
* 10 MARKERS (150 words each)

Q1. What are the macroeconomic implications of the rising public debt-to-GDP ratio in India? Suggest prudent fiscal measures to ensure debt sustainability.

Q2. Discuss the causes and consequences of "core inflation" in the Indian economy. What are the challenges in managing it through monetary policy?

Q3. What do you understand by 'Green GDP'? Why is it necessary to move beyond traditional GDP in measuring economic progress?

Q4. Examine the significance of India's Unified Payments Interface (UPI) in advancing financial inclusion. What are the associated regulatory challenges?

Q5. What is an inverted duty structure? Evaluate its impact on India's domestic manufacturing sector and suggest corrective measures.

* 15 MARKERS (250 words each)

Q6. Examine the effectiveness of the Production-Linked Incentive (PLI) Scheme in addressing India's manufacturing bottlenecks. How can its design be made more inclusive and employment-centric?

Q7. Critically assess the role of Free Trade Agreements (FTAs) in promoting India's economic interests. What concerns have emerged from recent FTA negotiations?

Q8. India's growth is increasingly being described as "jobless growth". Critically analyse the structural problems in India's labour market and suggest corrective steps.

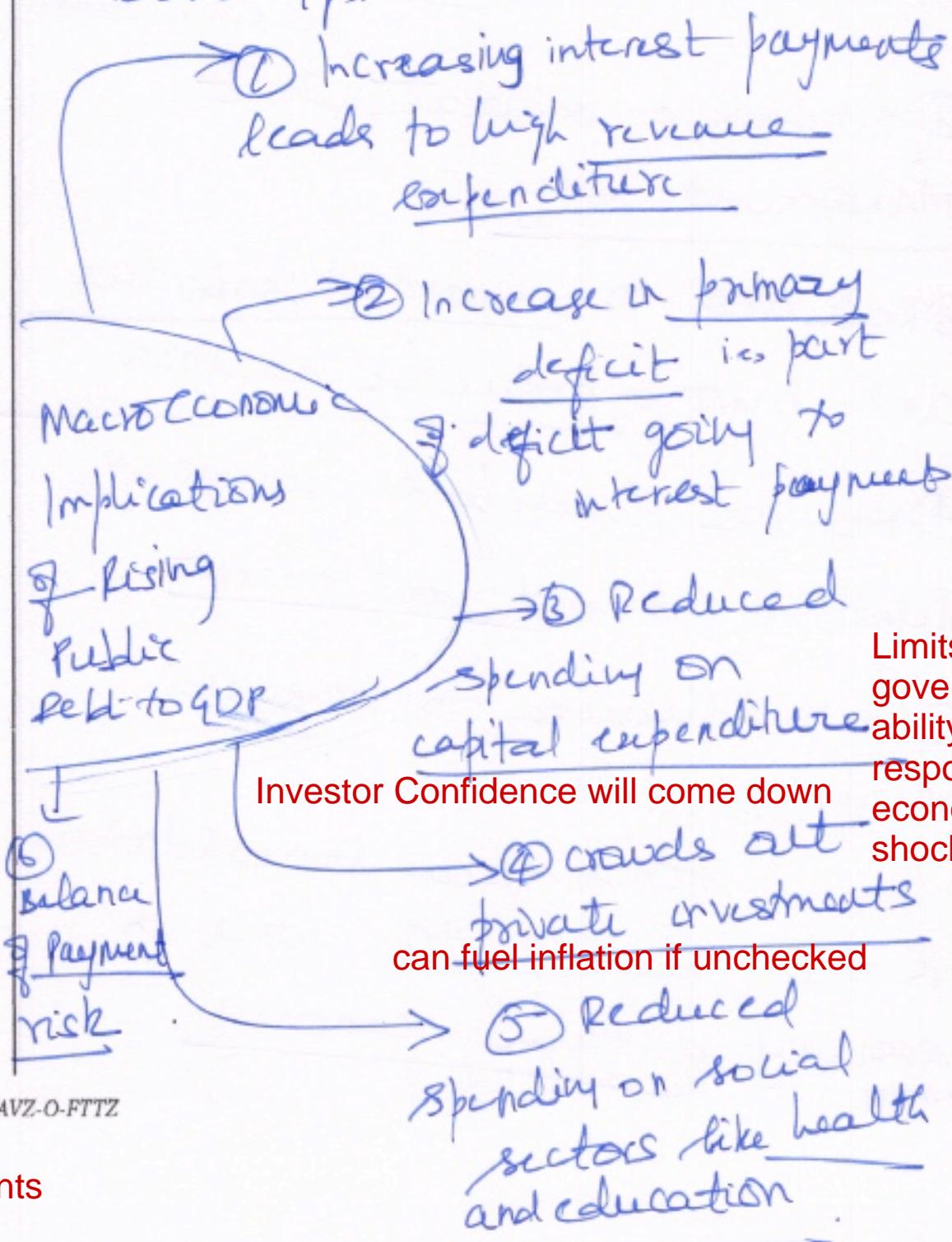
Q9. How has the GST regime impacted the principles of fiscal federalism in India? Highlight the major institutional and political challenges it faces today.

