# INDIAN ECONOMY

## Fundamental and Added

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## What we are going to cover during our journey in IMPULSE:

1. Reserve Bank of India (RBI)
2. Different Monetary Policy Tools:-
   A. *Repo Rate*
   B. *RRR*
   C. *CRR*
   D. *SLR*
   E. *LAF*
   F. *MSF*
   G. *Bank Rate*
3. GDP, NDP, GNP, NNP, GDPD
4. Monetary Policy Committee (MPC)
5. Market Behaviour and Conditions:-
   A. *Price Rise*
   B. *Inflation*
   C. *Deflation*
   D. *Hyperinflation*
   E. *Disinflation*
   F. *Reflation*
   G. *Skewflation*
6. Taxation Basics:-
   A. *Fiscal Deficit*
   B. *Primary Deficit*
   C. *Revenue Deficit*
   D. *Current Account Deficit*
   E. *Direct Tax, Indirect Tax*
7. Balance of Payments (BoP)
8. FOREX Reserve
9. IMF, World Bank
10. Grants, Loans, Aids
11. Appreciation and Depreciation of Rupee
12. FDI, FI, ECB
13. Phillips Curve etc
14. Disinvestment
15. Budget
16. Slowdown, Recession, Meltdown
17. Administrative Expenditure
18. ADR, GDR
19. Economic Survey
20. Critical discussion on India and World Economy
21. Central Planning
22. **IMPULSE EXCLUSIVE**

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## List of Direct Taxes

**Direct Tax charged on**

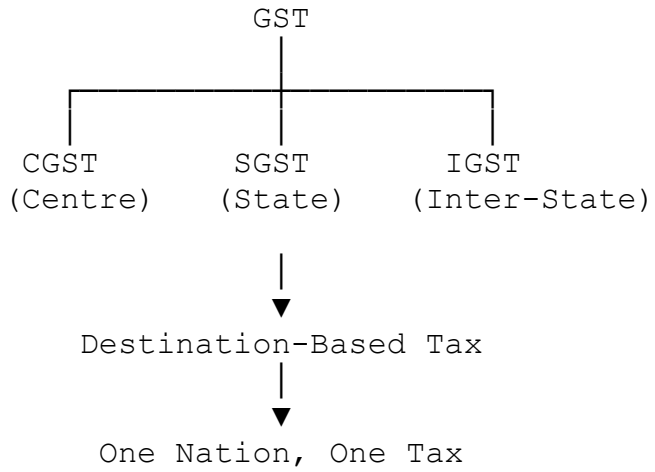
| Income | Properties/ assets / Capital or Transactions |
|---|---|
| 1 P.I.T (Personal Income Tax) | 1 Wealth Tax |
| 2 Corporate Tax | 2 Securities Transaction Tax (STT) |
| 3 MAT (Minimum Alternate Tax) | 3 Banking Cash Transaction Tax (BCTT) |
| 4 Interest Tax (imposed on banks) | 4 Estate duty |
| 5 Fringe receipt Tax | 5 Gift duty /Tax |
| 6 Hotel receipt Tax | 6 Commodity Transaction Tax (CTT) |
| 7 Expenditure Tax | |

## List of Indirect Taxes

1 V A T
2 Cen V A T (Central V A T)
3 Custom duty
4 Service Tax
5 Sales Tax
6 Entertainment Tax RN
7 Goods & Services Tax (GST)
8 Excise duty.

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## UPSC Revision Diagram




## Important Prelims Facts

- Article **279A** → GST Council
- 101st Constitutional Amendment Act, 2016
- Implemented on **1 July 2017**
- GST is an **indirect tax**
- GST is a **destination-based consumption tax**
- Basic Customs Duty (BCD) is **outside GST**.

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**MPC** [ not constitutional ]

(Monetary Policy Committee)

RBI ↓ or ↑
or rates

RR
RRR
CRR
SLR
} main tools to adjust the liquidity ..... contain inflation → *also called* ***interest rates***

**MoU**
(Memorandum of Understanding)
one MoU b/w govt. of India and RBI
@ Feb, 2015
**1st meeting → 2016**

***Obj of MPC*** :- → Targeting inflation

*along with that* → decide interest rates

→ 4 % threshold of inflation according the MPC
↳ When surpassing 4% they will take decision

**MPC** : 6 member body

**3 from RBI**
GUV
(RBI gov.)
One Dy Guv

Officer from RBI

*not arbitrary choice*

**3 from govt. side**
search and selection committee
formed under @ Cabinet Secy.

**Chairman** → GUV → no veto power → having casting vote power.

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**GDP** — value of all final goods & services produced within the boundary of a nation during one year for India – 1st Apr to 31st Mar

**G** - *Gross* - total

**D** - *Domestic* –all economic activities done inside the nation

**P** *Product* - (goods & Service) together

Final stage of a product after which there is no known chance of value addition in.

**NDP** = GDP – Depreciation

Net form of GDP

(housing, vehicle, machinery detoriation)

within a country

***GNP*** = GDP + income from abroad.

( Gross National Product )

Trade Balance

Interest of External loans

Private Remittances ( *a sum of money sent in payment or as a gift* )

***NNP*** = GNP — Depreciation

national income ( NI ) of the economy

( Net National Product )

= (GDP + income from abroad) -- Depreciation

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→ Ministry of Statistics & Programme Implementation (MoSPI)

**GDPD** — **Gross Domestic Product Deflator**

→ Available in India only @ annually

Other systems prevailing in the world & also in India.

→ Statistically derived from National Income Data released by CSO which is under MoSPI
→ also compiles CPI & IIP

→ It is obtained from the National accounts as a ratio of GDP @ current prices to GDP @ Constant prices, i.e.,

$$\frac{\text{GDP @ Current Prices}}{\text{GDP @ Constant Prices}}$$

→ This is called 'Nominal GDP'

called as **Real GDP**

→Real GDP taxes into consideration adjustments for changes in inflation

**N.B:-**

Real GDP → lower than → Nominal GDP → inflation

Real GDP → higher than → Nominal GDP → deflation

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## DISINVESTMENT

70%

30%

after disinvestment by govt.

**Privatisation**

100% private ownership

*For eg;-*

51% public

49% private

joint sector

## Disinvestment

***Krishnamurthy Panel***

headed by Dr. C Rangarajan

1991- FM Dr. Manmohan Singh (gave the concept)

Disinvestment Ministry formed – **1998**

minister – Pramod Mahajan (NDA govt)

The ministry became popular because of Mr. Arun Shourie

Public Sector 100%

Private Sector 0% Govt.

Joint Sector Govt. 51% Private 49%

**so, disinvestment is possible only in joint sector.**

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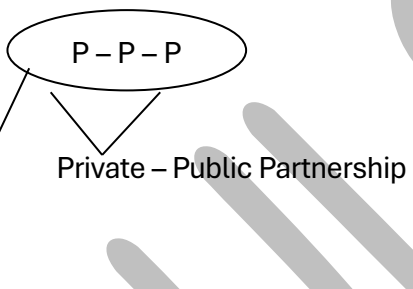
**Q) Critically examine the disinvestment policy of govt. since its inception .**

***Ans***)

**(i)** This kind of disinvestment is currently pursued by the govt.. In 2007 , PM. Dr Manmohan Singh went for a change. Now , the PSU has to disinvest all the shares above 74% instead of 51 %( very less PSU is eligible for disinvestment ).

**(ii)** That the PSU which is selected for disinvestment will be freed from the administrative control from the ministry concerned and it will be given to be a new body before going to a disinvestment.

**(iii)** The disinvestment process will be separated from Union Budget exercise (Now there is no need to take permission from the Parliament).




This concept is recently introduced in India. Under this system private sector will work with govt. sector for a specific purpose. And the purpose will be related to infrastructure & services sector. Many economist call it as *'indicative planning'* in the socialist country.

**Features**

(1) Recently, it was advised by the World Bank to GoI that India should invest a minimum 10% of GDP in the infrastructure. Since infrastructure is responsible for the capital formation, this suggestion of WB was appreciable.
For the 10% of GDP is such a big amount , our govt. cannot afford. So, we have to take the help of a private hand. That way P--P – P is a good method for revitalising India.

(2) When the private party will be invited to participate with the GoI, it would be a foreign party also. (World class infrastructure possible with the foreign parties).

(3) In the P–P–P , private parties are mainly interested for urban infrastructure but not for rural areas. Bcoz of that , the purpose of the P – P – P is yet to be achieved in our country.

(4) WB is financing the P – P –P projects through out the world. The reason is that through P–P--P not only the economy is improving but also the employment generation programmes , infrastructure rebuilt programmes are improving.

