 9:20 AM – 12:30 pm

extra - 10 mins

NEXT IAS

(To be filled by candidate)

Name of Candidate : R. SRI RUSAT

Roll No. : MT24ECOL1021 Contact No.

e-mail: ... com Date of Examination : 05/08/2024

Exam Centre : Old Rajinder Nagar ☐ Online ☑

CSE (MAINS) TEST SERIES-2024

Test-03	ECONOMICS OPTIONAL
Dated : 14-07-2024	*Money and Public Economic and Indian Economy between (1947-1991)*

Time Allowed : Three Hours

Maximum Marks: 250

QUESTION PAPER SPECIFIC INSTRUCTIONS

(Please read each of the following instructions carefully before attempting questions)

*There are **EIGHT** questions divided in **Two sections** and printed in **ENGLISH**.*

*Candidate has to attempt **FIVE** questions in all.*

***Question No. 1 and 5** are compulsory and out of the remaining, any **THREE** are to be attempted choosing at least **ONE** question from each section.*

The number of marks carried by a question/part is indicated against it.

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 a medium other than the authorized one.

Word limit in questions, wherever specified, should be adhered to.

Attempts of question shall be counted in sequential order. Unless struck off. Attempt of a question shall be counted even if attempted partly. Any page or portion of the page left blank in the Question cum Answer (QCA). Booklet must be clearly struck off.

(For filling by Examiners only)

Q. No.	Page No.	Max. Marks	Marks	Total	Signature
1. (a)	4	10			
1. (b)	6	10			
1. (c)	8	10			
1. (d)	10	10			
1. (e)	12	10			
2. (a)	14	15			
2. (b)	17	20			
2. (c)	21	15			
3. (a)	24	15			
3. (b)	27	15			
3. (c)	30	20			
4. (a)	34	20			
4. (b)	38	15			
4. (c)	41	15			
5. (a)	44	10			
5. (b)	46	10			
5. (c)	48	10			
5. (d)	50	10			
5. (e)	52	10			
6. (a)	54	20			
6. (b)	58	15			
6. (c)	61	15			
7. (a)	64	15			
7. (b)	67	15			
7. (c)	70	20			
8. (a)	74	15			
8. (b)	77	15			
8. (c)	80	20			
Grand Total					

Remarks

Observations:

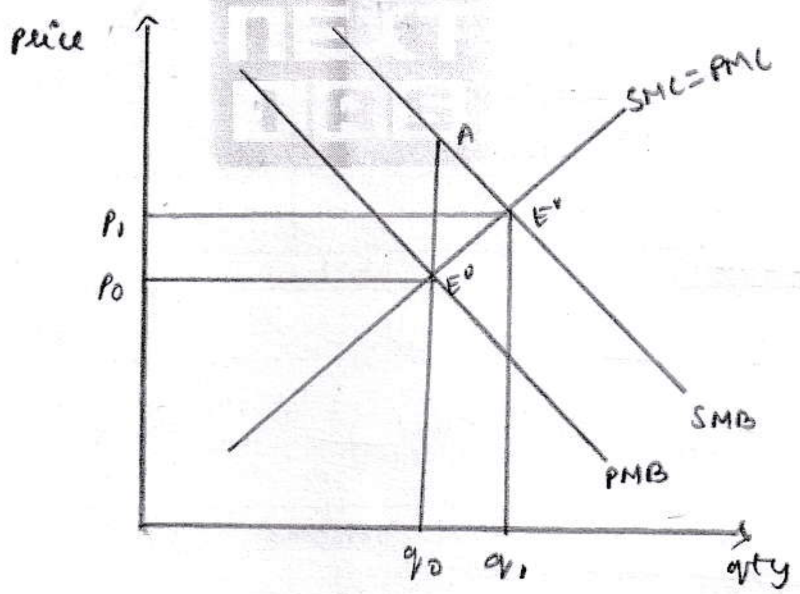
SECTION-A

Write notes on the following in about 150 words each: **(10 × 5 = 50)**

Q.1 (a) Examine the impact of indirect subsidy on welfare.

Indirect subsidy refers to the promotion of industrial ~~or~~ or agricultural activity without directly allocating resources in the budget.

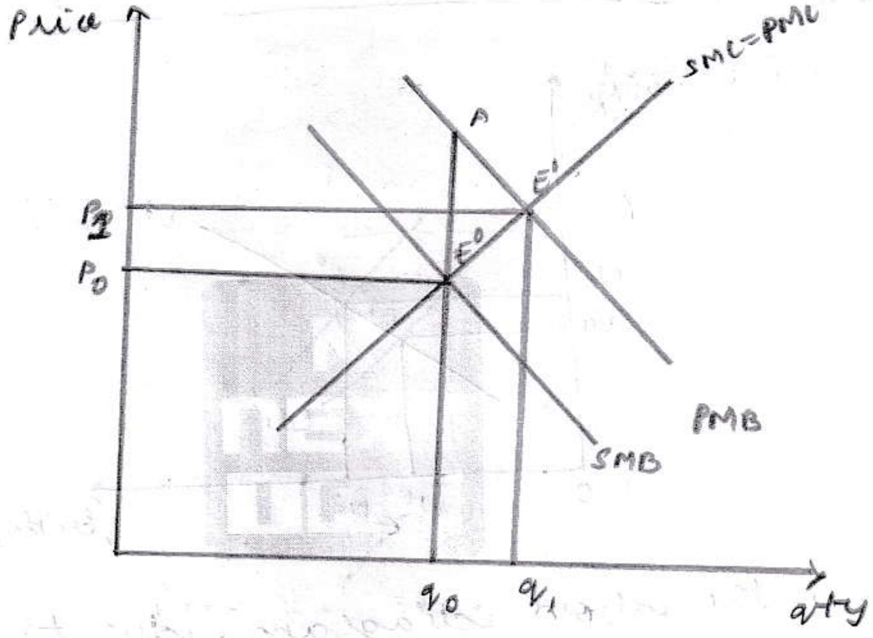
Indirect subsidy for industries with positive externalities



