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CLEARED PRELIMS

NEXT IAS

(To be filled by candidate)

Name of Candidate : NESRIN P FASIM

Roll No. : ..... Contact No. .....

e-mail: ..... Date of Examination : .....

Exam Centre : Old Rajinder Nagar ☐ Online ☑

CSE (MAINS) TEST SERIES-2024

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

Time Allowed : Three Hours | Maximum Marks: 250

QUESTION PAPER SPECIFIC INSTRUCTIONS

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

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

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

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

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

Answers must be written in the medium authorized in the Admission. Certificate which must be stated clearly on the cover of this Question-cum- Answer (QCA). Booklet in the space provided.

No marks will be given for answers written in a medium other than the authorized one.

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

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

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(For filling by Examiners only)

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

Remarks

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Observations:

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SECTION-A

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

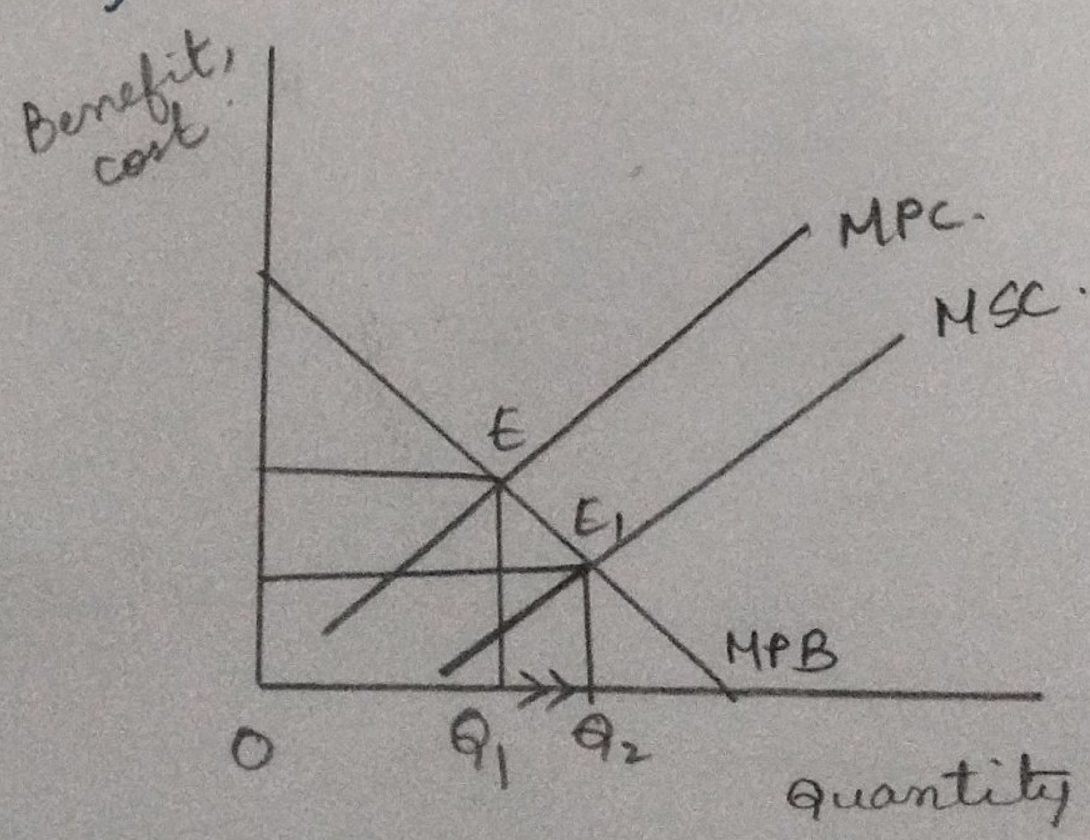
Q.1 (a) Examine the impact of indirect subsidy on welfare.

Subsidy refer to the payment given by the government for obtaining social benefits from a particular activity.

Subsidy
- → direct subsidy (directly to beneficiaries — eg:- DBT).
- → Indirect subsidy (indirectly to the people. eg:- fertiliser subsidy)

Indirect subsidy can have huge welfare effects.

Eg: Subsidising education by subsidising an educational institution rather than scholarship directly to a student.



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In this case, the initial equilibrium was at E where Marginal private cost & marginal private benefit (Q1 output) met. But on providing an indirect subsidy, the equilibrium is at E1 where Marginal Social cost which has increased it's intersecting with Marginal private benefit → as a result the output given is increased, to Q2. (welfare increased)

But the indirect subsidy has some negative impacts:

① Overuse of resources and wastage - eg:- subsidy on urea overutilised.

② Presence of overburden on Government - large fiscal deficit.

③ Problem of middlemen → the subsidies not reaching the

④ poor use Presence of large funds which may not be actually required.