2ee

Q10. What are the key features of India's monetary policy framework under inflation targeting? Evaluate its performance in managing growth and price stability.

1

Debt to GDP represents the liability of an economy in terms of its borrowings



Prudent measures to ensure Debt sustainability

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① Adhere to 60% [Centre - 40%; State - 20%]

debt-to-GDP as per NIC Silvya Committee
recommendation

Revenue expansion --> tax compliance, widen GST base,
and monetize public assets

② Establish a separate Debt

Management body

Shift toward longer-term, low
interest borrowings

③ Reduction in unwanted subsidies

and invest in productive activities

Focus on productive capital expenditure

④ Mobilise household savings by
developing a vibrant bond market.

⑤ Strict adherence to ways and
means advances.

Fiscal discipline

Hence, fiscal consolidation

4.75/10 is the need of the hour in
ensuring a stable economy.

good

② Green GDP is an evolving concept of accounting for the environmental cost of development in GDP calculation.

Uttarakhand has begun this practice offering a more holistic view of development

good start

Need to move beyond Traditional GDP

① Sustainable development is the need of the hour

eg:- SDGs talk of holistic world view

② Move from growth numbers to holistic approach ignoring social and environmental externalities

③ capture the externalities that are important but uncounted

eg:- Displacement of villagers for Ben-Behwa Link.

④ Include the costs foregone through loss of resources of environment

⑤ It helps in calculating the human cost and the ~~the~~ impact of human life

e.g. 12 out 14 top polluted cities are in India. long-term ecological and human welfare

⑥ In line with the global shift towards environmentally sound policies

⑦ Enables the framing of policies that aligns with the goals of environmental sustainability can be clubbed repetition here

Therefore, Green GDP is a step closer towards achieving good SDG 12 and 13.

(4)

Unified Payments Interface (UPI) is a technology that enables instant online transactions through digital mode. So far, UPI has accounted for good ₹ 2.3 Lakh crores in transactions.

UPI Advancing Financial Inclusion

1. quickens payments and enables ease of payment.
2. It is an open platform and hence offered free of cost — ensures inclusion.
3. Used by small businesses and street vendors — enables access.
Low Cost Transactions
4. Encourages creation of bank accounts thereby helping in financial inclusion.
can be clubbed

Seamless integration across banks and apps
Leverages Aadhaar and mobile authentication --> secure

5. Helps increase the reach of Digital Economy → increasing internet access aids this shift. good

6. Helps bridge rural-urban divide by enabling seamless transactions

Associated challenges

① Digital reach - Only 37% rural households have internet access (NSO)

Cross Border Transactions and regulatory oversight

② Limited digital literacy - (NSO)

③ Access to smartphones is still a challenge (limited redressal through UPI 123)

④ Increase in cyber fraud

⑤ challenges to privacy - data leaks etc.

Hence, while UPI has revolutionised the digital economy it needs to be strengthened through various measures like KYC norms. good

4.75/10

Q.

