

Answers to REC/Set 1

1. (b) Aggregate Demand = Aggregate Supply
2. (c) Redistribution of income
3. (b) Capital Account
4. (b) Statement 1 is false and Statement 2 is true
5. (a) Deficit, 31.17
6. (c) Both statements 1 and 2 are true
7. (a) GDP = GNP
8. (d) ₹ 35,000 crore

Working Note:

$$\text{Primary deficit} = \text{Fiscal deficit} - \text{Interest payments}$$

$$25,000 = \text{Fiscal deficit} - 10,000$$

$$\text{Fiscal deficit} = 25,000 + 10,000$$

$$= ₹ 35,000 \text{ crore}$$

9. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
10. (b) AD is greater than AS
11. Domestic Income (NDP at FC) = (i) + (v) + (ii) + (iii) + (v) - (viii) - (vi)
$$= 600 + 200 + 200 + 40 + (-40) - 40 - 120$$
$$= ₹ 840 \text{ crore}$$

12. (A) The three types of budgetary deficits are:

- (a) **Revenue deficit:** It is defined as the excess of total revenue expenditure over the total revenue receipts. In other words, the shortfall of revenue receipts as compared to that of the revenue expenditure is known as revenue deficit.
- (b) **Fiscal deficit:** It is defined as the excess of total expenditure over the total receipts, excluding the borrowings in a year. In other words, this can be defined as the amount that the government needs to borrow in order to meet all expenses.
- (c) **Primary deficit:** It is said to be the fiscal deficit of the current year subtracted by the interest payments that are pending on previous borrowings. In other words, primary deficit is the requirement of borrowings without the interest payment.

Or

- (B) The highlighted government budget objective is the 'allocation function'. The government may influence the allocation of resources by imposing higher taxes on the production of socially undesirable products like cigarettes, tobacco, liquor etc. Consequently, the resources will be withdrawn from the production of these undesirable products and reallocated to the production of goods which are beneficial for the society.
13. Yes, Anjali is correct as an increase in crude oil prices leads to higher import payments, which worsens the trade balance (exports minus imports). As the demand for foreign exchange rises to pay for costlier imports, the rupee depreciates. This situation leads to a BoP disequilibrium, particularly in the current account, due to an adverse trade balance. So, Anjali's identification is conceptually correct.

14. (A) Mr. Rohan is experiencing involuntary unemployment because he is willing and able to work at the current wage rate but cannot find a job due to reduced demand in the manufacturing sector. The rest of the economy may still be closer to full employment if the majority of workers are employed.

Reason: Full employment means all willing and able workers have the jobs; whereas involuntary unemployment occurs when the economy fails to generate enough jobs for willing workers.

Or

- (B) Margin requirement refers to the difference between the amount of the loan and the value of the security offered by the borrower against the loan. To correct the situation of the deflationary gap, the Central Bank may reduce the margin requirement. It may lead to an increase in the amount of loan available on the security offered. This will increase the availability of credit and consequently, the Aggregate Demand in the economy will increase. Thus, by altering the margin requirements, the Central Bank can alter the amount of loans made against securities by the banks.
15. The two monetary policy measures which can be used by the Reserve Bank of India to control inflation are:
- (a) **Sale of Government Securities (Open Market Operations):** The Central Bank can sell government securities in the open market. This absorbs excess liquidity from the banking system, reduces the money supply, and helps curb inflation.
- (b) **Increase in Repo Rate:** The Central Bank can increase the repo rate (the rate at which commercial banks borrow short-term funds from the Central Bank). A higher repo rate makes borrowing costlier for commercial banks, which in turn raises lending rates for consumers and businesses, thereby reducing credit availability and controlling inflationary pressure.

(or any other relevant point)

16. (A) (i)

Year → Nation ↓	2022–23 (Base Year) (₹)	2023–24 (₹)	Growth Rate of GDP = $\frac{\text{Change in GDP}}{\text{Base Year GDP}} \times 100$
C	4,000 crores	8,000 crores	$\frac{4,000}{4,000} \times 100 = 100\%$
D	2,40,000 crores	4,00,000 crores	$\frac{1,60,000}{2,40,000} \times 100 = 66.67\%$

On the basis of the above working, we infer that Nation C has registered a GDP growth rate of 100%, thereby has performed better than Nation D on the GDP growth rate front. This is so because Nation D has registered GDP growth rate of about 67%.

- (ii) No, the payment for which no service is rendered in return should not be included in the estimation of national income, because such payments are called “transfer payments”. They are unilateral transfers and unproductive payments, e.g., gifts, donation, old age pension etc.