When, the industries with positive externalities are provided subsidies it increases the aggregate welfare in the economy by increasing the output from q_0 to q_1

↳ Here the triangle E_0E_1A represents the quantum of subsidies to be provided to achieve the desired social optimum level of output.

Indirect subsidy for industries with negative externalities.

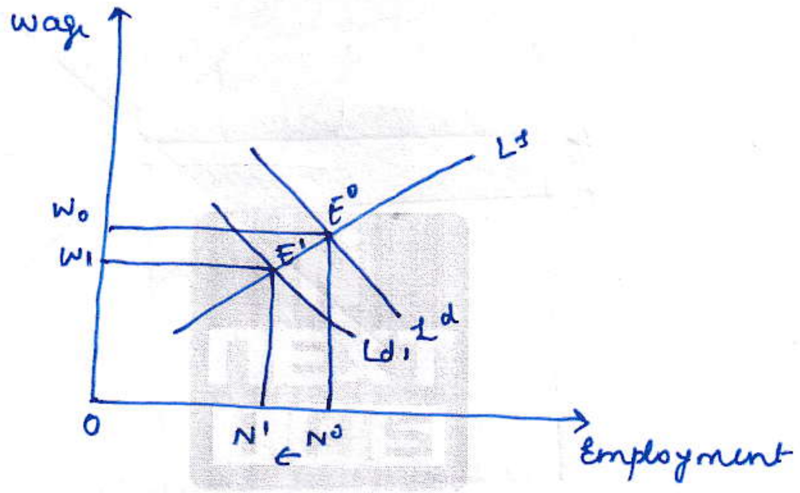


↳ Here, the indirect subsidy lead to over production of output leading to reduction of aggregate social welfare in the economy.

Q.1 (b) How does an ad-valorem tax on wage impact the market for labor?

When ad-valorem tax is levied on the market for labour it leads to the shifting down of demand curve for labour.

Impact of ad-valorem tax on wage



(i) In the above diagram, due to levying of advalorem tax on wage the Ld curve shifts to leftwards to Ld1.

(ii) However, the shift is not a proportional shift.

(iii) Initially, Ld curve touched Ls at E0 led to N0 labour and W0 wage.

(iv) Due to imposition of ad-valorem tax, the labour demand decreased from No to

N_1.

(v) The wage decreased from W_0 to W_1.

(vi) Therefore at E', N_1 level of labour is employed for W_1 level of wage to the labourer.

Hence, ad-valorem tax on wages leads to reduction of demand for labour leading to less wage price in the economy.

Q.1 (c) Explain Cambridge Theory of money demand.

Cambridge theory of money demand points out that there exists an one-to-one relation between Money supply and Price level in the economy.

Assumptions

① Stable Money demand - The money demand grows at the constant rate in the economy.

② Short run money neutrality - The money supply does not affect output level but price level in the economy.

③ Constant Velocity of money supply - The Velocity of money supply (i.e) $\boxed{V = \frac{PY}{M}}$ grows at the Constant rate.

Model

According to the Quantity Theory of Money,

$$M^d = M^s = kPY$$

where

$M^s \rightarrow$ Money supply

k → the velocity of money supply
P → Price level in the economy.
y → Output level in the economy.

Now, In equilibrium, $\boxed{M^d = M^s = kPy}$

When, M^s changes,, Y and k being constant there exists an equi-proportional change in the Price level.

When $M^s \uparrow = k(P)\uparrow y$ as well as when $M^s \downarrow = k(P)\downarrow y$.

The above Classical Cambridge Theory of Demand was expanded by Friedman leading to inclusion of asset holding purpose of money.

Q.1 (d) What were the changes brought in monetary aggregate measurement in India?

The ~~g~~ Monetary aggregate measurement in India is calculated at different levels.

Calculation of Monetary Aggregate measurement

(i) Mo (High powered Money) = Currency held in Circulation (C) + Commercial bank deposits with RBI + other deposits with RBI.

(ii) M_1 (Narrow money) = Mo + Demand deposits with banks.