Therefore, there should be proper regulation of indirect subsidies to reap higher benefits.

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

Cambridge theory of money demand was the first fully fledged money demand theory as Fisher's Quantity theory of money was based on money supply. This theory was propounded by Pigou & Marshall. According to the theory,

$$M^d = kPY$$

where M^d = money demand

P = Price

Y = output

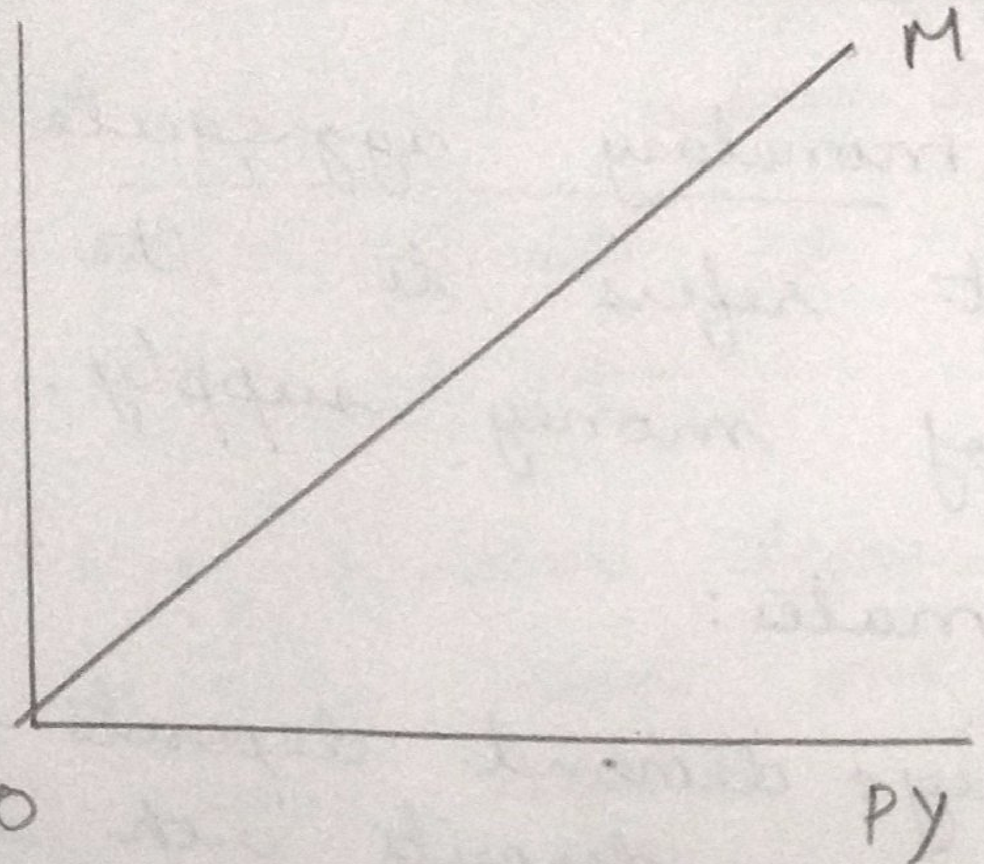
$PY \Rightarrow$ nominal GDP.

The theory says that money demand is a proportion of total nominal GDP. That means money demand will increase as a proportion 'k' of the total nominal GDP produced (linear relation). They also considered 'k' as a behavioural constant which is based on the return of other

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assets.



Money demand function by Cambridge. theory.

However they were not free from criticesim. Hicks and Hansen said that the axes should be interchanged. Later Milton Friedman extended the equation and gave a more wider connotation to 'k' which depends on other real assets return.

Hence Cambridge theory was certainly a breakthrough in the theory of money demand.

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

The ~~money~~ monetary aggregate measurement refers to the measures of money supply.

Earlier estimates:

M_1 = currency + demand deposits + other deposits with RBI.

M_2 = M_1 + post office savings deposits less than one year.

M_3 = M_1 + term deposits above one year.

M_4 = M_3 + term. deposits in post offices above one year.

Later with Y.V. Reddy committee ~~set~~ appointed in 1998, in 2006, following changes have been brought in:

NM_0 = currency + banker's deposits with RBI + other deposits with RBI

NM_1 = currency in circulation + demand deposits + other deposits with RBI.

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$NM_2 = NM_1$ + term deposits of savings + ~~term~~ term deposits ~~above~~ less than 1 year + certificate of deposits of less than 1 year.

$NM_3 = NM_2$ + term deposits of maturity more than one year + call deposits of non-depository financial corporations.

↓

Headline measure

These measures brought thus an enlargened definition of money supply.

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

Capital Adequacy Ratio has been mandated by BASEL-III norms.

