

## ***Unit VIII: Current Challenges facing Indian economy***

### **Solved Textual Questions & Answers (NCERT/AHSEC-Based)**

- 1. What are the current major challenges confronting the Indian economy?**  
→ Key challenges include unemployment, poverty and inequality, weak infrastructure, fiscal stress, current account pressures, inflation, environmental degradation, and unequal human capital development.
- 2. Explain youth unemployment and the informal sector problem.**  
→ High youth unemployment, especially among educated individuals, coupled with over 80% of employment in the informal sector, leads to job insecurity, inadequate income, and lack of social security. Youth unemployment may exceed 60% for educated sets.
- 3. What is meant by demand deficiency?**  
→ Weak aggregate demand, driven by limited household incomes, subdued consumer spending, and inadequate investment, slows growth and limits production expansion.
- 4. Describe challenges in India's infrastructure sector.**  
→ Major gaps exist in transport, energy, water, healthcare, and education. Estimated infrastructure deficit exceeds USD 1.4 trillion, affecting growth, connectivity and quality of life.
- 5. Why is fiscal stability a concern for India?**  
→ High fiscal deficits (close to 6–7% of GDP) and public

debt (about 80% of GDP) constrain government capacity to fund development and social sector programs.

---

### **Additional Short-Answer Questions (2–3 Marks)**

1. **Define poverty as a challenge for India.**  
→ Despite growth, around 20–22% still live below the poverty line, with rural areas more affected.
2. **Explain income inequality in India.**  
→ Income and wealth are unevenly distributed: top 10% earners control over 50% of income, while large sections remain deprived.
3. **What is the impact of food inflation on households?**  
→ High and volatile food prices reduce purchasing power, especially for the poor, aggravating inequality and dissatisfaction.
4. **How do environmental issues affect economic growth?**  
→ Climate change, water scarcity, and poor air quality threaten agriculture, health, and productivity, reducing growth potential.
5. **Why is the quality of human capital a concern?**  
→ Skills mismatch, poor educational and healthcare outcomes, and digital inequality limit productivity and mobility.
6. **What is a current account deficit?**  
→ Persistent trade deficits and reliance on imports (oil, gold) create external vulnerability and pressure on foreign exchange reserves.

7. **Why is corruption an economic challenge?**
    - Corruption undermines tax mobilization, investment, public service delivery, and reduces business efficiency and trust.
  8. **How does population pressure strain resources?**
    - High population and dependency ratios burden employment creation, infrastructure, and social services.
  9. **What role does weak domestic demand play in growth slowdown?**
    - Low consumption and investment stifle business expansion and GDP growth.
  10. **Why is non-performing asset load a concern?**
    - High NPAs undermine bank health, reduce lending capacity, and increase financial instability.
- 

### Long-Answer Questions (4–6 Marks)

1. **Discuss unemployment and underemployment as structural challenges in India.**
  - Chronic unemployment and disguised underemployment prevail, particularly in agriculture and the informal sector, exacerbated by slow formal job creation and skills gaps.
2. **Examine the fiscal challenges facing India.**
  - High deficits reduce fiscal space. Rising debt servicing diverts funds from investment. Stable revenue collection and sound fiscal policies are needed to sustain development spending.

3. **Evaluate the threats posed by environmental degradation and climate change.**
    - Erratic monsoons, water scarcity, and heatwaves reduce agricultural yield, affect migration, and increase health risks—costing an estimated 3–10% of GDP over time.
  4. **Analyze the problem of inequality and poverty in contemporary India.**
    - Despite growth, uneven access to education, health, and jobs continues. Wealth concentration among the top 10% widens the gap. Inclusive policies are essential for equitable growth.
  5. **How does inadequate infrastructure limit India's growth potential?**
    - Shortfalls in roads, digital connectivity, energy supply, education and healthcare reduce competitiveness, hinder industrialization, and limit investment attraction.
- 

## 20 Additional Model Questions & Model Answers

### ◆ Short Answer (2–3 Marks)

1. **Define balancing of payments vulnerability in India.**
  - Reliance on external finance and imports, particularly oil, makes India vulnerable to global shocks and trade imbalance.
2. **Explain how inflation erodes savings and incomes.**
  - Persistent price rise weakens real incomes, especially of fixed-income households, and discourages savings and consumption.

3. **What is the digital divide and its economic implications?**  
→ Unequal access to internet and technology, particularly by lower castes, rural areas, and women, prevents participation in digital economy and education.
4. **Why is private investment weak in India?**  
→ Regulatory hurdles, weak credit flow, subdued demand, and policy uncertainty deter businesses from expanding.
5. **Define “weak private capital formation.”**  
→ Low levels of fixed investment by private sector limit infrastructure development and productivity growth.
6. **What is demographic dividend and how is it at risk?**  
→ India's young population should boost growth, but without job creation and skill development, this potential may go unrealized.
7. **How do high food and fuel subsidies affect the economy?**  
→ They strain government resources, reduce fiscal flexibility, and may distort incentives.
8. **Explain the issue of non-inclusion in financial systems.**  
→ Informal workers and rural populations often lack access to banking, insurance, and credit, limiting economic opportunities.
9. **State significance of job-skill mismatch.**  
→ Educated youth lack the skills demanded by industry, leading to high graduate unemployment despite demand.
10. **Why is the agricultural sector still problematic?**  
→ Low productivity, fragmented landholding, dependence on monsoon, and limited market access keep earnings low.

◆ **Long Answer (4–6 Marks)**

11. **Assess how global economic uncertainties and geopolitical tensions affect India.**  
→ Trade disruptions, commodity price shocks (oil), and capital flow volatility affect growth, inflation, and fiscal balance.
12. **Describe policy measures needed to reduce inequality and enhance inclusive growth.**  
→ Expand social welfare, progressive taxation, universal healthcare and education, and invest in rural infrastructure and skilling.
13. **Why is inflation particularly harmful to India's lower-income groups?**  
→ Households spend large share on food; rising prices squeeze budgets, increase poverty, and reduce living standards.
14. **Explain the economic ramifications of corruption on development.**  
→ It erodes investor confidence, reduces revenue, increases project costs, and affects equitable delivery of public goods.
15. **Analyze the interrelation between unemployment and fiscal challenges.**  
→ Low employment reduces tax revenues and increases welfare burden; fiscal limits reduce ability to stimulate job creation.
16. **How does water scarcity pose a challenge for India's future growth?**

→ Limits agricultural output, strains urban supply, increases migration, and elevates health and societal risk.

**17. What role does human capital development play in addressing India's challenges?**

→ Improved education, healthcare, and training boost productivity, innovation and reduce inequality.

**18. Discuss structural reforms needed to boost private investment and demand.**

→ Ease of doing business improvements, land and labor law flexibility, financial deepening, and tax simplification.

**19. Evaluate India's preparedness to handle climate-related economic risks.**

→ Institutional gaps, underinvestment in resilience, and planning inadequacies limit adaptive capability.

**20. Summarize how employment, fiscal, environment, and inequality challenges interlink to shape India's growth trajectory.**

→ Weak job growth and inequality undermine demand; fiscal constraints limit fiscal countermeasures; environmental stress threatens future output—requiring holistic, interconnected policy responses.