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In India , we have different ***models of P – P – P*** . For eg :-

**B O T**
(Build – Operate – Transfer)

**B O O T**
(Build – Own – Operate – Transfer)

introduced – 1947

created -1951
ended -1973

**F E R A** → Foreign Exchange Regulation Act
*(Previously)*

**F E M A** → Foreign Exchange Management Act
(Now)

*will study later in depth*

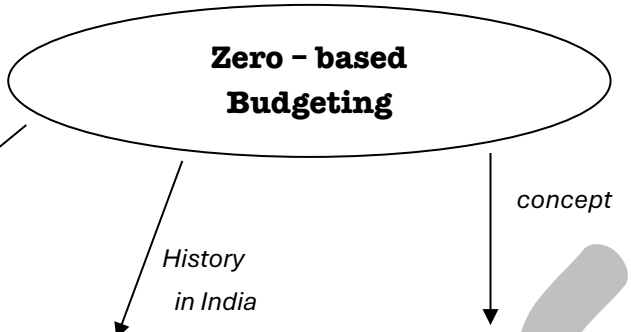
Operation
since 1st June, 2000

Objective remained the same

**unregulated money**

To check the '***hawala'*** **money** that comes from foreign countries. (Pushing money into the economy for the needs of Naxals, Maoists, etc).

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*concept*

*History in India*

J & K
(only is in practice)

1987 – Rajib Gandhi (intro)
(1999 – 2000) – Jaswant Sinha
(1st implemented)

(i) Relevancy check ..... At the very initial stage (project)

(ii) Adopt economic method ..... trying to save the expenditure.

(iii) Selected projects should be given priority & allocate budget according to priority.

**Outcome Budget** (also called *Traditional Budget*)

*prevailing in India*

**(i)** Finance Minister lays only the outlay (total amount) . And, the question arises or asked only on outlay.

**(ii)** Introduced in **2005**

Govt. focuses on the real outcome. e.g. :- Literacy rate, Employment Opprt's etc provided by the project.

- Sole responsibility of Govt.

📖 **N.B:-**

**Debt Swap :** To change loan from cheaper to higher .

That is, to take higher loans to repay the cheaper rate loans.

**Interest Swap :** Repaymenting the loan @ market rate (so, a risk is being taken as market rate is volatile)

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## American Depository Receipts (ADR)

-This is the recent method adopted by many large & well respected companies from India to raise funds from American Markets .

-It is an indirect method to raise funds from American people ……In this system, the Indian companies deposits certain amount of its Indian shares with designated American banks.

The banks , in turn , issues receipts that are equivalent in values (and also based on the intrinsic value the Indian companies shares would fetch in the American Market) to that Indian Company. Theses receipts essentially would be is number of receipts.

**i.** Than this Indian companies can trade in this ADR's with the American public.

**ii.** This ADR's can be purchased & traded freely without any encumbrances in the American Stocks & Shares market.

This way the Indian company is get abled to enter into the stocks & share market , and raise funds from American public.

## Global Depository Receipts (GDR)

It is not a different financial instrument, as it may sound from that of ADR.

In fact, if the Indian Company which has issued ADRs in the American market , wishes to further extend it to other developed & advanced countries such as in Europe , then they can sell there ADRs to the public of Europe & the same would be named as GDR.

***Name of some companies that have issued ADRs & GDRs as follows :***

- Dr. Reddy's
- HDFC bank
- ICICI bank
- Infosys
- Wipro
- MTNL
- V S N L

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## ■ National Investment Fund

The GoI constituted the NIF @ 2005

into which the proceeds from disinvestment of Central Public Sector Enterprises were to be channelised.

The corpus of the fund was to be of permanent nature & the same was to be professionally managed in order to provide sustainable returns to the govt., w/o depleting the corpus.

- NIF was to be maintained outside the CFI.

**Salient features of NIF**

1) The proceeds from disinvestment of CPSE's will be channelised into the NIF which is to be maintained outside the CFI.
2) The corpus of NIF will be of a permanent nature.
3) The fund will be professionally managed to provide sustainable returns to the govt. w/o depleting the corpus. Selected Public Sector Mutual Funds will be entrusted with the management of the corpus of the fund.
4) 75% of the annual income of the fund will be used to finance selected **social Sector schemes**, which promote education, health & employment.

The **residual 25%** of the annual income of the fund will be used to meet the capital investment requirements of profitable & revivable **CPSE's** that yield adequate returns, in order to enlarge their capital base to finance expansion or diversification.

■ The income from the NIF corpus investments (75%) was utilized on selected social sector schemes , namely ,

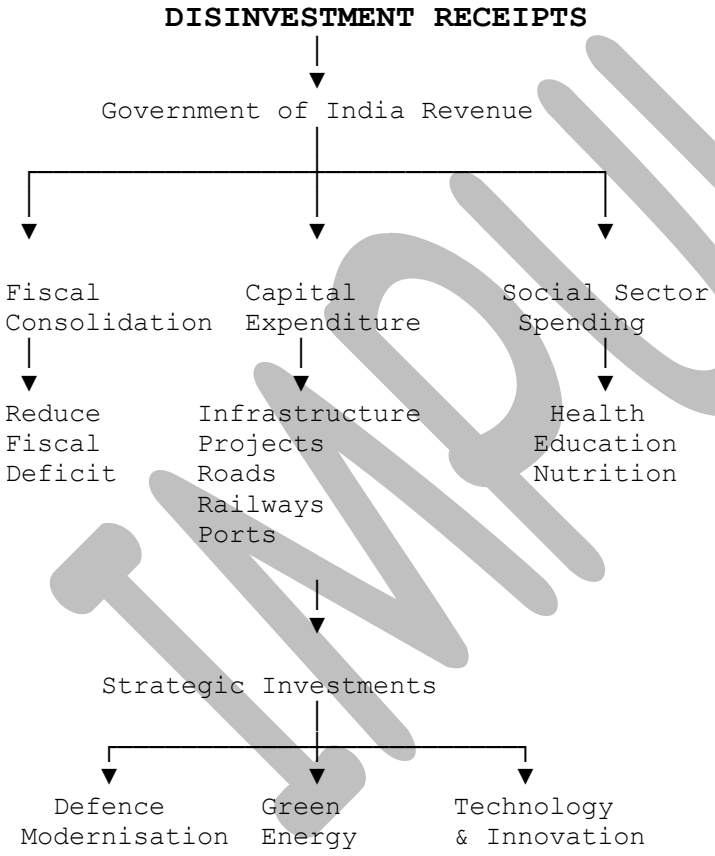
1. J N N U R M (Jawahar Lal Nehru National Urban Renewal Mission)
2. Accelerated Irrigation Benefits Programme (AIBP)
3. Rajiv Gandhi Vidyutikaran Yojana (RGVY)
4. Accelerated Power Development & Reform Programme
5. Indira Awas Yojana
6. MGNREGA

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- **CCEA (Cabinet Committee of Economic Affairs)** is the authority which is incharge of the policy on utilisation of disinvestment proceeds.

- The govt. in 2013 has approved restructuring of the NIF & decided that the disinvestment proceeds with effect from the fiscal year 2013–14 will be credited to the existing 'Public Account' under the head NIF. And. they would remain there until withdrawn or invested for the approved purpose.

- For financial year, **2013–14**, the govt. has approved allocations from the NIF towards spending on
  1. **recapitalisation of the Public Sector Banks &**
  2. **Capital Expenditure of Indian Railways.**




Disinvestment receipts should ideally finance capital asset creation and fiscal consolidation rather than recurring revenue expenditure.

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- These funds are classified as **Capital Receipts** and are typically allocated for the following uses:
    - **Financing Social Sectors:** Funding targeted programs in health, education, and employment.
    - **Capital Expenditure:** Investing in large-scale national infrastructure development.
    - **Deficit Management:** Bridging fiscal shortfalls.
    - **Debt Servicing:** Retiring public government debt.
    - **Bank Recapitalization:** Injecting capital into public sector banks

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- **Main Objectives of SEZ (Special Economic Zones)**

- Generation of additional economic activity
- Promoting Investment from domestic & foreign sources

↓

Creation of employment opportunities

↓

Promoting of exports of goods & services

Development of infrastructure facilities.

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## ➔ Price Rise

> It is a temporary phenomenon but if it is continue for 14 days then it is called Price Rise.
> But now in India, we count P.R for for 7 days
> P.R is a temporary rise in the market price , where as inflation is a continuous & appreciable rise in prices over a period of time.
> And, during the inflation , the *cost and the *price do not rise together in same proportion .

## ■ Mode of calculating Inflation & Price rise :

Calculated by the office of Economic Adviser under MoC&I

(1) **WPI** method

The variation on the price level of India are usually measured in terms of WPI @ weekly

**697** → Base year **2011-12**

**676** items are included (2010-11) Base year is 2004-05

Does not include Services & Non-Tradable Commodities

Moreover, it only measures 'Headline Inflation' (volatile in nature, overall inflation)

compiled by the CSO under MoSPI

(2) **CPI** method

*US's popular method*

measured @ monthly

*Actual drawback discussed later*

Cost of living for a homogenous group of consumers.