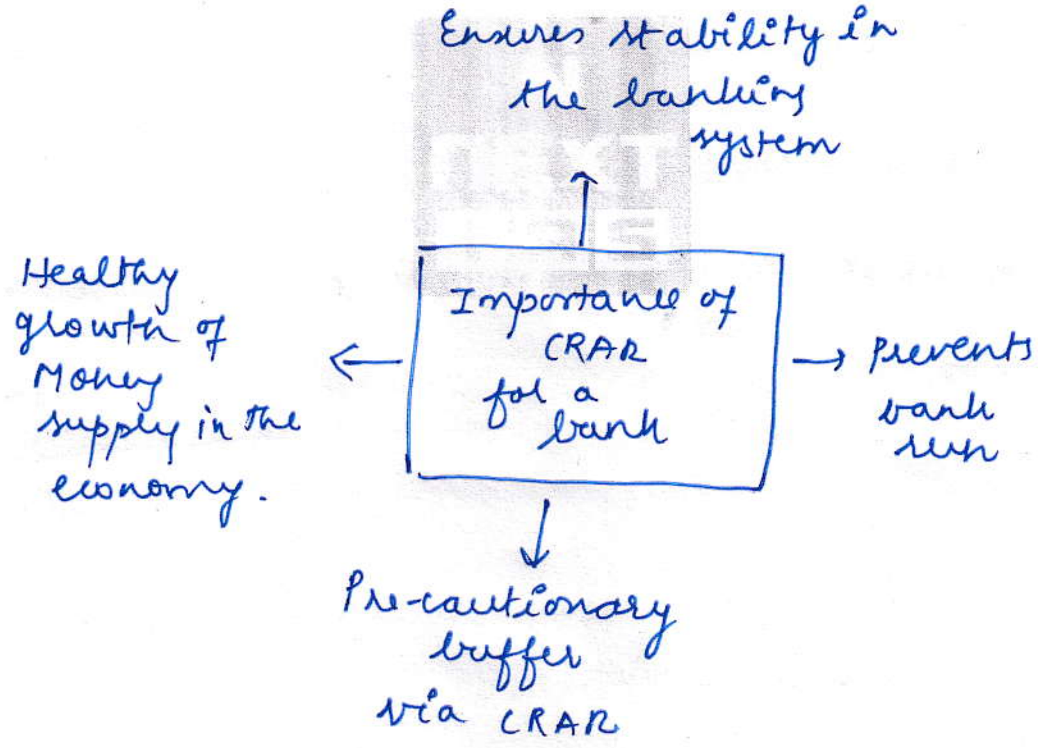
(iii) M_2 = M_1 + Savings deposits with Post office banks.

(iv) M_3 = M_2 + Time deposits with the commercial banks.

(v) M_4 = M_3 + All deposits with the Post office banks.

Q.1 (e) What is the importance of CRAR for a bank? Do you think it can be an important variable for measuring bank's solvency?

Credit Risk Weighted Assets Ratio (CRAR) proposes the amount of credit required by the bank to manage the risky capital like Non performing Assets etc in the unforeseen circumstances.



Importance of CRAR

(i) After the 2008 global financial crisis BASEL norms proposed CRAR as an important variable for measuring bank's solvency.

(ii) After BASEL norm III, the value of CRAR is:-

$$CRAR = \frac{\text{Tier I capital} + \text{Tier II capital}}{\text{Total risk weighted Assets}}$$ should

be 13.5%.

(iii) It has been mandated by the central banks for the commercial banks.

However, the global financial crisis showed the less effectiveness of CRAR as an important variable for measuring bank's solvency.

Q.2 (a) Examine the theory of money demand which considers interest rate as opportunity cost of holding money. 15

Q.2 (b) Critically examine the steps taken by government to control NPA in India in recent past. 20

Candidates must not write on this margin

Candidates must not write on this margin

Q.2 (c) Explain the benefit principle of payment of tax. 15

Q.3 (a) Explain the main recommendations of 15th Finance Commission. 15

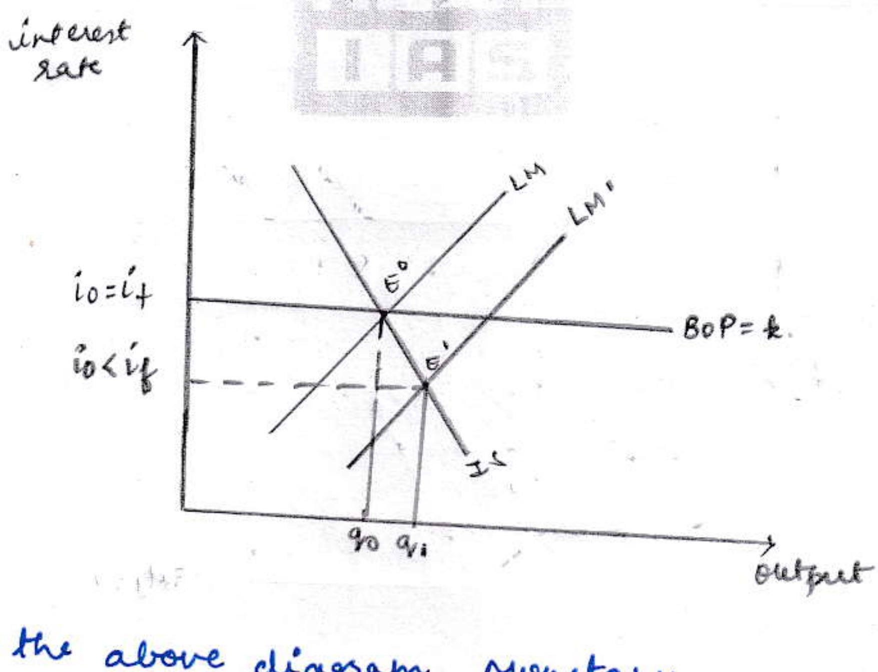
Q.3 (b) What is Blanchard's Theory of sustainability of public debt? 15

Q.3 (c) Explain the role of fiscal policy in development of an economy. 20

Q.4 (a) Explain the impact of monetary expansion on output, price and interest rate in case of perfect capital mobility. 20

Under the Perfect Capital mobility, the capital flows in the ~~now~~ economy are very sensitive to interest rate changes. In the Perfect capital mobility, the Balance of Payment (BoP) ~~is~~ line is perfectly elastic represented by a horizontal line.

