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By: Anand Prakash Srivastava



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**Sample Preview
of the
Solved
Sample Question
Papers**

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QUESTION PAPER

June – 2023

(Solved)

INDIAN ECONOMIC POLICY

M.E.C.-205

Time: 3 Hours]

[Maximum Marks : 100

Note: Attempt questions from each section as per given instructions.

SECTION-A

Note: Attempt the following questions from this section.

Q. 1. Explain the concept of population dividend and challenges arised related to it before the economy in recent years. Evaluate the major policy initiatives undertaken and suggestions to overcome these challenges.

Ans. Ref.: See Chapter-3, Page No. 28, Q. No. 7 and Q. No. 8.

Q. 2. What are the main causes behind the growth of informal sector in India? Describe the issues and challenges faced by it. Suggest remedial measures to overcome the challenges faced by it.

Ans. Ref.: See Chapter-17, Page No. 205, Q. No. 5.

Q. 3. What do you understand by vertical and horizontal imbalances in fiscal federalism? How far 14th and 15th Finance Commissions have helped in mitigating these imbalances?

Ans. Ref.: See Chapter-12, Page No. 141, 'Vertical and Horizontal Imbalances' and Page No. 138, 'The 14th and 15th Finance Commission'.

Q. 4. Analyse the role of different forms of foreign capital in driving economic development of India. Describe the steps undertaken by government to attract Foreign Direct Investment.

Ans. Ref.: See Chapter-20, Page No. 233, 'Foreign Investment in India', Page No. 235, 'Key Measures Taken by India to Attract FDI Advantage India : Key Facts'.

SECTION-B

Note: Attempt the following questions from this Section:

Q. 5. "The tertiary sector has been growing at a faster rate in India." Comment. Which factors

are responsible for its growth ? Elaborate upon the challenges faced by this sector.

Ans. Ref.: See Chapter-2, Page No. 14, 'The Rise of Tertiary Sector: Composition, Causes and Prospects' and 'Composition of the Service Sector'.

Q. 6. Give an account of the critical issues being faced by Indian Industrial Sector. Discuss the approach to a new industrial policy to overcome these challenges.

Ans. Ref.: See Chapter-14, Page No. 166, 'Critical Issues Before Industrial Sector' and Page No. 167, 'Approach to a New Industrial Policy'.

Q. 7. Do you agree with the view that "Green Revolution has lost its stream and India needs another green revolution or evergreen revolution." Give justification in support of your answer.

Ans. Ref.: See Chapter-13, Page No. 158, Q. No. 12.

Q. 8. "The problem of malnutrition among children and women is related to the extent of poverty." State how social security schemes can play an effective role in overcoming this problem.

Ans. Ref.: See Chapter-21, Page No. 250, 'Malnutrition and Poverty : A Comparative Analysis' and 'Inclusive Growth – Policy Implication'.

Q. 9. Differentiate between Governance and Government. Discuss the important attributes of good governance.

Ans. Ref.: See Chapter-25, Page No. 293, 'Governance and Good Governance' and Page No. 296, Q. No. 1.

Q. 10. Discuss the different policy measures undertaken by the government to deal with the issue of the unemployment in India. Are these measures enough to tackle this problem?

Ans. Ref.: See Chapter-22, Page No. 264, Q. No. 8 and Page No. 263, 'Issues of Concern'.

Q. 11. Define the concept of regional disparity. Critically evaluate various steps taken by Govt. of India towards removal of regional disparities.

Ans. Ref.: See Chapter-24, Page No. 279, 'Interpersonal and Regional Disparity: Concept and Theory', and Page No. 285, 'Measures to Remove Regional Disparities'.

Q. 12. Write short notes on the following:

(a) Insolvency and Bankruptcy Code

Ans. The insolvency and bankruptcy code is an Indian law which creates a consolidated framework that governs insolvency and bankruptcy proceeding for companies, firms and individuals. An act to consolidate and amend the laws relating to reorganisation and insolvency resolution of corporate persons/partnership firms and individuals in a time bound for maximisation of value of assets of such persons to promote entrepreneurship.

(b) Sub-National Borrowing

Ans. Financial institutions represent the supply side of subnational borrowing. This borrowing takes place through loans from financial and other credit institutions, or through the capital market with the issuance of securities and bonds.