Four CPI's in India:-

- CPI – **IW** (Industrial Worker)
- CPI – **AL** (Agricultural labourers)
- CPI – **RL** (Rural Labourers)
- CPI – **UNME** (Urban Non Manual Employees)

*__Cost__* is the price of raw material used (cost price) *__Price__* of the final product (selling price)

| New revised base year (**WPI**) | New revised base year (**CPI**) |
|---|---|
| ó **2022-23**<br>ó **957 items** | ó **2024**<br>ó **358 items** (308 goods+50 services) |

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**Administrative Expenditure**

Payment → Chairmanship of K .P. Gita Krishnan

Pension

Previously , the govt. self, used to give pensions

*From 1st Jan – 2004*

New pension systems

*called as*

'Contributed Pension System/Scheme'

Both parties contribute (employer & the employee)

*exception*

Army & old recruits (who are appointed before 1st Jan 2004 are exempted from this system)

3% per year employee would retire

but recruit 1% per year only

In the next 5 yrs, 10% of the employee would be reduced

📖 **91st Amd. Act, 2003** - Only **15%** of MP's should be the minister of the total house membership(LS) (i.e. Portfolio Minister and MoS).

→ COM (Cabinet Mins' , MoS & Deputy Min's)

Done as a measure to check administrative expenditure

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## Model Answer→

### Role of Forex reserve in a country's economy

FOREX Reserve is a reserve for a country got maintained by the Central Bank of the country, indicates the stability of currency & depicts the economic strength of the nation. Foreign investors do have a look at the FOREX Reserve, comprising of respectively Gold, Foreign currency mainly dominated by dollar, SDR , RTP , before investing in destination country.

When the question of the role that the FOREX reserve plays in a country's economy comes, it identifies both the positive & negative aspects.

**Positive Aspects :-**

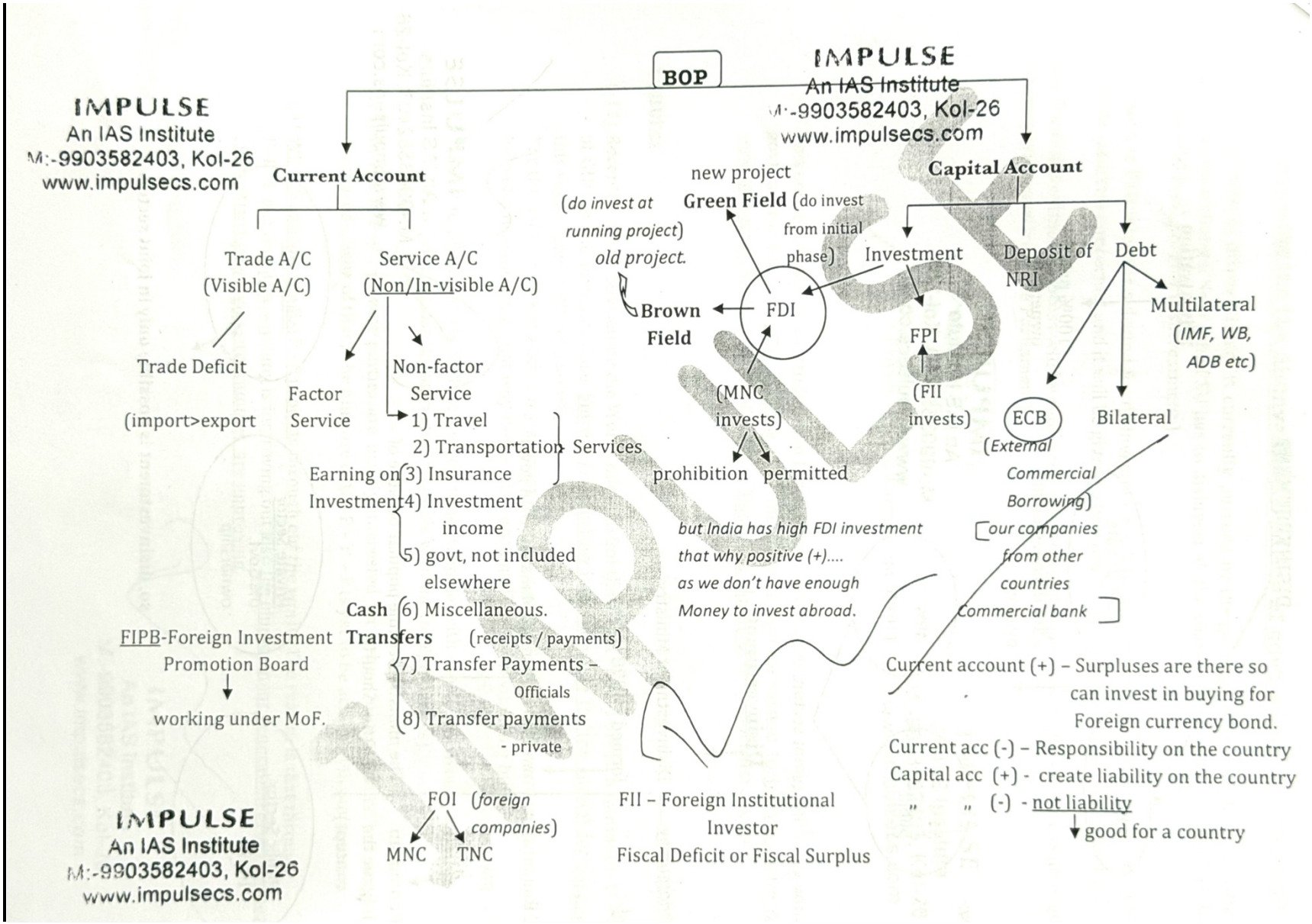
- ✓ Intervention to buy FOREX reserve during surge of capital (i.e. capital inflows via FDI's, FPI's etc.) leads to build up of reserves, which provides self- insurance against external vulnerability in the international market.
- ✓ The higher reserves levels restore investor confidence and may lead to an increase in FDI & FPI flows that spurs growth & helps bridge the CAD (i.e. by a surplus in the capital account).
- ✓ Buying FOREX Reserve provides more ammunition or intervention when the currency is declining which could potentially lower currency volatility.

**Negative Aspects:-**

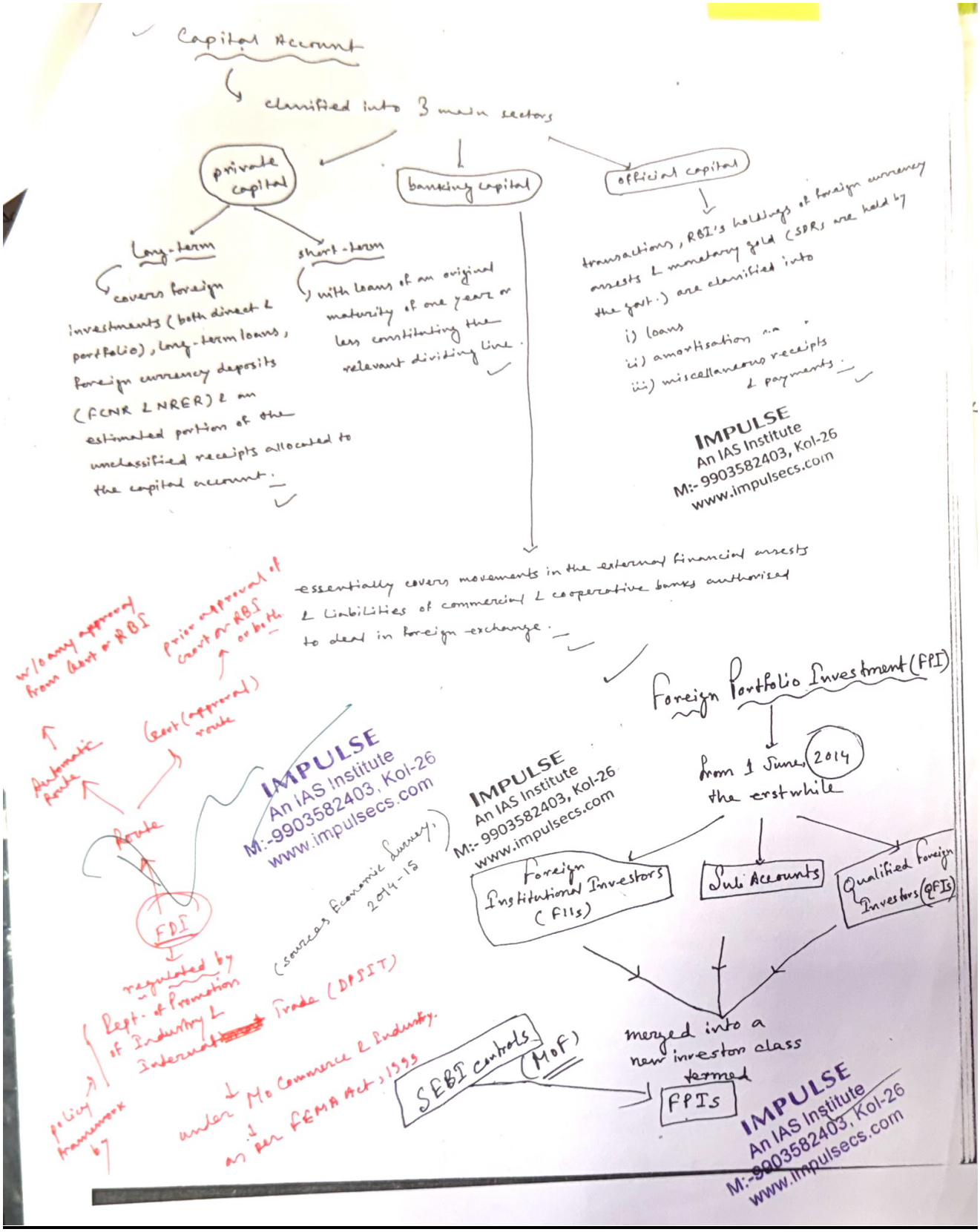
- ✓ In a scenario of high trade & CAD as in India, allowing the currency to appreciate through non-intervention during times of surge in capital, could have negative fall out for BoP by making exports less competitive & imports cheaper.