Impact of monetary expansion



(i) In the above diagram, Monetary expansion causes LM curve to move rightwards from LM to LM'.

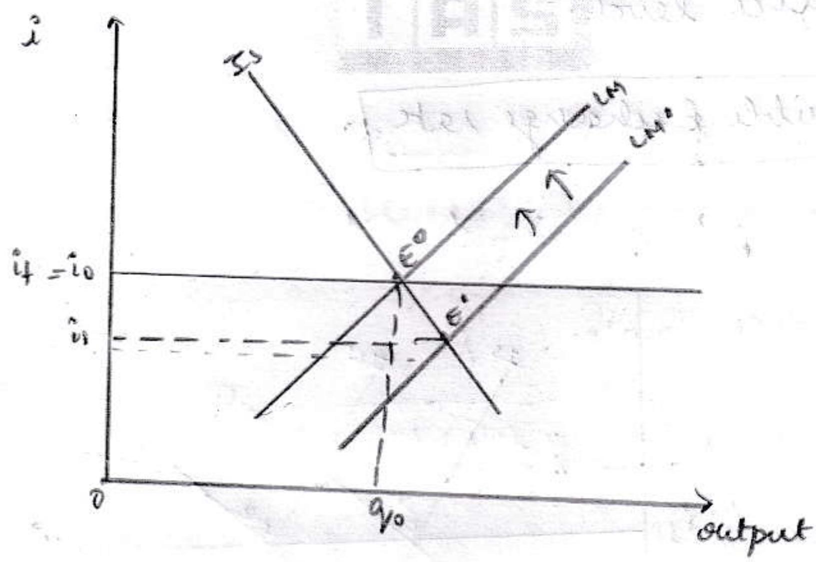
(ii) Now, LM' reaches the point E' where the quantity is expected to be increased from q_0 to q_1.

(iii) At point E_1, the prevailing interest rate ~~(E1)~~ $i_1 < i_f$ (which is foreign interest rate).

(iv) This triggers huge capital outflows in the economy.

(v) In this case depending upon kind of interest rate regime, the effect of output, price and interest rate is decided.

Under fixed Exchange rate regime:



(i) When under fixed Exchange rate, the LM increasing to LM' leads to fall in interest rate from i_0 to i_1.

(ii) The huge capital outflows, is triggered leading to intervention of Central bank to maintain the Exchange rate.

(iii) The central bank releases foreign currency and purchases domestic currency leading to shifting of LM' curve shifting to LM.

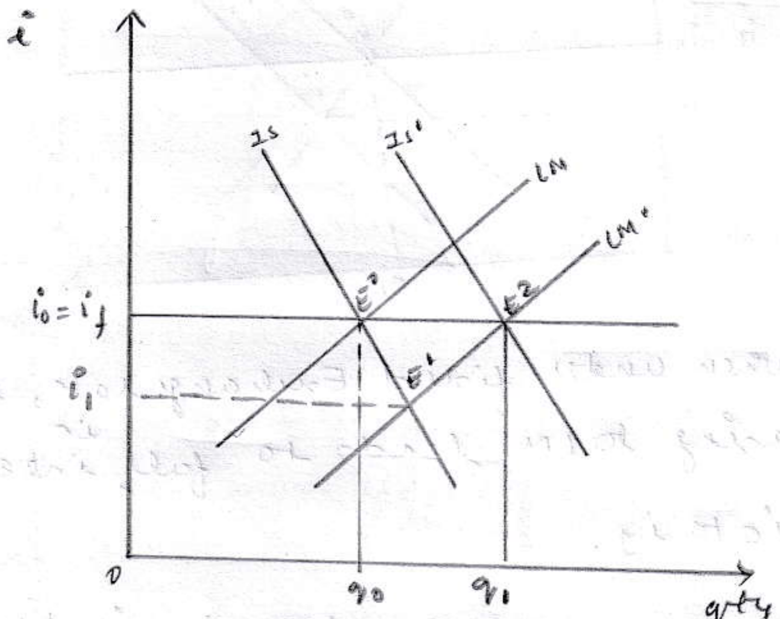
(iv) Impact on output, Price and interest:

(a) Output level - Remains unchanged at q_0.

(b) Interest rate - The interest rate initially falls to i_1 then it reaches i_0.

(c) Price level - Negligible or no change in the price level.

Under flexible Exchange rate



(i) In this Exchange rate, when the LM curve increases to LM', the interest rate falling to i_1 leads to depreciation of domestic currency due to huge capital outflow.

(ii) This makes the domestic exports cheaper, Therefore IS increases to IS'.

(iii) Impact of output, Price and interest rate

(i) Output – Increases from q_0 to q_1

(ii) Price level – ~~Its~~ Initially increases however it is met by rise in output.

(iii) interest rate – Initially falls to i_1 then reaches i_0.

Therefore, Under flexible exchange rate system, Monetary expansion leads to rise in output.

Q.4 (b) What are the reasons for poor budgetary performance of some states in India as suggested by RBI? 15

RBI's recent report shows alarming debt to GDP ratio, interest rate to GDP ratio for some states which could potently lead to the debt crisis as faced in Srilanka.

Reasons for poor budgetary performance

(i) Higher revenue expenditure is spent in the form of power subsidy and irrigation subsidy leading to the neglect of capital expenditure.