Borrowing by sub-national governments, parastatals, municipalities and other government agencies to finance service provision is growing in many developing countries so designing and implementing subnational government debt strategies is important.

(c) Outward Foreign Direct Investment (OFDI)

Ans. Ref.: See Chapter-20, Page No. 233, 'Trends in Foreign Portfolio Investment (FDI)'.

(d) Industrial Sickness

Ans. Ref.: See Chapter-14, Page No. 166, 'Industrial Sickness'.

(e) PPP (Public-Private Partnership)

Ans. A public private partnership is a long term arrangement between a government and private sector institutions. Typically it involves private capital financing government projects and services up-front and then drawing revenues from tax payers and/or users over the course of the PPP contract.

Cooperation between private actors, corporations and governments has existed since the inception of sovereign states, notably for the purpose of tax collection and colonization. Contemporary "public-private partnerships" came into being around the end of the 20th century. They were aimed at increasing the private sector's involvement in public administration. They were seen by governments around the world as a method of financing new or refurbished public sector assets outside their balance sheet. While PPP financing comes from the private sector, these projects are always paid for either through taxes or by users of the service, or a mix of both. PPPs are structurally more expensive than publicly financed projects because the private sector's higher cost of borrowing, resulting in users or taxpayers footing the bill for disproportionately high interest costs.

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Sample Preview of The Chapter

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INDIAN ECONOMIC POLICY

BLOCK-1 : INDIAN ECONOMIC DEVELOPMENT : AN OVERVIEW

Indian Economic Development: A Historical Perspective



INTRODUCTION

British rule transformed India. British penetration and domination introduced modern corporate, political, financial, technological, and administrative systems to India. Agriculture, manufacturing, banking, transit, and communication all improved. Communication and transportation advancements were beneficial. In the 1940s, India had 42,000 miles of rail and 65,000 km of paved roads.

Roads and railroads helped unified the country and moved people and goods quickly. India established postal and telegraph systems. This did not lead to major economic growth. These changes happened inside the colonial framework. The British devastated the rural economy to supply their factories with inexpensive raw materials. They destroyed the handmade industry to sell industrial goods in India. In certain ways, the

colonial connection speed up and slowed down Indian economic progress.

CHAPTER AT A GLANCE

INDIA IN THE EIGHTEENTH CENTURY

The Indian subcontinent was a significant commercial centre of the modern world in the eighteenth century. The British were drawn to India because of its wealth. "India had long, long produced almost every form of industry or product known to the civilized world. India was a much more advanced industrial and manufacturing nation than any nation in Europe or Asia". Prior to colonization, the Indian economy had historically dominated the globe. Table-1 has been updated with information on the major nations per centage contributions to the global GDP from 2001 to 2003 AD.

**Table 1: Share of Major Countries in World GDP 1-2003 AD
(Per cent of World Totals)**

Countries	1	1000	1500	1600	1700	1820	1870	1913	1950	1973	2003
12 Country Total	10.6	7.0	15.5	17.1	19.1	20.5	30.5	30.8	24.1	22.8	16.5
Total Western Europe	13.7	9.1	17.8	19.8	21.9	23.0	33.1	33.0	26.2	25.6	19.2
USA	0.3	0.4	0.3	0.2	0.1	1.8	8.9	18.9	27.3	22.1	20.6
China	25.4	22.1	24.9	29.0	22.3	32.9	17.1	8.8	4.6	4.6	15.1
India	32.0	28.1	24.4	22.4	24.4	16.0	12.1	7.5	4.2	3.1	5.5
Other East Asia	4.6	7.5	8.4	7.4	7.7	5.2	4.8	4.5	4.8	5.2	9.6
Total of World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Fig. 1: Shows the trend in the major countries per centage of the global economy from 1 to 2003 AD.

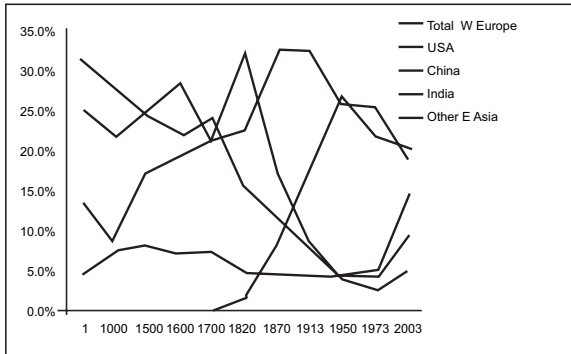


Figure 1: Trend in the Share of Major Countries in World GDP

Following is a summary of some findings from the above table and figure, which shows how the world's economies have changed over the past 2000 years in terms of their % contribution to GDP:

1. In terms of their per centage of the global GDP prior to the eighteenth century, India and China had the two largest economies.

