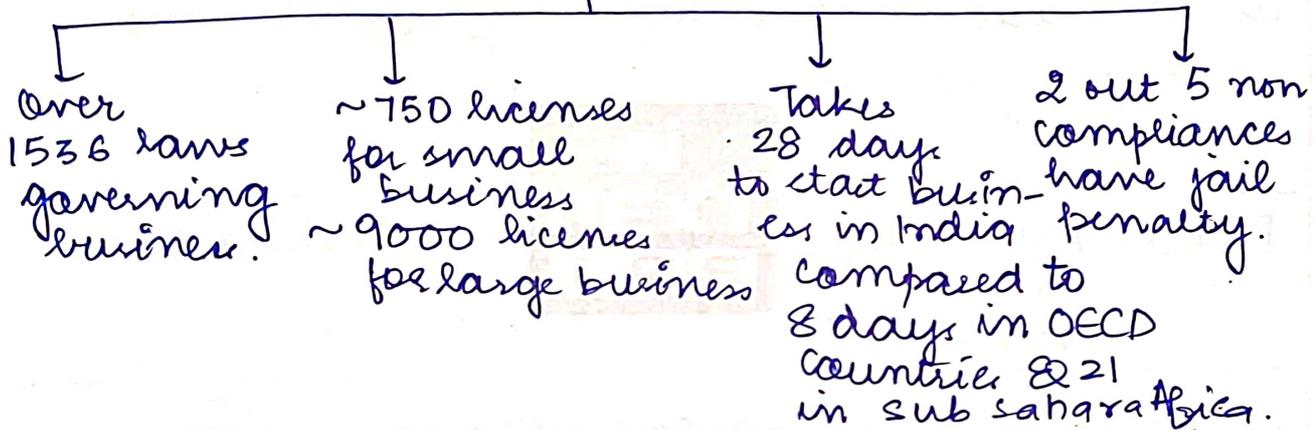
Thus, it is crucial to avoid NPA crisis and empower Banks to operate as economic pillars of Atmanirbhar

Bharat

Q8.

India is often criticized for its regulatory cholesterol, which hinders eco growth & innovation. Discuss the concept of regulatory cholesterol and its impact on Indian economy. Suggest pragmatic measures to streamline regulatory env. that promote EODB.

Regulatory cholesterol means over presence of regulatory compliance and machinery which hinders the operation of businesses in Indian economy. This can be understood from follows:



IMPACT ON INDIAN ECONOMY :-

- (1) Low of GDP - As per an estimate close to 12% GDP cost goes into regulatory compliance
- (2) Increased compliance cost for Business
 - leads to cost cutting
 - decrease in quality of goods
 - hurts export potential & reputation (eg: 66 children died in Gabon due to defective medicine)
- (3) Discourages FDI → due to unpredictability and difficulty in getting approval.
(eg) - India ranks 165/180 in

property registration.

(4) Leads to informalization

→ Over 63 mn enterprises in India but only 1 mn in formal sector because want to escape regulatory radar.

(5) Increased Corruption

→ Indians pay ₹21000 crore each year as corruption (Transparency International)

→ Leads to loss of credibility & public trust.

(6) Increased rent seeking by officials and decline in public welfare

PRAGMATIC MEASURES TO STREAMLINE REGULATORY ENVIRONMENT

① Introduce self-regulation - in many areas such as employee welfare, compliance to regular safety norms, rely on self regulation

② Better dispute resolution system

- Making fast track court
- robust arbitration institutions
- mandatory mediation of commercial courts Act, 2015.

③ Clarity on procedure (eg) step by step guidance on income tax calculation by IT Department.

- ④ Streamline regulatory procedure
- Introducing single window clearance for all govt departments
 - (eg) PARIVESH portal for environmental clearance.
- ⑤ Employing Technology
- Use of ICT in PM Gati Shakti, GIS based mapping of land, BHU-VISION, online verification of permission etc.
- ⑥ Reduce compliances and decriminalize
- need to remove unnecessary compliance
 - Decriminalizing provisions of major acts (eg) companies Act (Amendment) in 2020.
- ⑦ Training of government employees for attitudinal change and adhering to revised SOP.

Therefore, it is crucial to achieve freedom from regulatory clutches to be Atma-Nibhae and achieve vision of Developed India @ 47.

Q.9.

Public expenditure ^{mgt} is a challenge to GOI in context of Budget making, during post liberalization period. ^{causality}

Public expenditure management ^[PEM] entail organization of government spending for public welfare and economic growth. Since last 2 years, India has been facing a deficit over 6% which is much beyond the 3% threshold of FRBM Act, 2003.