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Capital Account
classified into 3 main sectors
private capital
banking capital
official capital
Long-term
short-term
covers foreign investments (both direct & portfolio), long-term loans, foreign currency deposits (FCNR & NRER) & an estimated portion of the unclassified receipts allocated to the capital account.
with loans of an original maturity of one year or less constituting the relevant dividing line.
transactions, RBI's holdings of foreign currency assets & monetary gold (SDRs are held by the govt.) are classified into
i) loans
ii) amortisation n.a
iii) miscellaneous receipts & payments.
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essentially covers movements in the external financial assets & liabilities of commercial & cooperative banks authorised to deal in foreign exchange.
w/o any approval from Govt or RBI
prior approval of Govt or RBI or both
Automatic route
Govt (approval) route
Route
FDI
regulated by
Dept. of Promotion of Industry & Internal Trade (DPIIT)
under Mo Commerce & Industry
as per FEMA Act, 1999
policy framework by
(Sources Economic Survey, 2014-15)
Foreign Portfolio Investment (FPI)
from 1 June 2014 the erstwhile
Foreign Institutional Investors (FIIs)
Sub Accounts
Qualified Foreign Investors (QFIs)
merged into a new investor class termed
FPIs
SEBI controls (MoF)

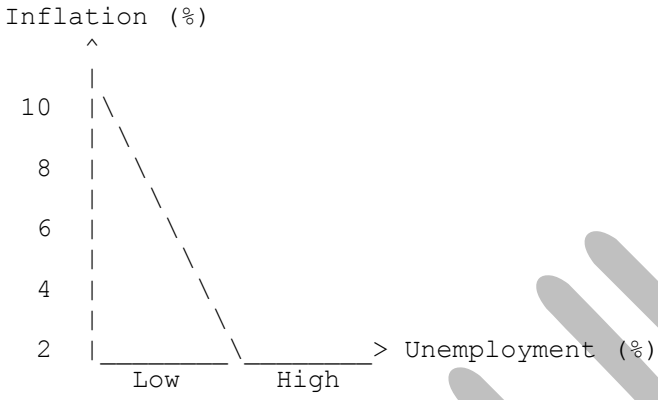
These are important **economic concepts and diagrams** frequently asked in UPSC Prelims and Mains.

# 1. Phillips Curve

## Meaning

Shows the **inverse relationship between unemployment and inflation** in the short run.

## Diagram




## Interpretation

- Low unemployment → High inflation
- High unemployment → Low inflation

## UPSC Relevance

- Proposed by A. W. Phillips.
- Used in monetary policy discussions.
- Long-run Phillips Curve is considered vertical by monetarists.

## Keywords

Inflation ↑ → Unemployment ↓

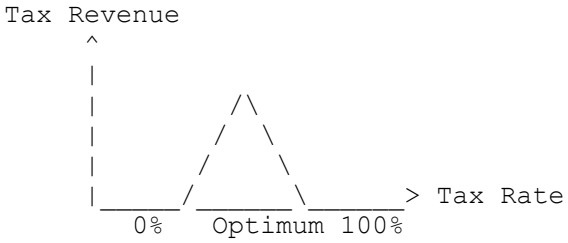
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# 2. Laffer Curve

## Meaning

Shows the relationship between **tax rates and tax revenue**.

## Diagram




## Interpretation

- At 0% tax → Revenue = 0
- At 100% tax → Revenue ≈ 0 (people lose incentive to work/invest)
- Somewhere in between is the revenue-maximizing tax rate.

## UPSC Relevance

- Associated with Arthur Laffer.
- Supports arguments for tax rationalization and tax reforms.

## Keywords

Very high tax rates can reduce tax collections.

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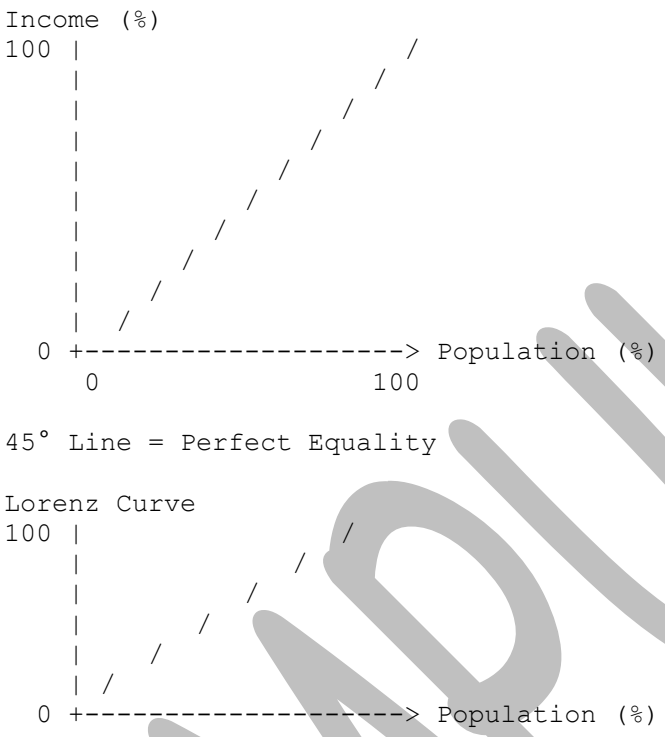
# 3. Lorenz Curve

*(Often misspelled as "Lorene Curve")*

## Meaning

Measures **income or wealth inequality**.

## Diagram




## Interpretation

- Closer to 45° line → More equality
- Further away → Greater inequality

## UPSC Relevance

Used to calculate the **Gini Coefficient**.

## Keywords

Deviation from equality line = inequality

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# 4. Gini Coefficient

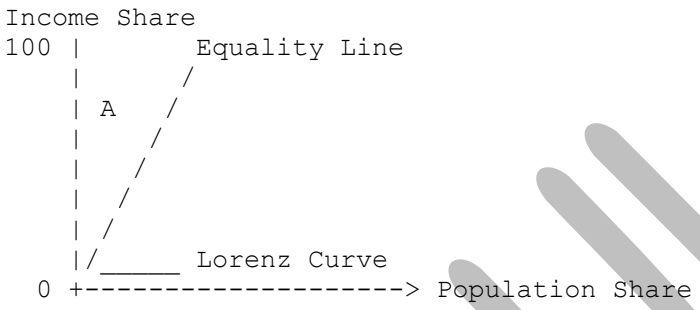
## Meaning

A numerical measure of income inequality derived from the Lorenz Curve.

## Formula

$$\text{Gini Coefficient} = \frac{\text{Area between Equality Line and Lorenz Curve}}{\text{Total Area under Equality Line}}$$

## Diagram




## Range

| Gini Value | Interpretation |
|---|---|
| 0 | Perfect equality |
| 0.2–0.3 | Relatively equal |
| 0.4–0.5 | Moderate inequality |
| 1 | Perfect inequality |

## Interpretation

- Higher Gini = More inequality
- Lower Gini = More equality

## Keywords

0 = Perfect Equality, 1 = Perfect Inequality

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## UPSC One-Line Revision Table

| Concept | Measures | Relationship |
|---|---|---|
| Phillips Curve | Inflation & Unemployment | Inverse |
| Laffer Curve | Tax Rate & Tax Revenue | Inverted U-shape |
| Lorenz Curve | Income Distribution | Graphical inequality measure |
| Gini Coefficient | Income Inequality | Numerical inequality measure |

## Quick Mnemonic

**P-L-L-G**

- Phillips → Prices (Inflation)
- Laffer → Levy (Tax)
- Lorenz → Lopsided Income Distribution
- Gini → Gap in Income

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# Bond Price–Yield Relationship

## Core Concept

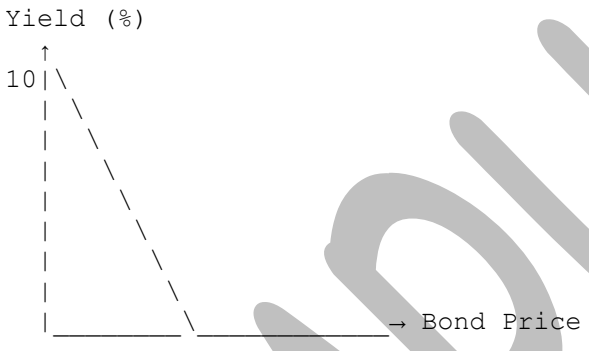
**Bond Price and Bond Yield move in opposite directions (Inverse Relationship).**

- **Bond Price ↑ → Yield ↓**
- **Bond Price ↓ → Yield ↑**

## Why?

A bond pays a fixed coupon. When its market price changes, the return (yield) earned by a new investor changes inversely.