2. India was the largest GDP contributor to the global economy from the First Millennium CE (i.e., from 1 CE to 1000 CE) to the 14th century CE (where CE stands for Common Era).

3. India has contributed the most to global GDP (between 32 and 24.4%) over the course of the first 17 centuries of the Common Era (1 CE to 1700 CE), with the exception of the 16th and 17th centuries, when she lagged China by roughly 0.5 per centage points at the turn of the century in 1500 and by roughly 7 per centage points at the turn of the century in 1600.

4. From 1700 to 1870, India's GDP contribution decreased by more than half, from 24.4% to 12%, a decrease of over 12 per centage points. Western Europe increases by around 33% and 11 per centage points, from 22% to 33%, throughout the same time period.

BRITISH RULE: STATE OF COLONIAL ECONOMY
Disruption of the Traditional Economy

India's economy was eventually integrated with the global economy via colonialism, although in a subordinate way. The British government's economic policies caused the Indian economy to quickly change into a colonial economy, whose character and structure were defined by the demands of the British economy. The eighteenth century was a time of change. The economy was exposed to the global economy more. Additionally, as colonial power gained hold, the groundwork for a new economy based on peasant exports and backing for the multinational corporation was laid. India developed into a significant part of the

British Empire, serving as a significant market for British goods as well as a key supplier of food and raw materials

Impoverishment of the Peasantry

The agriculture industry was the first to suffer. Following the grant of Diwani (taxation rights) to Bengal, Bihar, and Odisha in 1765, the East India Company's strategy to maximize revenue resulted in the total destruction of the agrarian economy of India and the society in the Diwani provinces within a short period of time. The famine of 1769-1770, which resulted in the eradication of roughly one-third of Bengal's population and served as a warning of the general turmoil and poverty that prevailed at the time, was one sign of this condition.

The Company changed the pre-existing land tenure system and instituted three new ones: the ryotwari in southern and western India, the mahalwari in the western Gangetic plains, and the zamindari in eastern India. The goal was to protect the well-being of farmers while securing the highest assured profits on property. With the zamindari system, also known as the Permanent Settlement, zamindari received property rights and a set income for all time.

Commercialisation of Agriculture

A step toward capitalist agriculture is the commercialization of agriculture. Commercialization and tenancy laws caused a class of wealthy peasants to emerge in many locations, but the majority of them decided to acquire land and become landlords or turn to money lending.

Agricultural Labourers

Poor farmers, the majority of whom were tiny peasants, tenants-at-will, and sharecroppers, lacked the finances and motivation to engage in the advancement of agriculture through the use of better animals and seeds, more manure and fertilizers, and improved production methods. Landless peasants, bankrupt artisans, and handicraftsmen were forced to become either tenants of moneylenders and zamindars by paying rack-rent or agricultural labourers at starvation rates due to the loss and congestion of land caused by de-industrialization and a lack of modern industry.

Lack of Modernisation

Indian agriculture barely evolved as other nations modernized and altered theirs. "The basic set of agricultural instruments altered little during British rule," writes Tirtankar Roy in *The Economic History of India 1857-1947* (OUP, 2011, p. 110). The Indian villagers still used their ancient, primitive implements. In 1951, there were 31.3 million wooden ploughs vs 0.93 million iron ploughs. Cow dung, night soil, and calf bones were squandered, but inorganic fertilisers were rare. In 1938-1939, just 11% of farmland used improved seeds, mostly for non-food crops. Agriculture

was ignored. 1946 had 9 agriculture colleges. Flood control, drainage, and soil desalinization got little funding. Only irrigation improved.

Ruin of Artisans and Handicrafts

When the British took over in the 18th century, India was the top supplier of textiles to Europe and contributed a quarter of all manufactured goods. British conquest disturbed the traditional Indian relationship between manufacturing and agriculture. The villages lost autonomy. In the second half of the 18th century, the East India Company and its servants compelled Bengali craftsmen to sell their wares below market value and be paid less for their services. Many lost their ancestors trades.