An inverted duty structure is a tax structure whereby the duty on raw material ends up being higher than that on a finished product. posing structural

challenges import duties on finished goods are lower than those on raw materials or intermediates

Impact of Inverted Duty Structure on domestic manufacturing

- ① Disourages value addition good
q:- Recent fast food parks might suffer.
- ② Diminishing share of manufacturing further fueled. [Manufacturing contributes around 17% to GDP]
- ③ It reduces capacity building by industries. good
q:- India remains at the assembly stage. but not design-research stage.

Discourages FDI and high production cost

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4. It might trigger higher raw material export than finished products. encourage finished products import
5. creates low quality jobs or reduces the number of jobs.

Corrective Measures

① GST framework should follow wide of the product approach.

② ~~Revision~~ Remission on Input schemes to be strengthened Periodic assessments to adjust anomalies

③ Structural changes- government must push for better rate rationalisation

Incentivize local production of critical inputs

④ Input tax credit mechanism needs to be used to offset the losses

Therefore, inverted duty structure needs to be promptly addressed to achieve the goal of Make In India

25% share of manufacture in GDP.

good points

4.75/10

(2)

Core inflation refers to that part of inflation comprising only of those components of inflation excluding highly volatile components i.e., food products.

check this once

excluding food and fuel

Challenges of Managing core Inflation

Rising housing rents and education costs --> these are core components of basket

① High share of food products in the basket - Around 27% share

② Agrarian nature - Around 45% of population depends on agriculture for livelihood.
add:
Tax policy
Supply chain inefficiencies
Currency fluctuations

③ Loss of efficacy - Nearly 21.9% population is below poverty line. Excluding food

deviated from the demand, check your definition once

products may lead to ineffectiveness
of monetary policy.

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- ④ Not ~~regarded~~ grounded in practice - core inflation is mostly suitable for academic purposes.
- ⑤ ~~HQIL~~ Highly seasonal nature of food inflation causes challenges in tailoring the monetary policy

address consequences and challenges separately

- ⑥ It undermines the objective of monetary policy i.e. price stability good but structuring needs to be separate subheadings
- ⑦ It leads to erroneous calculations thereby missing the target of growth. Hence, it is essential to consider core inflation as a tool to study the economy better rather than a practical tool of monetary policy.

2.5/10

6

Production Linked Incentive

schemes are those that are designed to encourage the industries to upscale and grow, by providing good benefits for increased production

Effectiveness of PLI - Addressing

~~Manufacture~~
~~infrastructure bottlenecks~~

① Helped address the issue

② It has improved investments in

manufacturing. Incentivised 14 sectors including electronics, pharma, auto, attracting FDI and boosting exports

e.g. Automobile assembly, electronics etc

③ Increased employment thereby

increasing growth. reduces

④ Encouraged sunrise sectors like

food processing etc

Mobile manufacturing

④ Increased private investment in
Research and Innovation. good

II. challenges with PLI

Job creation impact has
been uneven

1. focus on capital intensive
manufacturing sectors rather than labor
2. Restriction of industries to specific
locations - ~~geog~~ geographically skewed
development
Benefits concentrated among large firms
3. Lack of strong supply chain linkage.
4. India remains an assembly line
manufacturing economy. good

Designing PLI to be Inclusive and
employment centric

- ① Focus on Employment Linked
Incentive (ELI) rather than PLI good
- ② Labour intensive sectors to be
promoted ~~eg~~ for Textile, Leather.

3. Encourage MSMEs to participate
Preference to smaller units — helps
trickle down benefits

4. Establish clusters to attract
investment using good plug and play model

5. Focus on sun-rise sectors with
a view to more balanced distribution

g.i. Tap on apple economy of J&K for
food processing

6. Utilise One District One Product
to identify potential sectors for the
scheme.

comprehensive points

Regional Equity and social impact like job
creation, skilling, gender has to be studied