## Diagram




Inverse Relationship: As Bond Price rises, Yield falls.

## Example

| Particulars | Scenario 1 | Scenario 2 |
|---|---|---|
| Face Value | ₹100 | ₹100 |
| Annual Interest (Coupon) | ₹10 | ₹10 |
| Market Price | ₹100 | ₹125 |
| Yield | 10% | 8% |

**Calculation:**

$$Yield = \frac{Annual\ Coupon}{Market\ Price} \times 100$$

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$$Yield = \frac{Annual\ Coupon}{Market\ Price} \times 100$$

- At ₹100 price → Yield = 10%
- At ₹125 price → Yield = 8%

Thus, **price increases → yield decreases**.

## Quick Flow Diagram

```
RBI buys G-Secs
        ↓
Demand for Bonds ↑
        ↓
Bond Price ↑
        ↓
Bond Yield ↓
        ↓
Borrowing Cost ↓
        ↓
Liquidity & Growth Support
   RBI sells G-Secs
        ↓
Supply of Bonds ↑
        ↓
Bond Price ↓
        ↓
Bond Yield ↑
        ↓
Borrowing Cost ↑
        ↓
Liquidity Tightens
```

## Prelims Fact

- ➔ **Government Bond Yield** is often considered a benchmark interest rate in the economy.
- ➔ During economic slowdown, central banks generally try to **lower yields** by purchasing government securities.
- ➔ Rising bond yields usually indicate **higher borrowing costs**, inflation concerns, or tight liquidity conditions.

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# India's 1991 Balance of Payments (BoP) Crisis / "Economic Bankruptcy"

## Why is it called India's Economic Bankruptcy?

In 1991, India faced a severe **Balance of Payments (BoP) Crisis**, where foreign exchange reserves fell to a level sufficient for only **about two weeks of imports**. India was on the verge of defaulting on its international payment obligations.

## Causes of the Crisis

```
1980s Fiscal Deficits
          +
Heavy Borrowing
          +
Gulf War (1990-91)
          +
Oil Prices ↑
          +
Remittances ↓
          +
Political Instability
          ↓
Foreign Exchange Crisis
          ↓
1991 BoP Crisis
```

## Key Reasons

✓ High fiscal deficit and government spending

✓ Rising imports, especially crude oil

✓ Gulf War (1990-91) increased oil prices

✓ Collapse of the Soviet Union (major trading partner)

✓ External debt burden increased

✓ Declining investor confidence

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## Severity of the Crisis

| Indicator | Situation (1991) |
|---|---|
| Forex Reserves | ~$1.2 billion |
| Import Cover | ~2 weeks |
| Inflation | ~13% |
| Fiscal Deficit | ~8.4% of GDP |
| Current Account Deficit | High |
| External Debt | ~$83 billion |

## Emergency Measures

### *Gold Pledge*

Forex Reserves Exhausted
↓
India Pledged Gold
(67 tonnes)
↓
Borrowed from
**Bank of England &**
**Union Bank of Switzerland**
↓
Avoided Sovereign Default

India physically airlifted **67 tonnes of gold** abroad to raise foreign currency.

## Economic Reforms (LPG Reforms)

### *Under PM P.V. Narasimha Rao & FM Dr. Manmohan Singh*

1991 Crisis
↓
Liberalisation
↓
Privatisation
↓
Globalisation
↓
Economic Reforms

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## *Major Reforms*

| Liberalisation | Privatisation | Globalisation |
|---|---|---|
| Industrial licensing removed | PSU disinvestment | FDI encouraged |
| Reduced government controls | Private sector participation | Trade barriers reduced |
| Market-oriented reforms | Competition increased | Integration with world economy |

## *Outcomes*

- ✔ Higher economic growth
- ✔ Increased foreign investment
- ✔ Expansion of private sector
- ✔ Rise in exports
- ✔ Strong forex reserves (today among world's largest)
- ✔ Integration with global economy

## UPSC Prelims Facts

- 📌 **New Industrial Policy, 1991** ended the Licence Raj for most industries.
- 📌 **Dr. Manmohan Singh** presented the reform budget of 1991.
- 📌 India pledged **67 tonnes of gold** to overcome the forex crisis.
- 📌 The 1991 crisis was primarily a **Balance of Payments (BoP) Crisis**, not a banking crisis.

## One-Line Revision Diagram

```
Fiscal Deficit + Oil Shock + External Debt
                    ↓
          1991 BoP Crisis
                    ↓
             Gold Pledge
                    ↓
             LPG Reforms
                    ↓
      Modern Indian Economy
```

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# Taper Tantrum (2013)

## What is Tapering?

**Tapering** means the gradual reduction of a central bank's asset purchases (Quantitative Easing - QE).

After the **2008 Global Financial Crisis**, the US Federal Reserve pumped large amounts of money into the economy by buying government bonds and securities.

## What was the Taper Tantrum?

In **May 2013**, Fed Chairman Ben Bernanke hinted that the US Federal Reserve might reduce ("taper") its bond-buying programme.

This announcement triggered panic in global financial markets.

```
US Fed hints at Tapering
          ↓
US Interest Rates Expected ↑
          ↓
Investors Pull Money from EMEs
          ↓
Capital Outflows
          ↓
Currency Depreciation
          ↓
Market Volatility
```

## Impact on India

India was among the **"Fragile Five"** economies.

***Fragile Five***
Countries with:

- High Current Account Deficit (CAD)
- Dependence on foreign capital

```
Fragile Five
 ├─ India
 ├─ Brazil
 ├─ Indonesia
 ├─ Turkey
 └─ South Africa
```

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## Consequences for India

✓ Foreign Institutional Investors (FIIs) sold Indian assets.
✓ Rupee depreciated sharply.
✓ Stock market declined.
✓ Bond yields surged.
✓ Current Account concerns intensified.

## RBI's Response

### *Under RBI Governor Raghuram Rajan*

```
Capital Outflows
        ↓
Rupee Under Pressure
        ↓
RBI Measures
        ↓
FCNR(B) Deposits
+
Interest Rate Actions
+
Forex Management
        ↓
Stabilisation
```

### *Key Measures*

- Attracted foreign currency deposits through FCNR(B) scheme.
  - It is a **term deposit account maintained in foreign currency by Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs)** with Indian banks.
- Tightened liquidity temporarily.
- Strengthened investor confidence.
- Improved external sector stability.

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## Why is Taper Tantrum Important?

The event demonstrated how:

```
US Monetary Policy
        ↓
Global Capital Flows
        ↓
Emerging Markets
        ↓
India's Currency & Markets
```

A policy change in a major economy can significantly affect emerging economies like India.

## Prelims Facts

- **Year:** 2013
- Trigger: US Federal Reserve's indication of reducing QE.
- India was part of the **Fragile Five**.
- Result: Capital outflows, rupee depreciation, rise in bond yields.
- The episode highlighted India's vulnerability to external shocks and led to strengthening of macroeconomic fundamentals.