After the industrial revolution, the urban handicrafts sector, which had made India synonymous with excellence in European markets, collapsed. Colonial control allowed British goods to enter Indian markets, reducing export demand. After 1813, the British imposed a one-way free trade rule on India, and cotton textiles quickly invaded. Archaic Indian wares couldn't compete with steam-powered mass-produced goods. Weaving and spinning cotton suffered the most. Silk and wool textiles, oil pressing, tanning, dyeing, iron, ceramics, metals, and shipping also suffered.

Status of Modern Industries

Between 1850 and 1914, India had the world's greatest jute industry, fourth or fifth-largest cotton textile industry, and third-largest railway network. Modern industrial techniques were slow to spread. India was poor and non-industrial at independence. As Europe industrialized, India reindustrialized. Despite having the cash, market, skilled labour, and entrepreneurial spirit for expansion, India's economy stalled.

In 1850s India, cotton textile, jute, and coal mining industries launched the machine era. Cowasjee Nanabhoy founded Bombay's first textile factory in 1853 and Bengal's first jute mill in 1855. These industries gradually. In the early 1900s, India had 206 cotton mills employing 1,96,000 persons. In 1901, 36 jute mills employed around 1,15,000 persons. Nearly 100,000 people worked in coal mines in 1906. Cotton gins and presses, rice, wheat, and lumber mills, leather tanneries, woollen textiles, sugar mills, iron and steel works, and mineral industries including salt, mica, and saltpetre grew in the late 19th and early 20th centuries. Cement, paper, matches, sugar, and glass grew in the 1930s. These industries evolved slowly.

DRAIN OF WEALTH

Britain received India's wealth. Colonial state, administrators, and merchants moved social surplus and investable capital to Britain. This was done by selling "Council Bills" in London to Indian commodity purchasers in exchange for rupees.

The economic outflow began after 1757. The East India Company halted exporting bullion to Bengal that year, while some still travelled elsewhere. Bengal's territorial revenue surplus funded all of its and India's acquisitions. This money was known as "investement."

Montgomery Martin identified the economic drain in Bengal and Bihar in 1806-1816. "The annual drain on British India of £3,000,000 has accrued, at 12% (the usual Indian rate) compound interest, to £723,000,000 sterling," he remarked. Even in England, a steady drain would leave her impoverished. (from Prosperous British India, p. 223) William Digby came to the same conclusion about the Economic Drain about a century later. William Digby estimated the drain at £60,080,000,000.

This wealth drain was multifaceted. These comprised military expenses, interest on the East India Company's foreign debt, a return guarantee on foreign investments in roads, irrigation, and railways, and "home charges," which included paying for the India Office in London and civilian and military wages and pensions.

POVERTY AND FAMINES

Colonial underdevelopment devastated farmers and craftspeople. Due to British economic exploitation, the decline of indigenous industries, the failure of modern industries to replace them, high taxes, the flow of wealth to Britain, and a regressive agrarian structure, Indians lived in extreme poverty. Zamindars, landlords, and moneylenders exploited poor peasants. Famines in the second half of the 19th century affected poverty and suffering in India. During the British era, many regions experienced recurrent scarcities and famines. In 1770, starvation in Bengal killed a third of the population. A famine in 1865-1866 killed nearly two million people in Bengal, Bihar, Madras, and Odisha. In 1876-1878, 4 million people died, largely in Bombay and Madras. 1897-1898 saw 5 million deaths. There were also local famines and shortages.

MACROECONOMIC POLICY

The Indian economy during the British era was plagued by low levels and growth rates of national and per capita income, a stagnant agricultural sector, a declining share of indigenous handicraft industry, a weak base for the capital goods industry, foreign trade focused on supplying Britain's Industrial Revolution, the prevalence of rampant poverty and unemployment, and other issues. The following macroeconomic indicators could be used to clearly illustrate the state of the economy.

Savings and Investments

The process of capital accumulation, which is a function of the amount and use of economic surplus or savings generated in an economy for investment, is

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what determines how large an economy will become. From 1914 to 1946, the Indian economy's net savings accounted for just 2.75 per cent of its GNP.