PEM AS A CHALLENGE POST LIBERALIZATION

- ① Increased vulnerability of economy
 - global economic crisis, 2008, COVID-19 and global inflation have ripple effect over exposed economy.
- ② Increased subsidy payments
 - in a bid to increase competitiveness and promote welfare, different subsidies for food, fuel, fertilizers etc. [$\sim 10\%$ Budget]
- ③ Low capital expenditure - Over the last few years, haven't been over 10-12% GDP.
- ④ Neo-liberalism & rise of welfare state
 - private sector driven by profits
 - increased need for government to promote social welfare
 - Increase in social security due to precarious work (eg) - 60% new employees in gig work (NITI Aayog)

- ⑤ Unbalanced Regional Growth
→ Govt needs to invest in non-profit areas which are neglected by private sector
- ⑥ Growth of freebies and 'revdi' culture' during elections (eg free laptops in Punjab, Rajasthan)
- ⑦ Improper Budget estimates and increase in off budget expenditure leading to increased deficit.
- ⑧ Increased import Bill due to increased fossil fuel consumption and new-age materials like semi-conductors.
- ⑨ Low tax compliance.

WHAT NEEDS TO BE DONE?

- ① Adhering to limits prescribed in FRBM Act 2003
→ ^{Fiscal} Deficit should not increase 3% in any case and overall deficit of 40% of centre & 20% for states should be adhered to.
- ② Empowering Public Finance Management system to track the funds released for various programs and their spending status.
- ③ Rationalising Centrally sponsored schemes and continuing only those which are most crucial.

- ④ Maintaining synergy b/w govt expenditure and Monetary Policy to provide ~~res~~ management of public affairs and control inflation.
- ⑤ Rationalizing subsidies and promoting DBT to reduce leakages.
- ⑥ mandate CSR activities in specific areas to ease govt burden
- ⑦ improve direct and indirect tax compliance for augmenting govt resources

Thus, public expenditure management is crucial to be contained by rationalizing unnecessary expenditure, focussing on capital expenditure and augmenting govt resources.

Q10. Economic growth in recent past has been led by an increase in labour activity. Explain this stmt. Suggest growth pattern that will lead to creation of more jobs w/o compromising labour productivity. [15]

labour activity entails more employment, engagement of workforce and increased productive contribution of labour towards economic growth. India has a constant growth rate of over 6% since last decade which has been made possible due to increased labour productivity.

ECONOMIC GROWTH LED BY LABOUR PRODUCTIVITY ACTIVITY

- ① Increased skill workers → Due to increase in investments in education, govt initiative, increase in skilled labour has led to increased economic growth (eg) NEP, 2020
- ② Increased innovation → India has become 3rd largest startup hub with over 108 unicorns entailing ~108bn.
- ③ Increased spending by workforce → In FY 23 India's private final consumption expenditure rose to ~\$518bn, creates more demand, hence more jobs ∴ virtuous cycle.

④ Rise of new sectors like Fintech and increased engagement in such sectors (eg) Fintech sector India to value @ \$ 1trn in 2030.

⑤ Rise of gig work

- Flexible work, 60% new employment here (NITI Aayog)
- contributed to increased services like food delivery, home services of beauty etc.

⑥ Growth of MSME sector

- employs over 45% people
- contributes ~ 30% to GDP growth.

GROWTH PATTERN THAT WILL CREATE MORE JOBS WITH LABOUR PRODUCTIVITY

① Increasing spending in skilled labour

- new programs like PMKVY 4.0 to prepare workers for IR 4.0.
- create sector specific training - collab. academia and industry
- Recognition of prior learning under NEP, 2020.

② Move towards Manufacturing sector

- Presently only 16-17% contribution to employment
- need to harness its potential

③ Investment in niche and sunrise sectors

→ PLI scheme to increase investment and job opportunities in sectors like aviation, drone, chemical cell, semiconductor.

④ Focus on entrepreneurship

→ provide easy access to credit
→ tax breaks and regulatory ease can facilitate growth.

⑤ Investment in traditional sectors and small entrepreneurs :-

→ (eg) PM Swanidhi scheme, MUDRA Yojana
→ Textile sector - 14% employment → need to boost artisans, development of newer technical textiles

As prime Minister Modi has announced creation of 10 lakh jobs, it is crucial that both private and public sector synergize to focus on 'employment creation' without getting into the trap of jobless growth.