Eg:- Punjab and Haryana shows higher subsidy to GDP ratio to sustain the farmer's welfare.

(ii) Extra budgetary borrowing - The state's uses state PSUs to increase the borrowing to augment the state's finances.

Eg:- Kerala has used the method → leading to ~~poor~~ poor budgetary performance.

(iii) Lack of manufacturing industries growth- States like Bihar, lacks domestic manufacturing capabilities to augment the state's finances leading to poor budgetary performance.

(iv) Borrowing at market interest rates leading to higher expenditure on interest payments.

Eg:- Andhra Pradesh pays considerable amount of its total budgetary resources to interest payments.

(v) Freebie expenditure

Eg:- RBI points out several states which uses State's budgetary resources to provide freebies to the domestic populations leading to higher strain in budgetary resources.

However, states also point out lack of budgetary devolution from the Centre as it is heavily tilted to few states like Uttar Pradesh and Bihar.

Way forward

(i) Strict implementation and adherence to New FRBM to achieve sustained increase in budgetary performance.

(ii) Mahendra dev - points that the states can use "Agriculture" and "property taxes" to increase their revenue by 0.6% of state's GDP.

Q.4 (c) What are the quantitative tools of credit control for Central Bank? 15

The central bank uses both quantitative and qualitative tools to control money supply in an economy.

Quantitative tools of Credit Control:

(i) Repo rate

(a) The rate at which central bank lends loans to the commercial bank.

(b) During Inflationary period, The Central bank increases the repo rate leading to higher rates charged for loans from RBI. leading to reduction of money supply in the economy.

(c) During Deflationary Period, the Central bank reduces the repo rate leading to increase in money supply.

(ii) Reverse Repo Rate

(i) The rate at which ~~Central~~ commercial bank parks the surplus cash with the RBI.

(ii) During Inflationary Period, The central bank raises the reverse repo rate leading to increase in the parking of surplus cash with RBI ⇒ reducing the money supply in the economy.

(iii) During Deflationary Period, The central bank reduces the reverse repo rate leading to increase in surplus cash availability raising the money supply.

(iii) Open Market Operations

(a) The Central bank buys and sells short term securities to control the money supply.

(b) Inflationary period → Sells bonds → receives Cash → Reduces money supply

(c) Deflationary period → Purchases bond → Infuses cash into economy → Increases the money supply

(iv) Variable reserve requirements

(a) CRR → The Cash Reserve ratio which the commercial banks are mandated to keep with the central bank.

(b) Inflation / Deflation → Higher CRR / Lesser CRR
↓
Increases / Reduces the Money supply

(c) Statutory liquidity ratio. Under Inflationary period, the commercial banks are mandated to keep higher SLR and vice versa during the deflationary period.

According to Economic survey (2022-23), The RBI reduced the total repo rate by 225 bps to increase the money ~~to~~ supply and sustain the economic growth in the country.

Candidate must not write on this margin

SECTION-B

Write notes on the following in about 150 words each: **(10 × 5 = 50)**

Q.5 (a) Explain the reasons for bank nationalisation in India. Do you think it served the purpose initially?

The bank nationalisation were carried out in 1969 under the guise of "Inclusive growth" and "promote equitable growth of economy".

Reasons for bank nationalisation

(i) Bank's share to rural areas especially agricultural sector were low.

(ii) Low bank penetration in the rural areas.

(iii) Increase in pocketing of loans by wealthy industries.

(iv) Inefficient management of the banking sector due to its prevalent capitalist biases.

▷ eg:- "The Big 5" lent only to large industrial houses.

(v) Higher prevalence and exploitation of money lenders by charging higher interest rates.

Δ eg:- In 1950s, ~~total~~ of the total agri credit 93% of the credit belonged to the money lenders.

Results

Immediate

(i) Under the PSL (Priority Sector Lending) Norms, loans lent to the agricultural sector improved.

(ii) Under Lead Bank strategy → Service based lending the bank credit penetration in rural areas improved.

(iii) Following the Narasimhan Committee Recommendations, the Regional Rural Banks (RRBs) were established.

However, in the long term it led to lot of inefficiencies leading to the piling up of Non-Performing Assets (NPAs).

Q.5 (b) Explain the challenges of taxation system in India before 1991.

Before 1991, the taxation principles were "ad-hocist" in nature and were highly inflationary.

Challenges of Taxation system in India before 1991:

(i) Non-monetization of several large and small industries.

(ii) Prevalence of Industries in rural and backward areas leading to "ruralisation" phenomenon.

(iii) Huge costs in compliance of the tax system pointed out by Bhagwati

(iv) Restrictive taxation laws led to growing up of "black economy".

(v) Many MSMEs opted for "self-finance" to keep their money out of books leading to higher exclusions.

(vi) Multiplicity of taxation system

across states

Eg:- Tamil Nadu's state tax laws were very different from that of Maharashtra's leading to huge confusions.

(vii) Cost push inflation due to "tax-on-tax" mechanism.

(viii) Many industries chose the tax regime which was lower leading to concentration of Industries in only few areas.

(ix) The introduction of VAT led to drying up of few state coffers.

Therefore, the above challenges were mitigated by increasing the formalization share of Indian economy simplifying the tax regime under GST - "One nation one tax".

Q.5 (c) Elaborate on main features of Industrial Policy Resolution 1956. How did it improve on IPR 1948?

Industrial Policy Resolution (1956) were suited to the needs of "Mahalanobis strategy".