This amount can be compared to net savings from 1971 to 1975, which made up 12% of GNP, and more recently, gross savings from 2017 to 2018, which made up 30% of GDP. In the years 1914-1946, the percentage of total capital formation was 6.75 per cent of GNP, compared to 20.14 per cent in the years 1971-1975 and 32.3% in the years 2017-18. Additionally, industry contributed little to this low level of capital accumulation, with machinery making up just 1.78 per cent of GNP between 1914 and 1946. In 1971-1975, this amount was 6.53 per cent of the GNP.

Fiscal Policy

The role played by the State in creating, choosing, and upholding various facets of the colonial framework to control the country was a characteristic of India's governance. The interests of the British economy and the British capitalist class were taken into consideration when deciding India's actions in Britain. Thus, the lack of State support for industry and agriculture was a significant factor in India's underdevelopment. Other elements of the strategy that underpinned colonial authority in India included:

(i) Regressive Tax Structure: The Indian tax system was incredibly unfair. The upper-income groups, which included highly paid bureaucrats, landlords, merchants, and traders, scarcely paid any taxes throughout the colonial period while the poor and peasants were burdened with paying a substantial land revenue and the salt tax, respectively. Direct taxes were not at all high. 3,60,000 people paid income taxes in 1946-1947.

(ii) Military Expenditure: Military expenses and civil administration, which was focused on maintaining law and order and tax collection, took the majority of public revenue. After 1890, the central government's revenue was almost entirely consumed by military spending. This percentage was about 47% in 1947-1948.

(iii) Meagre Spending on Development of Agriculture, Industry, and Social Infrastructure: As was previously mentioned, the colonial state appropriated a sizable portion of India's social surplus; however, it only spent a very small portion of it on the advancement of agriculture, industry, social infrastructure, or nation-building initiatives like public health, sanitation, and education.

Trade Policy

The trade policy saw significant structural changes over the two centuries (1757-1947). Four distinct time periods can be identified: 1759-1813, 1813-1850, 1850-1914, and 1914-1947.

(i) 1759-1813: One could refer to the first era as the Age of Mercantilism. The East India Company strove to impose monopolistic trade between India and Britain and gained its political dominance during this time. Nevertheless, because to the actions of individual traders, the corporation was essentially a failure. The crucial aspects of the trade were that it continued to move through the established channels and that it was composed of the exchange of high-end textiles, foodstuffs, and other raw materials for precious metals and specific finished goods. A sizable portion of the East India Company's trading was financed by the excess from the budgetary sources of its Indian colonies.

(ii) 1813-1850: The commodity mix of the Indian trade underwent a significant structural transformation during this time, which persisted until the end of World War I. India gradually changed from being a provider of primary commodities, importing completed consumer goods and some intermediate industrial goods in exchange, to being a manufacturer of manufactured goods (mostly textiles). Piece goods (fabrics created in conventional widths and lengths) took up 33 per cent of Calcutta's total export values in 1811-12, 14.3 per cent in 1814-15, and just 5 per cent in 1839-40. Indigo, raw silk, opium, and cotton were the four main exports during the period between 1814 and 1850.

(iii) 1850-1914: The Crimean War's beginning and the construction of railway connections in India during the 1850s provided the sub-continental commerce a new boost. Due to the American Civil War and opening of the Suez Canal, foreign trade's volume and value skyrocketed in the ensuing two decades.

(iv) 1914-1947: In 1914, the period of free trade between nations and the gold standard exchange system came to an abrupt end. Indian international commerce in the post-war era was constrained by factors such as global industrial restructuring, the expansion of bilateral trade agreements, a tariff protection strategy, and exchange rate regulations. In addition, India suffered from the 1929 Great Depression along with the other exporters of basic goods. These changes caused significant oscillations in the overall trajectory of India's international commerce during the interwar period. Trade flows were impacted over the last seven years, from the start of World War II to 1946, by wartime restrictions and widespread political upheaval that preceded India's independence in 1947.

PROGRAMME OF ECONOMIC RECONSTRUCTION FOR INDEPENDENT INDIA

The Indian national movement was a popular people's movement that represented many Indian classes and strata. During the war for independence, a self-sufficient economy that promoted social justice and modernisation was a shared goal. In speeches, papers,