7. Develop a comprehensive PLI policy
across sectors.

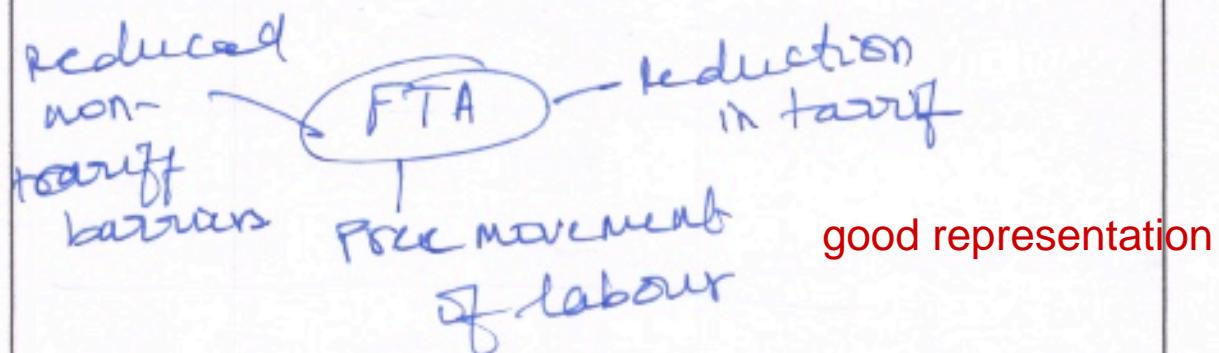
8. Reduce duplicity of efforts between
ministries.

6.25/15

Therefore, while PLI is very
useful in generating growth and good
employment, it can be made holistic
through an inclusive
= approach.

7

Free Trade Agreements (FTAs)
are treaty based instruments
entered into by two or more countries
to facilitate barrier free access
to each other's economy. good



Role of FTAs in India's Economy

I. Helping India share → UAE, Australia, ASEAN

① Access to markets with high demand for Indian goods ~~e.g.~~ Spices ⁱⁿ west

② Enhances investments between countries

- ③ Promotes confidence and stability in policy making
- ④ Facilitates technology transfer from developed countries.
- ⑤ Increases labour movement thereby increasing remittances [$\$129$ billion in 2023-24]
- ⑥ Promotes FDI and infrastructure creation. reduce over-reliance on traditional partners like China
- ⑦ Fosters growth and offers better standard of living to people

III. Concerns in PTA Negotiations

- ① FTAs are generally favouring the needs of western nations Asymmetrical concessions may flood Indian markets with cheaper imports
- ② Increased non-tariff barriers e.g. sanitary & phytosanitary measures, CBAM in EU. good
- ③ Negotiations are clouded by the geopolitical considerations.

4. changing priorities of alternative governments - delay in negotiations

Origin norms often exploited to bypass tariff structures

5. Tying of issues — sensitive issues such as opening up India's dairy sector is tied to conclusion of FTAs

6. Renegotiation issues — FTAs often need to be altered in light of growing economic changes in AI in economy, IT Technology etc
parliamentary oversight often limited

7. Industrial capacity — FTA negotiations rarely give weightage to the industry. Hence, they do not reflect the ground realities

Trade-offs on environmental/labour standards pose ethical questions

8. one sided benefits — High trade imbalances with FTA partners repetitive

few more real dimensions can be added

Therefore, while FTAs offer

high hopes of more avenues for

~~our~~ our economy, simultaneous

focus on our industry is necessary.

(8)

good

While the economy grew rotines between 1991 - 2024 (\$2.5 billion to £250 billion), the employment remained largely stagnant [current - 4.9%]

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Structural Problems in India's labour market

I Economic Policies

add

Rigid Labour Laws

- 1) Increased capital intensiveness of industries.
- 2) Liberalisation focused on GDP rather than employment oriented growth.
- 3) Inadequate focus on manufacturing sector leading to direct shift to services.
give substantiation for half of the points

valid points with data, good

II Labour Issues

1. Lack of skilled workforce.
(only 5% in formal employment)
fact check this
2. High seasonality in unemployment
3. Agriculture → 45% dependant on agriculture.
4. Low education outcomes.
(only 51% graduates are employable)
Skill India Report
Female labour force participation is under 25%

Corrective steps

I Taken so far

- ① Free and Compulsory Education
(Article 21A)
- ② Skill development - PIVKAR Kaushal apprenticeship programs and vocational training
- ③ Focus on self employment -
MUDRA, Start UP India.
- ④ Education outcomes
→ Atal Tinkering Labs.
explain the points, avoid bulletins

II Steps to be taken

- (1) Shift from production linked to employment linked incentives
- (2) Encourage labour intensive sectors like textile, leather also MSMEs
- (3) Improve apprenticeship [India -> 1%]
[Germany - 4%]
- (4) Vocational training impetus to create semi-skilled / skilled workforce
Expand formal job coverage through EPFO/ESIC enrollment
- (5) Make labourforce industry ready by introducing higher education.