## One-Line Revision

```
Fed Tapering Signal (2013)
          ↓
Global Capital Outflows
          ↓
Rupee Falls + Bond Yields Rise
          ↓
     "Taper Tantrum"
```

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# Goldilocks Economy

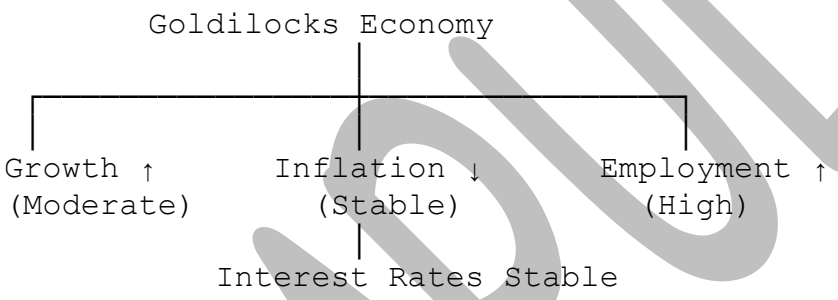
## Meaning

A **Goldilocks Economy** is an economy that is **neither too hot nor too cold**, but growing at an ideal pace with:

- ✓ Moderate economic growth
- ✓ Low and stable inflation
- ✓ High employment
- ✓ Stable interest rates

The term comes from the fairy tale **"Goldilocks and the Three Bears"**, where Goldilocks prefers porridge that is **"just right."**

## Goldilocks Situation




## Comparison

| Too Cold Economy ❄️ | Goldilocks Economy 🌟 | Too Hot Economy 🔥 |
|---|---|---|
| Low growth | Healthy growth | Excessive growth |
| High unemployment | High employment | Labour shortages |
| Weak demand | Balanced demand | Excess demand |
| Recession risk | Sustainable expansion | High inflation |
| Rate cuts likely | Stable rates | Rate hikes likely |

## Indicators of a Goldilocks Economy

```
GDP Growth : 6-8%
Inflation  : Around target level
Employment : Strong
Investment : Rising
Consumption: Healthy
```

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## Why is it Ideal?

```
Moderate Growth
       +
Low Inflation
       +
Stable Interest Rates
       ↓
Higher Investment
       ↓
More Jobs
       ↓
Sustainable Development
```

## Example

The **United States during the mid-1990s** is often cited as a classic Goldilocks economy because it experienced:

- Strong growth
- Low inflation
- High productivity
- Rising employment

## UPSC Relevance

### RBI Perspective

```
Inflation Too High
       ↓
RBI Raises Rates

Inflation Controlled
       +
Growth Healthy
       ↓
Goldilocks Situation
```

*Central banks aim for a Goldilocks scenario because it balances* ***growth and price stability.***

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## Prelims Facts

📌 Goldilocks Economy = **Moderate Growth + Low Inflation + High Employment**

📌 It represents the most desirable phase of the business cycle.

📌 Excessive growth can lead to overheating and inflation.

📌 Very low growth can lead to recession and unemployment.

## One-Line Revision

Not Too Hot 🔥
Not Too Cold ❄️
↓
Goldilocks Economy 🌟
(Stable Growth + Low Inflation)

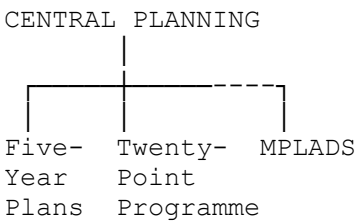
IMPULSE

# CENTRAL PLANNING & FIVE-YEAR PLANS

## 🎯 CENTRAL PLANNING

***Definition*:** Plans formulated and financed by the Central Government for implementation at the national level.

### *Components of Central Plans*




**1st to 5th plan → GDP growth rate 3.5%**

**6th to 11th plan → GDP growth rate 5.7%**

## *FIVE-YEAR PLANS IN INDIA (1951–2017)*

| Plan | Period | Model/Theme | Key Features |
|---|---|---|---|
| **1st Plan** | 1951-56 | **Harrod-Domar Model** | Agriculture, irrigation, community development |
| **2nd Plan** | 1956-61 | **Mahalanobis Strategy** | Heavy industries, PSU-led industrialization |
| **3rd Plan** | 1961-66 | Self-reliant economy | Agriculture + Industry; disrupted by wars & drought |
| ***Plan Holiday*** | ***1966-69*** | Annual Plans | **Due to economic crisis** |
| **4th Plan** | 1969-74 | Growth with stability | Self-reliance, poverty concerns |
| **5th Plan** | 1974-79 | **Garibi Hatao** | Poverty removal & self-reliance |
| ***Rolling Plan*** | ***1978-80*** | Janata Govt. | **Replaced later** |
| **6th Plan** | 1980-85 | Poverty alleviation | Employment, modernization |
| **7th Plan** | 1985-90 | Food, work & productivity | Human development focus |
| ***Annual Plans*** | ***1990-92*** | Transition period | **Fiscal crisis** |
| **8th Plan** | 1992-97 | LPG Era | Human development + reforms |
| **9th Plan** | 1997-02 | Growth with social justice | Agriculture emphasis |

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| Plan | Period | Model/Theme | Key Features |
|---|---|---|---|
| **10th Plan** | 2002-07 | Faster growth | Target GDP growth 8% |
| **11th Plan** | 2007-12 | Inclusive Growth | Education, health, employment |
| **12th Plan** | 2012-17 | Faster, Sustainable & Inclusive Growth | Infrastructure, energy, environment |

## PLAN-WISE HIGHLIGHTS

### 1st 5 yrs Plan (1951 - 56)

- aimed at correcting the disequilibrium caused by the war and the partition of the country.
- The plan was launched with all the lofty ideas of socio-economic development which had frustrating outcomes in following years.
  - Highest priority to agriculture, irrigation (also flood control) & power projects (to make up for valuable assets last as a result of partition).
  - Maximum percentage of the plan outlay went in the favour of Public Sector Undertaking.
  - No large scale programmes of industrialization.

Because economy was facing the problem of large scale foodgrains import and pressure of price rise.

### 2nd 5 yrs Plan (1956 - 61)

- Emphasis on rapid industrialization with a focus on heavy industries & capital goods….PSU led growth
- Plan developed by Prof. P.C. Mahalanobis
- Adopted socialist pattern of the society as the goal.

also known as '**Father of Industrial Revolution in India'**.

- So, a closed economy
- So, a shortages of food & capital were felt during this plan.

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- Several large industrial units :

| | | |
|---|---|---|
| Durgapur | help of **UK** | **Steel plants** |
| Bhilai | help of **USSR** | |
| Rourkela | help of **West Germany** | |

- Other major investments during this period:
  - Locomotive factory @ Chittaranjan
  - Coach factory @ Perambur
- Special stress given to :
  1. Jamshedpur
  2. Burnpur
  3. Kulti
  4. Bhadravati

As food shortage was felt in during the 2nd Plan

## 3rd 5 yrs Plan (1961 - 66)

- Specifically incorporated the development of agriculture as one of the objectives of planning in India.
- For the 1st time considering the aim of balanced regional development.
- Enough misfortune awaited during this plan:-
  - **2 wars and a severe drought** → led famine in 1965-66 had to be faced.
    - Vs. China @ 1961-62 Nehru death @1964)
    - Vs. Pakistan @ 1965-66 (Gujrat border ....Shastri's death @ 1966)
- Due to heavy rain and diversion of funds, this plan utterly failed to meet its targets.
- Establishment of:
  1. Ranchi Machine Tools
  2. Hindustan Machine Tools
- Major chunk marked specially for development of railways.

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With (one of the greatest champion of democratic decentralization)death of Nehru, role of NDC in planning process was getting subdued & minimized. ..... .....Principles of Co-operative Federation was overshadowed and a phase of tussle stated b/w the C&S's.

We'll see how the planning process was used as a political tool 4th plan onwards.

## Three periods of Annual Plan

Also called **"Planned Holiday"**

- Though, the 4th plan was ready for implementation in 1966, the weak financial situation & low morale after the defeat by China the GoI decided to go for 3 consecutive Annual plans.
- All available resources were mobilized for stepping up food production & building a buffer stock, learning from the experience of the famine years of 1965-66.
- Highest allocation:
    1) Industry and mineral
    2) Transport and communication
    3) Power
    4) Agriculture
- Increased importance accorded to development of power.
- This had become necessary due to power shortages prevailing in the country which had affected industrial production adversely.

## 4th 5 yrs Plan (1969 - 74) *(W.B. Left Front)*

- Plan we based on Gadgil strategy with special focus to the ideal of growth with stability and progress towards self-reliance.
- Droughts & Indo - Pak War of 1971-72 led the economy to capital diversions creating financial crunch for the plan.
- Largest allocation / expenditure –
    1) Transport & Communication
    2) Power (2nd largest)
    3)Industry

IMPULSE

- As far as the industrial sector is concerned, it continued to receive highest priority. Resource allocation was only marginally lower than (Transport & Communication) & power.
- Industrial growth during the 3rd d plan & 3 Annual Plans periods → Industrial growth was 'slow & erratic'
- In agricultural sector, thrust was towards, i.e. **Land development.**
    1. Land development
    2. Agricultural practices
    3. Horticulture & livestock practice
- 'Politicisation of planning' started from this plan which took serious populist design in the coming plans.
- First more in the direction of 'nationalisation' & greater control and regulation of the economy was one of the features.

✡ The search for political stability at the centre converted planning into a tool of real politics with greater & greater 'centralisation' ensuring plan after plan.

## 5th 5 yrs Plan (1974 - 79)

"Garibi Hatao" slogan

stress given to INDUSTRIES

- Twin objective of → **Poverty eradication**
    1) Attainment of self-reliance
    2) Highest priority to Industry
- SAIL was established.
- Salem, Vijaynagar, Vishakapatnam
- Special focus on POWER sector:-
    - As a result of energy crisis that emerged in the country towards the end of the 4th Plan (due to sleep rise in petroleum prices affected by OPEC), the govt. decided to pay more attention to the power sector.

- Janata Party Govt, which came to power in 1977 - 78 terminated the plan in 1978.