Main features of IPR (1956)

(i) ~~&~~ classification of Industries into 3 schedules

Ⓐ Schedule-A – 17 industries under the public sector were the existing private sector were allowed to operate.

Ⓑ Schedule-B – Gradual nationalisation of the industries and bringing it under the public sector. About 13 industries were under Schedule B.

Ⓒ Schedule-C – The Rest were ~~under~~ thrown out to the Private sector.

(ii) Agricultural sector would be under the private sector and the "collectivisation of Agriculture" was not envisaged.

$\boxed{\text{IPR 1948}}$

- Industries like Arms and Ammunition, Atomic energy were under state monopoly.
- Licensing system for those under the Operation of Restricted industries
- Agriculture was completely with the Private sector.

$\boxed{\text{Improvement of IPR(1956) over IPR(1948)}}$

(i) Gradually increased the ambit of Public sector to the rest of the economy.

(ii) Several investments in key industries like "Iron and steel", "fertilisers" were envisaged.

(iii) Unlike Soviet Socialist model, Collectivisation of agriculture is ruled out.

Therefore, the IPR (1956) acted as an significant boost in the growth of Industries and capital goods industries which grew at 6.3% p.a and 16% p.a during (1956-1966).

Q.5 (d) What were the reasons that India continuously faced BOP crisis before 1991?

Balance of Payments records systematic transactions ~~with~~ of a domestic country with the rest of the world.

Reasons that India continuously faced BoP crisis before 1991:

(i) Lack of growth of Export oriented Industries-

Under "Mahalanobis Plan", India focused on "Import substitution strategy" leading to lack of presence of Export oriented industries.

(ii) Higher Imports of Petroleum, Oil and Diesel Products leading to significant drain of valuable forex reserves.

(iii) Excessive dependence of Foreign Aid -

The foreign aid were highly conditional and fluctuating leading to BoP crisis.

Eg:- During war with China and Pakistan, the foreign aid was suspended.

(iv) Highly irregular remittances flow

Eg:- During Oil Price shock (1973), the

flow of remittances stopped abruptly.

(v) Restrictive forex laws like Foreign Exchange Regulation Act (1979) discouraged the use of External Commercial banks to expand domestic currency.

(vi) Higher import reliance on food

Eg:- About 50% of total export earnings used for food imports during independence.

(vii) Expansionary fiscal regime

During 1980s, the Expansionary fiscal regime led to higher demand for imports leading to huge drain of forex.

Therefore, After 1991 the Govt. of India promoted LPG reforms to rectify the BoP crisis and increasingly integrate the domestic economy with the world economy.

Q.5 (e) Explain the policies to promote agriculture before Green Revolution in India.

The agriculture occupied a dominant share of GDP before independence. It employed 2/3rd of total population, 54% of them were landless, 93% dependent on money lenders for growing food crops and only 10% used quality seeds for cultivation.

Policies before ~~Promotion~~ Green Revolution:

(i) Land reforms (1951)

- Conferment of ownership rights to the tenant.
- Abolition of landed intermediaries
- Consolidation of land
- Redistribution of surplus land to the tillers.
- Fixing up of ceiling for land.

▷ eg:- Under "Operation Barga" in West Bengal. about 1.3 million hectares of land were re-distributed.

(ii) Promotion of capital industries linked with Agriculture

Δ eg:- V.K.R.V Rao points that about 22% of total resources in the 2nd plan were allocated for the canal development project.

(iii) Construction of dams

Δ eg:- Damodar Valley corporation was envisaged.

(iv) Intensive Agricultural Development scheme

- Promotion of irrigation projects
- Minimum hazard programme
- Assured supply of power and irrigation facilities.

The above policies along with green revolution spurred the agricultural growth from about 0.8% in 1950s to about 4% in the 1966-1972.

Q.6 (a) Explain the trend of GDP growth in India before 1991. 20

The GDP grew by meagre 0.1% during the pre-Independence period (1900-1947) according to the Subramanian estimates to about 4% during the nehruvian era and about 6.5% - 7% during the 1980s and 1990s.

Trend of GDP growth before 1991

5 year plan	Target	Achieved
First	2.1%	4.6%
Second	4.5%	4.1%
Third	5.6%	3.3%
Fourth	5.7%	3.0%
Fifth	4.4%	5.0%
Sixth	5.0%	5.8%
Seventh	5.~~5~~2%	5.3%
Eighth	5.6%	6.5%
Ninth	6.5%	5.4%

Phase I (Modest GDP growth): (1950-1966)

(i) During this period, the GDP grew by about 4.1% to 4.5%.

(ii) The phase focused on "Heavy goods industry strategy" and "Import Substitution strategy".

(iii) Investments were made on heavy goods industries like ~~Eo~~ Military complexes, Iron and steel and Fertilizer chemicals etc.

(iv) The manufacturing sector ~~gro~~ grew at 8.5%. Capital goods industry grew at 16% whereas Industry grew at 6% p.a

Phase II (Sluggish GDP growth) (1966-1980):

(i) The GDP growth slowed down to more than 4% to ~~less~~ about 2.9% to 3.5%.

(ii) Reasons

(a) Structural retrogression and Industrial Deceleration:

➤ eg:- Restrictive policies like MRTP Act, Contract Labour Regulation Act etc were passed leading to stifling of Industry growth.

(b) Reservations for about 800 products were made to the small Scale and cottage Industries.