It refers to:

$$CRAR = \frac{\text{Tier 1 capital + Tier 2 capital}}{\text{Risk weighted assets}}$$

It is currently fixed at 11% by RBI for Indian commercial banks.

Importance of CRAR:

① Always have capital adequacy to fund the ~~custom~~ deposits when ran out of funds.

② Assures better credit score and hence higher profits and international recognition.

③ Improve financial viability.

④ Saves banks from bank run.

⑤ Ability to manage the crisis like recession.

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It is an important variable for measuring bank solvency because it depicts how much a bank has to cover for the assets that are risky for it.

It ensures a uniform level of keeping the capital safe with the banks such that it could fix its interest rates for lending based on adequate MCLR calculation.

There are other methods like checking NPAs, focusing on liquidity provisioning ratio to bank insolvency.

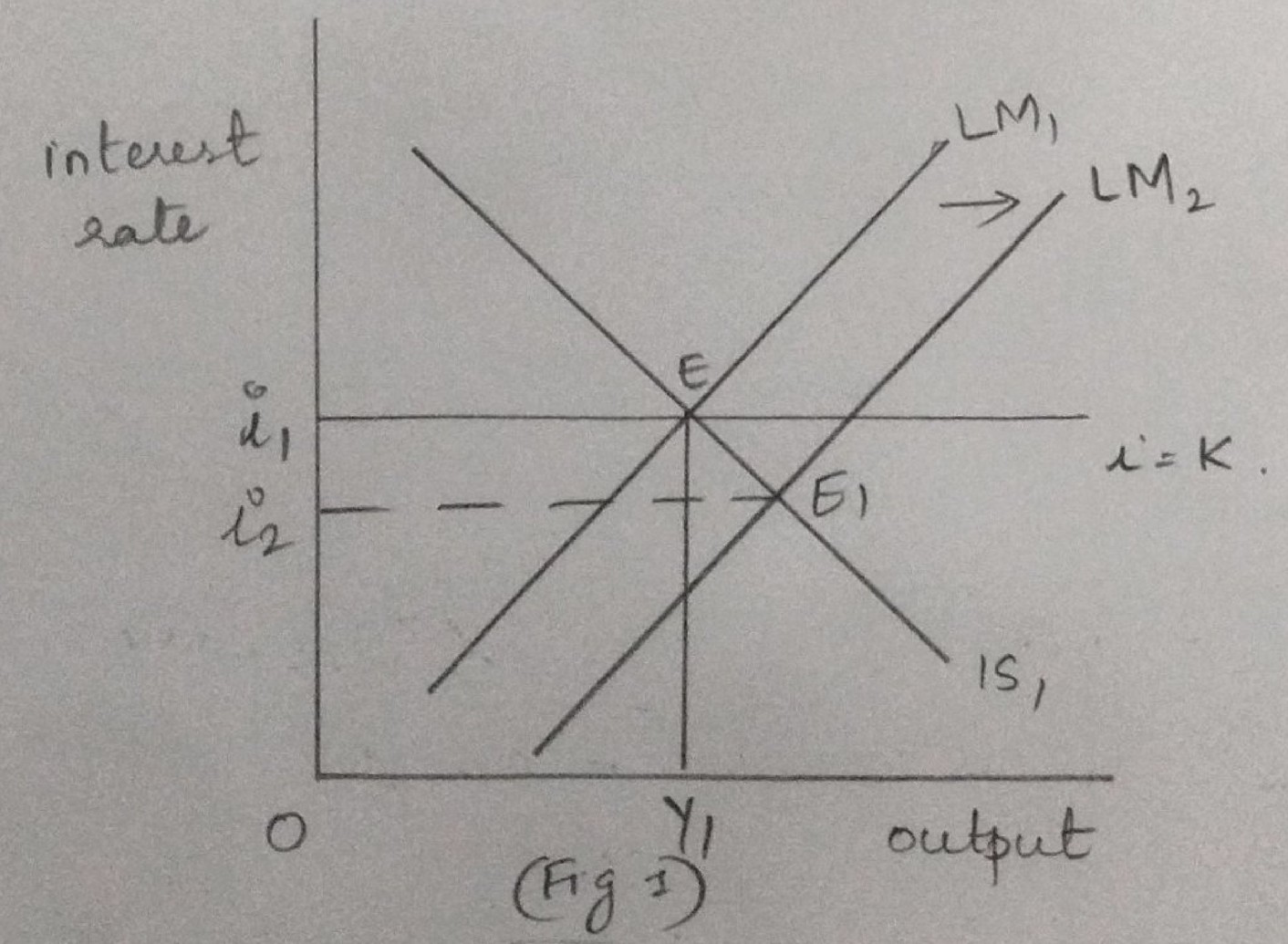
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Q.4 (a) Explain the impact of monetary expansion on output, price and interest rate in case of perfect capital mobility. 20

According to Mundell-Fleming model, there is an impossible trinity ~~set~~ seek that there won't be coexistence of fixed exchange rate, independent monetary policy and perfect capital mobility.