↓

A fresh plan, the 6th plan for 1978 - 83 was launched by the new govt. - called it as the "**Rolling Plan**".

- The overall guiding principle which were kept in mind which deciding sectoral distribution of outlay were.
  1. The speedy completion of projects & programmes already under way & speeding over from 4" to 5th 5yr plan.
  2. A National Programme of Minimum Needs known as 'Minimum needs Programme' (MNP) was initiated.
- It included:-
  - Elementary education
  - Safe drinking water
  - Health care
  - Shelter for Landless
  - Slum up-gradation - Indira Gandhi's initiative
  - Rural electrification & roads
  - Rights of land
  - Nutrition

Poverty alleviation was sensationalized by the Govt. to the extent of launching a fresh plan, i.e. 20-points programme (1975) – 4th plan's objectives i.e. growth with stability was sidelined in the 5th plan.

Planning process got more politicized. The havocs of hyper inflation led GoI to land over the RBI a new function, i.e. to stabilize the inflation.

## 6th 5 yrs Plan (1980 - 85)

Poverty alleviation

- Janata Govt had adopted a Sixth Plan (1978-83) which was conceived as a **rolling plan**. Mrs. Gandhi's govt. abandoned this in 1980 and a new 6th plan was drafted.
  - Plan launched with the detailed strategy on **poverty alleviation.**
  - A drift from Mahalanobis strategy of development
  - Highest allocation - Energy sector
    - Because of the fact that there was 3-fold increase in the price of crude oil in 1979 from the level of 1978.
  - Transport & Comm (2nd highest)

Industrial sector got smaller allocation for the first time.

- Emphasis was given on socio economic infrastructure in rural areas via agricultural & rural development.

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- Eliminating rural poverty and reducing regional disparities though schemes such as for transferring skills (TRYSEM) & assets (IRDP - 1979) & providing slack season employment (NREP) were introduced.
- Share of education in the public sector expenditure had declined & this trend was maintained under the 6th plan also.

Numerous schemes and developmental projects were launched by the Govt.

Already, a programme (the TPP) was tested & tried by the same Govt. in the **Fifth plan** which tried to improve the standard of living of poor masses with direct approach **but a slogan was not attached to it then.**

## 7th 5 yrs Plan (1985 - 90) *[Agriculture led Growth]*

- Emphasised on rapid foodgrain production increased employment creation & productivity in general.
- Basic tenets of planning –
  1) Growth
  2) Modernization
  3) Self-reliance
  4) Social justice
- The Jawahar Rojgar Yojana was launched in 1989 with aiming to create wage – employment for rural poors.
- Largest allocation was Energy Sector.
- Heavily oriented towards (Power & Agriculture + Rural Development)
- ***Completely drifted from the Mahalanobis Strategy***
- Govt. decided to go for democratic decentralization to promote development.
  - Laid strong foundations for 73rd & 74th Constitutional Amendment Act.
- Outward looking strategy with exports receiving high priority.
- Domestic & external liberalization hastened.
- Had a 15 yr perspective

IMPULSE

**Annual Plans:**

- There were two separate Annual Plans formulated within the framework of the 8th 5yr plan with basic thrust on maximization of employment & social transformation.
- The 8th plan couldn't take off due to fast changing political situation at the centre.
- Sweeping economic reforms ensuing around the world as well as fiscal imbalances of the late 1980s were other reasons for delay.

## 8th 5yrs Plan : (1992-97) - *based on ELG strategy*

- Economic reforms already initiated in July, 1991
- Launched in a typically new economic environment
- It was the first plan which went on for *an introspection of the macro - economic policies* which the country had been pursuing for many decades.
- The plan was specifically indicative - along term policy approach replacing the target approach.
- Highest allocation - Energy sector.

- *After introspection*, it was suggested – "Marked based development" sectors which could afford it (role of private sector) final investment in infrastructure sector emphasis on 'co-operative federalism'

Reforms -Initiation of structural adjustment & moño-stabilizalion policies necessitated by –

- imagining BoP
- Higher fiscal deficit
- Unsustainable rate of inflation.

## 9th 5yrs Plan (1997-02

Prioritization creeping in for the industrial sector

- Basic tenets of planning was 'growth with social justice equality'.
- Highest allocation – Energy

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- As the industrial sector is being increasingly opened up for the private sector, the state is withdrawing from this sector, leaving more & more space for the private sector.
- It also had a general nature of indicative planning & targeted an ambitious high growth rate of 7% with time bound objectives.
- Emphasis on 7 identified Basic Minimum Services (BMS) with central assistance for complete coverage of the population in a time bound manner:-

| |
|---|
| Safe Drinking Water |
| Primary health Services |
| Universalization of primary Education |
| Nutrition to Children |
| Public Housing assistance |
| Streamlining PDS |
| Connectivity of all villages |

- The issue of **fiscal consolidation** became Govt's top most priority. -via
  - ¬ Sharp reduction in the revenue deficit
  - ¬ cutting down subsidies
  - ¬ Decentralisation of planning & greater reliance on private.

Industrial allocation was low as bcz. doors were opened for Pvt. Investment @ 9th Plan itself.

## 10th 5yrs Plan (2002 - 07 )

- Commenced with the objectives which had greater participation of the NDC in their formulation (means roll of states in o ng)
- Largest allocation - Energy Sector (Industrial allocation was low as block doors were open for the private sector in the 9th plan itself.)
- Accepted that the higher growth rates are not the only objective - it should be translated into improving the quality of life of the people.
- For the 1st time a plan went to set the 'monitorable targets' for 11 select indicators of development for the Centre as well as for States.
- Governance was considered a factor for development.
- States role in planning to be increased via NDC (also PRI)
- **Agricultural sector declared as the prime moving force (PMF) of the economy.**
- Increased emphasis on social sector (i.e. education, health etc)

IAS PULSE

- Mid -term appraisal of the plan was approved by the NDC in June, 2005. The assessment gives a mixed picture regarding its performance.

Colours of co operative federation began to revive because:

- WTO regime stated making it an economic compulsion to involve states.
- 73rd & 74th Amd also made it a compulsive Coalition politics stated at Centre.

## 11th 5yrs Plan (2007 -2012)

***Objectives :***

- Emphasized the idea of **'inclusive growth'**
- Targeted a growth rate of 10%
- Increase agricultural GDP growth rate to 4% per yr.

***Income & Poverty***

- Create 70 million new work opportunities
- Reduce educated unemployment
- Raise real wage rate of unskilled workers
- Reduce the head count ratio of consumption and poverty.

***Education***

- Reduce dropout rates of children from class (1 to 8) elementary education.
- Developing minimum standards of education attainment in elementary school and by regular testing monitor its quality nature.
- Increase literacy rate for person above 7 years.
- Lower the gender gap in literacy.
- Increase the percentage of each school going to higher education.

***Health***

- Reduce IMR & MMR to 28 and 1/1000 live birth.
- Reduce total fertility rate to 2.1 (2 child norm) (China-1 child norm)
- Provide clean drinking water for all by 2009 and ensure that there are no slipbacks.
- Reduce malnutrition among children of age group (0-3) yrs to half of its present level.
- Reduce anaemia among women and girls by 50%

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***Woman & Children***

- Raise the sex-ratio for age-group (0-6)yrs to 935 by 2011 - 12& to 950 by 2016 - 17.
- To ensure that atleast 33% of the direct & indirect beneficiaries of all govt. schemes are woman & girl children.
- To ensure that all women enjoy a safe chiranssa w/o any compulsion to work.

***Infrastructure***

- To ensure electricity connection to all village & BPL households by 2009 & round the clock power.
- To ensure all weather road connectivity to all habitations with populations 1000 & above (500 in hilly & tribal areas) by 2009 & ensure coverage of all habitation by 2015.
- Providing telephonic & broadband services to all villages by 2012.
- Provide homestead sites to all by 2012 & step-up the pace of house construction for rural poor to cover all the poor by 2016-17.

***Environment***

- Increase forest & tree cover
- Attain WHO standards of air quality in all major cities.
- Treat all urban waste water so as to clean river water.
- Increase energy efficiency

| Achievements | Failures |
|---|---|
| o Increased life expectancy<br>o Growth in N.I & per capita income<br>o Agricultural development in terms of foodgrains & raw materials<br>o Development of Science & Technology | o Existence of poverty<br>o Unemployment & under-employment widening regional disparities.<br>o Divergence b/w whole sale price Index, whole sale price & CPI, consumer price. |

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## 12th 5 yrs Plan (2012 - 2017)

(Theme of this plan ***faster, sustainable & more inclusive growth***)

- Growth rate of 9% is targeted for the plan.
- Need to intensify efforts to have 4% average growth in agriculture sector.
    - Should provide broad based income benefits to rural population.
    - Also help restrain inflationary pressure.
- Proposes major flagship programmes which were instrumental for promoting inclusiveness is the 11th plan should continue in the 12" plan.
- Indicates energy needs of the rapid growth will pose a major challenge.
    - So it suggests the need to take steps to reduce energy intensity of production processes asap and ensure national energy pricing.
- Since India's domestic energy supplies are limited, dependence upon import will increase.
- Even in case of coal, import dependence is likely to increase as growth of thermal generation will require coal supplies which can't be fully met from domestic mines.
- Draws attention towards evolving a holistic water management policy aiming at effective water conservation & water use efficiency particularly in agriculture.
- Calls for a new legislation for land acquisition is necessary, which strikes an appropriate balance b/w the need for fair compensation to those whose land is acquired & livelihood is disrupted, & the need to ensure that land acquisition does not become an impossible impediment to meeting our needs for infrastructural development, industrial expansion and urbanization.
- It maintains that health, education & skill development will continue to be the focus areas in the 12th plan & that there is a need to ensure adequate resources to these sectors - 'universal healthcare' is emphatically proposed.