Or

- (B) (i) We do not agree with the given statement because while estimating Gross Domestic Product (GDP) by expenditure method, the entire focus is on expenditure on domestic goods by the residents and non-residents of the country.
- (ii) Expenditure incurred by the government on popularising *yoga* among the masses will be a part of Government final consumption expenditure which is an important component of Gross Domestic Product. Hence, the GDP will rise.

Now analysing the impact of *Yoga*, we find that *Yoga* will definitely have a positive impact on the welfare of the people, because it will improve the health and lifestyle of the people. So their productive efficiency will also increase. As a result, the level of productivity will go up, alongwith more employment will be generated. Thus, GDP will get a boost.

17. (a) Digital payments have greatly expanded financial inclusion by providing banking services to previously underserved populations, including those in rural and remote areas. This broader access has led to an increase in demand deposits and savings accounts, thus impacting M_1 and M_2 . The increase in digital payments has decreased the need for physical currency, leading to decrease in M_0 .
- (b) The introduction of the plastic money (in the form of the debit/credit card) has definitely enhanced the convenience of both the depositor and the banks. This is keeping in view, the doing away with the burden of carrying money in bulky form (*i.e.*, currency notes). It not only adds weight on the person but also the risk involved in carrying huge amount of cash on person. So, the portability factor along with the convenience involved, has led to popularity of plastic money over the bank money. This earlier practise of the depositor/holder of cheque being physically present in the transaction with the bank has been done away with. The handy form of latest money—plastic money, is indeed a convenient form of money used for transactions.
18. (d) G-20
19. (a) Animal husbandry
20. (d) Only (iii)
21. (d) Assertion (A) is false but Reason (R) is true
22. (a) (i) and (ii)
23. (c) Food, Cash
24. (c) C – (iii)
25. (d) VKRV Rao
26. (a) Uttarakhand
27. (c) Both statements 1 and 2 are true
28. (A) The import substituting industrialisation was the objective of second five year plan (1956-61) till the seventh five year plan (till 1990). The Mahalanobis strategy of development was based on import substitution. The rationale of the import substitution strategy is based on infant industry argument. It helped to save foreign exchange by drastically reducing import of goods. The foreign exchange saved was to be used for the developmental imports such as capital goods, sophisticated technology, etc. It created a protected market and large demand for domestically produced goods.

Or

- (B) Though many public sector undertakings are incurring huge losses, they are still very useful in the areas of strategic concerns and hazardous chemicals. Public sector undertaking are required for:
- Creating a strong industrial base
 - Development of infrastructure
 - Development of backward areas

- Mobilising savings and earning foreign exchange
- Preventing concentration of economic power
- Promoting equality of income and wealth distribution
- Providing employment
- Promoting import substitution

(any three)

29. It is true that the structure of growth is more complementary with the GDP growth in China than India. Historically, the structure of growth has shown a shift from the predominance of agriculture to the predominance of industry in GDP growth of the country. This process of transformation has seen a very effective absorption of the surplus labour force (in agricultural sector) by the industrial sector of the economy. China's growth story reveals a similar process of transformation. On the contrary, Indian growth story reveals that the predominance of agricultural sector (in GDP growth) has given way to the predominance of tertiary sector, rather than the industrial sector. While the percentage share of agriculture in GDP has tended to fall, the percentage share of tertiary sector has risen more significantly than the percentage share of the industrial sector. Thus, the structure of growth has been less complementary with the GDP growth in India (compared with China).

30. (A) Investment in education system in India has been a woeful failure. The fact of the matter is that, in 1952 we were spending a meager 0.6% of our GDP on education that rose to only about 4% in 2014. This has fallen well short of 6% target as proposed by the Education Commission, 1964. Moreover, throughout this period the increase in education expenditure has not been uniform and there has been irregular rise and fall. This shows the apathy of the government towards investment in the education system. One can imagine, if the recommended 6% p.a. of the GDP would have been spent properly the present education system would have reached unforeseen heights.

Or

(B) Economic growth implies growth in the GDP, *i.e.*, growth in the aggregate output produced during an accounting period within the domestic territory of an economy. During the recent past, India has witnessed jobless economic growth that raised the aggregate output level without the proportionate rise in the employment opportunities and, consequently, unemployment continued to exist. The reason is that the rise in GDP is caused by employing modern and improved technology that substituted labour for machines. This failed to generate new employment opportunities in the industrial and the tertiary sectors. As a result, disguised unemployment in the agricultural sector continued along with low levels of productivity and massive poverty. In addition to this MNCs aimed at achieving higher output levels by employing better technology rather than generating greater employment opportunities. Thus, employment generated in the country does not commensurate with the growth of GDP in India.