(c) External reasons:

- Wars with Pakistan and China.
- Oil price shocks.
- Droughts during 1972-1973.
- Drying up of External aid.

(d) Excessive focus on agriculture led to growth of agriculture from less than 2% to 4%.

(iii) During this phase, The Industries growth slowed from 6% to 4% p.a, the capital goods industries fell from 16% p.a to 6% p.a and manufacturing growth slowed down to 6% p.a

Phase III [Gradual Recovery] - [1980-1991]:

(i) Subramanium points out attitudinal changes of the government leading to "pro-business policies".

(ii) The restrictive laws were relaxed:-

(a) MRTP Act - Ceiling increased from ₹20 crore to ₹100 crores.

(b) The restriction on use of capacity

utilisation were relaxed.

(c) The industries were allowed to be set up in the Municipal areas.

(d) The reservation for Small scale Industries were reduced.

(e) The companies were allowed to use External commercial borrowings to finance their growth.

(iii) This led to increase in the GDP growth from less than 4% in the 1970s to more than 6% in the 1980s to early 1990s.

Therefore, the above growth trend led to change in the composition of GDP which slowly changed from agriculture to manufacturing to services. However, Unlike China, the growth rate of GDP of India's very humble leading to ~~calle~~ coining of "Hindu rate of growth" by economist K N Raj.

Q.6 (b) What were the development on the front of planning in India before independence? 15

Before Independence, The formulation of planning were undertaken by eminent economists and the Nationalists.

~~(i) The~~

$\boxed{\text{Development on the front of planning before Independence}}$

(i) $\boxed{\text{The Bombay Plan}}$ (1940s)

(a) The Plan is formulated by eminent industrialists like J.R.D. Tata, Lala Shri Ram etc.

(b) They focused on economic growth by increasing the production under manufacturing sector.

(c) They laid emphasis on the skilling, elementary education and technology diffusion in the agricultural sector.

(d) They primarily argued for increasing focus on development of infrastructure and capital goods industry development.

(ii) The National Planning Commission

(a) Focused on agricultural Development

(b) Removal of Poverty due to the presence of landed intermediaries in agricultural sector.

(c) Focus on Construction of Industrial complexes.

(iii) Gandhian model

(a) Focused on self-sufficiency of Villages.

(b) Growth of indigeneous technologies and techniques to achieve "Self-reliance" or "Swaraj"!

(iv) Socialist model

- Strict control of means of production by the Government.
- Collectivisation of Agriculture
- Redistribution of wealth from the rich to the poor.

Hence, the planning had various shades before Independence.

Q.6 (c) Explain VKRV Rao's contribution to measurement of GDP. 15

VKRV Rao is one of the eminent Indian Economist who is known for his contributions in National Income estimation, Keynesian multiplier, decentralised planning and taxation in the Indian economy.

VKRV Rao's contribution to measurement of GDP:

(i) The National Income of British India (1931-'32) by VKRV Rao led to valuable ~~est~~ information about estimation of National Income or GDP measurement in India.

(ii) He used "Marshall - Pigou Analysis" to calculate the monetary contribution of "service sector" in GDP.

(iii) He used the following methods to calculate for GDP estimation from Agriculture and service and construction sector.

(a) Inventory method or Value added method → Used for "Agriculture":

(b) Income method – Used for the Services and Construction sector.

(iv) Since most of the large enterprises were "unmonetized" he used sensible guess works to include those in the GDP measurement.

(v) He recommended for the "Statutory recognition" of Hindu Undivided Family (HUF) for GDP measurement.

(vi) He sub-divided Agriculture into several sectors like

(a) Livestock
(b) Fisheries
(c) Horticulture etc

for the calculation of GDP.

(vii) He played crucial role in fixing of base year ~~or~~ for GDP measurement.

Therefore, V K R V Rao's estimation works were very crucial in estimation of GDP under British rule which was also used by later nationalists and eminent economists.

Q.7 (a) What is Putty Capital and Clay Capital? What was the model given by C. N. Vakil using them? 15

Q.7 (b) Do you agree that policy of import substitution empowered Indian industry quantitatively but discouraged the quality of production? 15

Q.7 (c) Analyse the savings and investment trend in India till 1991. 20

Candidates must not write on this margin

Q.8 (a) Critically analyse the steps taken by government to promote food security in India before 1991. 15

Food Security refers to the focus of availability, affordability and accessibility of food to the larger population. India from becoming "net importer" of foodgrains in 1950s using PL-480 and others became self-sufficient in the food grain production by 1991.

Steps taken by Government to promote food security in India (before 1991):-

(i) Ad-hocist measures. Followed "Port to mouth policy" using foodgrains imported from USA and other Western nations to ensure food security in the local population.

(ii) Intensive Agricultural Development Programme (1960):

(a) Irrigation canals were constructed in the region states of Punjab, Haryana and Western UP.

(b) Protection against minimum hazard

under the scheme.

(iic) Improving bank credit to the farmers in the region to mitigate the impact of higher interest rate of money lenders.

(iii) Green Revolution Strategy

(a) HYV (High Yielding Variety) seeds programme to about 18,000 tonnes of seeds from Mexico to improve the yield per hectare.

(b) Minimum Support Prices (MSP) provided to the farmers for cultivation of food grains to ensure against any unpredictable price changes.

Results

(i) The total food production increased from 1960-1970 by 35%.

(ii) The overall food production increased from 76 MT in 1966 to 105 MT in 1971.

(iii) The production of wheat increased from 24 MT in 1966 to 48 MT in 1980.