6.5/15

Incentivise female workforce participation by flexible hours, childcare access

- (6) Promote small scale entities like SHGs, FPO, cooperatives in job creation

Q:- NaMo Drona Didi:

Hence, creating labour force and addressably unemployment is crucial to attain the Vikas Bharat target @ 2024.

good

9. GST is a destination based tax system aimed at creating a uniform import indirect taxation system throughout the country.

Impact of GST on Fiscal Federation

I: Positives

subsumed various state and central taxes

- ① Enables states to have a say
 - GST Council under Article 279A ensuring shared decision-making
- ② Promotes compensation mechanism for loss of revenues.
- ③ Creates a unified market, promoting better integration of various regions.
- ④ Enhances consumption expenditure among states - Better inter-state commerce.

II. Challenges to Fiscal Federalism

- ① States have $\frac{2}{3}$ rd weightage collectively while centre has $\frac{1}{3}$ rd GST council effective veto to centre
- ② Exclusion of major commodities like alcohol, crude etc constrained fiscal maneuverability for states
- ③ States complain of loss of revenue and faulty compensation mechanism.
- ④ Lack of consensus among states — producer states complain about destination based structure - good

III. Major challenges with GST

- ① Multiple slab structure - cause confusion data is needed
- ② Issue of inverted tax structure — raw materials taxed higher.

compliance burdens affect SMEs

Delay in compensation payments and disputes

Technical glitches (GSTN)

- ③ Gender tax — Tax rates high for sanitary napkins etc
- ④ Disagreements with GST council
- ⑤ COVID debacle — loss of compensation to states as provided under constitution
- ⑥ States resist inclusion of crude oil and alcohol
- ⑦ Delay in input tax credit - concerns for small businesses.

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→ ① weightage for states in
GST council

way forward

structuring is good

points are valid and comprehensive

→ ② Rate rationalisation

of GST strengthening dispute resolution

③ GST Network to be

strengthened but lacks substantiation with data and examples

GST is an indicator of

6.75/15

cooperative fiscal federalism. However,
states should be given more voice to
further strengthen this spirit

10.

The Monetary Policy Framework was signed in 2015 between the RBI and the Government on the basis of Vijit Patel Committee recommendations mended RBI Act (2016) institutionalized it

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good start

Features of Monetary Policy framework

- ① Goal— Price stability with an eye on growth
- ② Inflation target to be 4% ($\pm 2\%$)
- ③ Constitution of Monetary Policy Committee—comprises RBI as well Government officials. Autonomy and Transparency in decisions
- ④ Periodic review—meetings held bi-monthly. and multi indicator approach

⑤ Explanatory statement to be submitted ~~if~~ if limits are breached (eg:- COVID)

good points
⑥ Effecting changes in repo rate - expansion or contraction according to needs.

Evaluation of Performance of Monetary Policy.

I. Positives CPI inflation moderated from ~10% (pre-2014) to ~6% in recent years despite global shocks

① Broad reining of inflation in India.

② Inflation targeting based on objective criteria — reduced politicisation good

③ Price stability improves investor confidence

④ Increased growth outcomes as well as employment can substantiate

structuring is good, but factual data is needed

⑤ Makes the Government responsible
Improved monetary credibility
through report submission

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I. Challenges

① Appointment of members of government
→ Indirect say in committee.

② Increasing price rise is a challenge

Supply-side shocks not
addressed

③ Core inflation - Policies cannot
impact food inflation too much.

Trade off with
growth

good
④ Increased borrowing reduces the
effectiveness of monetary policies

6.75/10
⑤ High repo rates leads to compromise
on credit disbursement

→ ① Autonomy to RBI
rural credit gaps persists

way forward → ② Address food inflation

Hence, the Monetary Policy
framework needs to be structured to

address issues of autonomy
and recent issues

has enhanced macro stability and policy discipline