  Need to private investment in these sectors, via, P-P P modes. Also hints towards FDI.

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- Large investments needed in infrastructure sector development- notes greater momentum to public investment & public private partnerships (PPPs) in this sector to achieve this 9% growth rate.
- Report emphasized the importance of fiscal correction.
    - The plan cautions that fiscal consolidations would imply that total resources available for the plan in short run are limited.
    - So some priority areas, e.g. health, education, and infrastructure will have to be funded more than others.
    - Emphasizes efficient use of available resources in the view of resource constraints.

## END OF FIVE-YEAR PLANS

1951 ⟶ 2017

Five-Year Plans

↓

NITI Aayog (2015)

2017: Formal end of Five-Year Plans

### Why discontinued?

- Need for flexible planning.
- Market-oriented economy.
- Cooperative & Competitive Federalism.
- NITI Aayog replaced centralized planning approach.

### UPSC PRELIMS FACTS

✓ **Harrod-Domar Model** → 1st Plan
✓ **Mahalanobis Model** → 2nd Plan
✓ ***Garibi Hatao slogan*** → **5th Plan (alleviate poverty 6th plan)**
✓ **Inclusive Growth** → 11th Plan
✓ **Faster, Sustainable & Inclusive Growth** → 12th Plan
✓ **Plan Holiday** → 1966–69
✓ **Economic Reforms linked Plan** → 8th Plan
✓ **Five-Year Plans ended** → 2017 after NITI Aayog era began.

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# Share Market & Capital Market – *UPSC Prelims Questions*

**Q1.** Consider the following statements regarding shares:

1. A shareholder is a part-owner of a company.
2. Equity shareholders have voting rights in a company.
3. Preference shareholders always have voting rights equal to equity shareholders.

Which of the statements given above is/are correct?

A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

**Answer: A**
**Explanation:**
✓ Shareholders are owners of the company.
✓ Equity shareholders generally enjoy voting rights.
✗ Preference shareholders have limited voting rights.

**Q2.** With reference to the Securities and Exchange Board of India (SEBI), consider the following statements:

1. SEBI is the regulator of the securities market in India.
2. SEBI was given statutory status in 1992.
3. SEBI functions under the Reserve Bank of India.

Which of the statements given above are correct?

A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

**Answer: A**
**Explanation:**
✓ SEBI regulates the securities market.
✓ SEBI Act, 1992 granted statutory powers.
✗ SEBI is independent and does not function under RBI.

IMPULSE

**Q3.** Which of the following are traded in the stock market?

1. Equity Shares
2. Corporate Bonds
3. Government Securities
4. Mutual Fund Units

Select the correct answer:

A. 1 and 2 only
B. 1, 2 and 4 only
C. 1, 2, 3 and 4
D. 2 and 3 only

**Answer: C**

**Explanation:**

All these financial instruments can be traded through recognized exchanges or market platforms.

**Q4.** Consider the following statements:

1. A Bull Market refers to rising stock prices.
2. A Bear Market refers to falling stock prices.
3. A Bull Market reflects pessimism among investors.

Which of the statements are correct?

A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

**Answer: A**

**Explanation:**

```
Bull Market 🐂
     ↓
Optimism
     ↓
Prices Rise

Bear Market 🐻
     ↓
Pessimism
     ↓
Prices Fall
```

IMPULSE

**Q5.** Initial Public Offering (IPO) refers to:

A. Sale of government securities by RBI
B. First sale of shares by a company to the public
C. Trading of existing shares in the stock exchange
D. Sale of bonds by companies

**Answer: B**

**Explanation:**

An IPO is the process through which a private company becomes publicly listed by offering shares to the public for the first time.

**Q6.** Consider the following:

1. Sensex
2. Nifty 50
3. BSE
4. NSE

Which of the above are stock market indices?

A. 1 and 2 only
B. 3 and 4 only
C. 1, 2 and 3 only
D. 1, 2, 3 and 4

**Answer: A**

**Explanation:**

✓ Sensex = Index of BSE

✓ Nifty 50 = Index of NSE

✗ BSE and NSE are stock exchanges, not indices.

**Q7.** Foreign Portfolio Investment (FPI) refers to:

A. Foreign investment involving management control
B. Investment in financial assets such as shares and bonds
C. Investment in factories and infrastructure projects
D. Government-to-government investment

**Answer: B**

**Explanation:**

FPIs invest in stocks, bonds, mutual funds, etc., without acquiring management control.

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**Q8.** Consider the following statements about Demat Accounts:

1. They hold securities in electronic form.
2. They are maintained by Depository Participants (DPs).
3. Physical share certificates are mandatory for trading through a Demat account.

Which of the statements are correct?

A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only
D. 1, 2 and 3

**Answer: A**

**Explanation:**

✓ Demat accounts store securities electronically.

✓ Maintained through DPs linked to depositories such as National Securities Depository Limited and Central Depository Services Limited.

✗ Physical certificates are not mandatory.

**Q9.** Which one of the following best describes a "Blue Chip Company"?

A. Newly listed company
B. Company with speculative stocks
C. Well-established company with strong financial performance
D. Loss-making public sector company

**Answer: C**

**Explanation:**

Blue-chip companies are financially strong, established, and often market leaders.

**Q10.** Consider the following statements:

1. Higher interest rates generally reduce stock market attractiveness.
2. Lower interest rates tend to encourage investment in equities.
3. RBI's monetary policy can influence stock market movements.

Which of the above statements are correct?

A. 1 and 2 only
B. 2 and 3 only
C. 1 and 3 only

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D. 1, 2 and 3

**Answer: D**
**Explanation:**

```
RBI Rate Cut
      ↓
Loans Cheaper
      ↓
Investment ↑
      ↓
Corporate Profits ↑
      ↓
Stock Market ↑
```

## 🎯 UPSC Trap Question

**Q11.** Consider the following institutions:

1. RBI
2. SEBI
3. IRDAI
4. PFRDA

Which of the above regulate different segments of India's financial market?

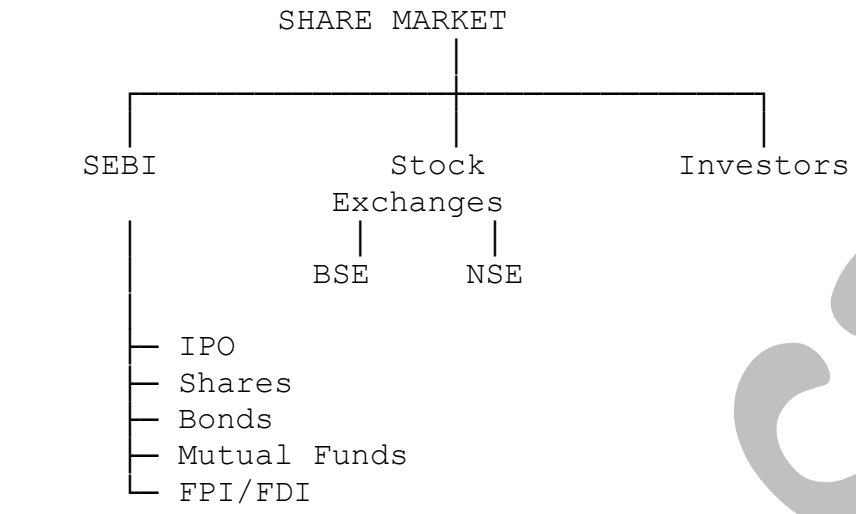
A. 1 and 2 only
B. 1, 2 and 3 only
C. 2, 3 and 4 only
D. 1, 2, 3 and 4

**Answer: D**
**Explanation:**

| Regulator | Sector |
|---|---|
| RBI | Banking & Monetary System |
| SEBI | Securities Market |
| IRDAI | Insurance |
| PFRDA | Pension Sector |

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## UPSC Revision Mind Map




Bull Market → Prices ↑
Bear Market → Prices ↓

## Most Important Prelims Facts

- SEBI Act, 1992
- Sensex = BSE Index
- Nifty 50 = NSE Index
- IPO = First Public Issue
- Demat = Electronic holding of securities
- FPI = Portfolio investment, FDI = Direct investment with control.

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