(iv) The production of Rice Increased from about 37 MT in 1966 to 64 MT in 1980.

However, the above measures led by Government led to following negative impacts:

(i) Bhalla and Gulati pointed decline in public investment in agriculture.

(ii) Swaminathan pointed out "Cereal-Centric" production of food grains leading to reduction of growing other crops like Pulses.

(iii) Shanta Kumar Committee pointed out decline in per capita Pulses production from 64mg to 41mg.

(iv) Decline in groundwater storage in areas of Punjab, Haryana and Western UP → leading to Environmental degradation.

(v) Higher subsidy expenditures for the govt.

Therefore, The Govt. of India now focuses on "Evergreen Revolution" by improving pulses production and millets production under "Shree Anna Initiative" to take care of both nutritional security and food security.

Q.8 (b) Examine the changes in sectoral composition of GDP and employment in India before 1991. 15

During Independence, The Indian economy had 53% dependence on Agriculture, 17% dependence on Industry and 30% dependence on services sector.

Sectoral composition of GDP before 1991

Year	Agriculture (%)	Industries (%)	Services (%)
1950-51	53	17	30
1960-61	44	22	34
1970-71	42	24	34
1980-81	38	26	39
1990-91	30	28	42

Phase I (1950-66) [Modest growth] :-

(i) In this phase, the economy grew from less than 1% in the pre-independence period to about 4%.

(ii) The Mahalanobis model focused on heavy goods industries with positive externalities like chemicals, Iron and steel etc.

(iii) It led to increase in ~~Manufacturing~~ Industries sector rise from 17% to 22% and fall in agricultural sector from 53% to 44%.

Phase II [1966-1980] - Structural retrogression.

(i) The economic growth rate during this phase declined to about 3% from more than 4%.

(ii) The capital goods industries declined much steeper than other industries from 16% per annum to 6% per annum in 1980s.

(iii) ~~It~~ Despite focusing on Green Revolution, the Agricultural share fell from 44% in 1960s to 35% in 1980. The industry and services sector grew by 22% in 1960s to 26% in 1980s. and services grew from 34% (1960s) to 39% (1980s).

(iv) Many restrictive laws led to Jobless growth in the period.

Phase III (1980-1991) - Gradual Recovery

(i) Many restrictive laws were liberalized and agriculture and Industries sector logged back to its previous growth rates.

(iii) The industries grew by meagre 2% share in GDP and Services grew from 39% to 42%.

Sectoral Composition of Employment before 1991

Planning Commission data

Year	Agriculture	~~Manuf~~ Industries	Services
1950-51 to 1960-61	Growth of employment fell.	Industries the ~~no~~ number of total employment increased by 4 million	The employment share remained stagnant.
1960-61 to 1970-71	Little growth in the employment share	Stagnation in the employment share.	Negligible rise in employment.

$\boxed{\text{1970-71 to 1980-81}}$ — The overall employment elasticity was 0.56.

Later on the Indian economy entered into the phase of jobless growth were adequate employment could not be created by rise in growth rate.

Q.8 (c) Critically examine the reasons for retrogression between 1966–1980. 20

During 1966-1980, The manufacturing and industries sector fell from 8.5% to 6% p.a and 6.3% per annum to 4.1% p.a. Similarly, the capital goods industry fell from more than 16% per annum during 1950s to about 6% per annum between 1966-1980.

Reasons for structural Retrogression between 1966-1980:

(i) Internal Reasons

① Restrictive laws by the Government

(a) Monopoly Restrictive Trade Practices Act – Mandated compulsory licensing for above ₹20 crores.

(b) Contract Labour (Regulation) Act – Industries where the labour are main factor used in the production should not use contract labour.

(c) Urban Land leasing Act – Restricted the owning of Urban land plots by the Company.

Candidates must not write on this margin

(d) The industries were not allowed to open their factories in the municipal areas.

(e) Restriction on use of economies of scale by the Government by putting limits on capacity utilisation.

② Excessive focus on Agriculture

(i) The capital expenditure for Agriculture sector increased from 2% to 4% during 1966-1980 leading to crowding in of private capital expenditure to about 12% in the agriculture sector.

(ii) Many capital intensive expenditures like "~~Int~~ Intensive Agriculture Development Programme" (1960) were made.

(iii) HYV Programme given special focus leading to spending of scarce budgetary resources on Agri R&D.

③ Abandoning of Heavy goods strategy.

(i) Due to droughts and need for higher

food grains to satisfy the food demand the "heavy goods ~~ma~~ Mahalanobis strategy" were abandoned.

(ii) In this phase, capital goods industry growth fell to ~~16%~~ 6% per annum from 16% per annum of 1950s.

④ Excessive focus on Small Scale Industries

(i) Over 800 items were reserved for small scale and Cottage Industries.

(ii) External Reasons

① War with Pakistan in 1971 and with China in 1962.

② The above wars led to the suspension of crucial foreign aid used in the manufacturing sector.

③ The oil price shock (1973) raised the import bill of the country leading to significant BoP problems.

(4) The prices of crucial inputs like fertilisers and chemicals used in the industries leading to slow down in both Industries and Agricultural sector.

(5) Droughts faced in 1972-1973 shifted the focus from Industries sector.

Therefore, the Government of India tried to gradually reopen the economy in 1980s to stimulate the economic growth and increase the rate of growth in manufacturing and industries sector.

SPACE FOR ROUGH WORK