31. (a) The type of farming depicted in Panel A is traditional/subsistence farming (manual labour, simple tools); whereas in Panel B, modern/commercial farming (use of machines, improved techniques) is being highlighted.

(b) **Advantage of Panel B over Panel A:** Higher productivity and efficiency due to use of modern technology and machines *(or any other relevant point)*

Disadvantage of Panel B over Panel A: High cost of machinery and technology, which may not be affordable for small farmers *(or any other relevant point)*

32. (a) In the late 1970s, owing to the population explosion and the subsequent socio-economic concerns, China adopted the One Child Norm. This policy led to a sharp decline in its population growth rate. In addition to this, the sex ratio declined. Furthermore, the implementation of the one-child norm led to increase in the population of elderly people in proportion to young people.
- (b) The setting up of Special Economic Zones (SEZs) in China led to a substantial increase in foreign direct investment in the economy. With the massive inflow of foreign capital and technology in China, the production capacity increased thereby contributing to the rapid economic growth of China.
33. (A) (i) Subsidy is an economic benefit, direct or indirect, granted by a government to domestic producers of goods or services, often to strengthen their competitive position against foreign companies. It helps farmers to buy HYV seeds, fertilisers and other inputs. The burden of granting subsidies falls on the government. The government has to bear the burden of financing subsidies. There is scope for improving the resource use efficiency by reducing subsidies and aiming them better to small farmers and regions lagging behind.
- (ii) The traditional handicrafts industries in India enjoyed worldwide reputation, but the British misrule in India led to the decline of Indian handicraft industry. The Britishers adopted the following policies to systematically destroy the Indian handicraft industry:
- **Discriminatory tariff policy:** The Britishers followed a discriminatory tariff policy by allowing tariff free exports of raw material from India (to provide for the requirements of their industries in Britain) and tariff free import of British industrial products (to promote British goods in India), but placed a heavy duty on the export of handicraft products. So, Indian handicraft products started losing their foreign as well as domestic markets.
 - **Competition with machine-made products:** Machine-made products from Britain were cheap and better in quality than the handicraft products. This competition forced many handicraftsmen to shut down their business.
 - **Introduction of railways in India:** The Britishers introduced railways in India to expand the market of its low priced industrial products. Consequently, the demand of high-priced handicraft products started to fall, thus leading to the downfall of handicraft industry.
 - **Disappearance of princely courts:** Prior to the British rule, *Rajas, Nawabs* and *Shehenshahs* ruled the different parts of our country and they were great patrons of the handicrafts. But, as the British Raj spread its tentacles, these princely courts declined and so did their patronage. This ultimately led to the decline of the handicrafts.
 - **New patterns of demand:** As the British rule progressed in India, a new class emerged, which was keen to follow the British lifestyle. This changed the pattern of demand in favour of the British goods. (any four)

Or

- (B) (i) It is absolutely a correct statement on account of the following factors:
- It was the wide-spread poverty that prevailed in India during the British rule in India which contributed to the worsening profile of India's population of the time.
 - Life expectancy was very low (at that time 32 years), on account of many water and air-borne diseases largely prevalent at that time in India.

- Overall mortality rate was very high, especially the infant mortality rate was alarming. This was on account of the fact that the public health facilities were very inadequate.
(or any other relevant point)
 - (ii) The statement implies that the financial sector was to be given greater autonomy, allowing banks and institutions to take independent decisions without seeking RBI approval in every matter. As part of these reforms, private sector banks, including foreign banks, were allowed to operate, and the foreign investment limit in banks was increased to around 74%. Additionally, eligible banks were given the freedom to open new branches without RBI's prior approval.
- 34.** (a) Sustainable development is the development that meets the need of the present generation without compromising the ability of the future generations to meet their own needs.
- (b) An allocation of ₹ 35,000 crore was made for priority capital investment towards achieving net zero by 2070 and clean energy transition.
- (c) The Indian Government has accelerated the pace of Green Growth as India is:
- Facing the grave reality of depleting natural resources, limited supply of water, minerals, and fossil fuels. This has created a number of environmental issues in the recent past in India.
 - To counter the climate threat, India has committed to achieve net zero target by the year 2070. This will facilitate much needed decarbonisation of Indian industries, reduce dependency on fossil fuel imports and to become a market leader in the sunrise industry.