Case 1 – Monetary expansion with perfect capital mobility: (Fixed exchange rate)



(Fig 1)

In fig (1), initial equilobrium is at E, where the internal and external market is at equilibrium

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where interest rate = i, and output at Y_1. If monetary expansion takes place, LM, shifts to right as LM_2. As a result at t_1, $i_2 > i_1$, i.e., the domestic interest rate is less than foreign interest rate → capital outflow → pressure for the currency to devalue → So it the Central Bank buys back the domestic currency by selling the forex reserves to the market. As a result, LM_2 shifts back to left as LM_1, and no change in output. Therefore, interest rate & output don't change

Case 2 - Monetary expansion with floating exchange rate:

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Initial equilibrium at E_1 → As monetary expansion → LM_1 shifts to right as LM_2 → as a result ~~new~~ at E_1, $i_2 < i_1$ (domestic interest rate < foreign interest rate) → capital outflow → Because it is floating exchange rate → currency depreciates → As a result, net exports increase and IS_1 shifts to right as IS_2. New equilibrium is at E_2 with output increased to Y_2.

So ⇒ interest rate same
Output has increased.

In this case, the price may increase due to depreciation of the currency

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

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Some of the states are facing budgetary issues according to RBI such as Kerala, one of the recent cases.

Reasons for poor budgetary performance

① Presence of over social spending larger than ~~or~~ receipts received.

② Large scale off-budget borrowings which should be repaid later.

③ Not adhering to regulation of revenue expenditure

④ Large scale of fiscal deficit

⑤ Huge spending for payment of interest rates for the loans taken.

⑥ Clause of Centre restricting states from ~~lending~~ borrowing the needed

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money.

(7) Not adhering to Finance Commission and GST council recommendation

(8) Inflation management issues.

(9) Large scale capital expenditure which need long gestation period to realise the benefits

(10) Low revenue grants-in-aid

Solutions suggested ~~by~~ ~~RBI~~

---

(1) Bring stronger accounting mechanisms — Budgetary discussions at Legislatures

(2) Regulation of election expenditure by Election Commission

(3) Reduce fiscal deficit through measures from knowledge bodies

(4) Improve special status to states vigilantly by centre.

(5) Enhance ~~GST~~ proper GST compensation ces to the states

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⑥ Capital projects - undertaking those that need lesser gestation period.

For intergenerational equity, the management of budget is necessary.

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

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The RBI is the Central monetary authority in India which the functions of growth, controlling inflation at a ~~band~~ safety band of 4% (±2% band) and reducing unemployment.

RBI has a monetary policy committee to set the policy rates. Quantitative tools of credit control

(1) Repo rate - Refers to the lending of loans by RBI to commercial banks through Repurchase obligation - where the commercial banks should buy back the securities for which it got money from the Central Bank within a specified time, on a specific rate

(2) Reverse Repo - Refers to the sale of securities by the ~~Commercial~~ RBI to commercial bank in exchange of money, by a repurchase obligation. This ~~Central~~ is mainly by which the banks park their funds with RBI.

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(3) Reserve requirements:

* Cash Reserve Ratio ⇒ Refers the amount of deposits as cash that the commercial bank would keep with RBI.

* Statutory Reserve Ratio ⇒ The rate at which the commercial bank should keep bank notes, gold, Government bonds. etc.. with itself.

(4) Bank rate: Rate at which the RBI lends loans to commercial bank.

(5) Marginal Standing Facility: Refers to the overnight lending facility by RBI to commercial banks

(6) Standing Deposit Facility - Rate at which the commercial bank can park its funds with the RBI other than Reverse Repo.

Presently,

MSF > Repo > Reverse Repo

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Policy operations

Rates	Inflation	Deflation
Repo	increases	decreases
Reverse Repo	increases	decreases
CRR	increases	decreases
SLR	increases	decreases
MSF	increases	decreases
SDF	increases	decreases.

During inflationary situations, RBI performs Open Market operations (like Repo) to make the borrowings costlier such that there will be decrease in money supply.

Along with quantitative restrictions, RBI employs qualitative restrictions like Moral suasion, Margin requirements, etc.

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SECTION-B

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

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

Bank nationalisation was carried out in 1969 under Indira Gandhi, as a result of which many banks were nationalised, such as SBI being a major one.

Reasons for bank nationalisation

① To formalise credit — especially provide credit to the lower sector like farmers who face risues from unorganised money lenders.

② to improve capital infusion, especially to the PSUs.

③ To reduce wastage by merging of major banks — ie., to reduce resource use inefficiency.

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(4) To reduce corruption and illegal activity at the private sector.

(5) To improve the savings and hence investment of the economy.

It served the purpose initially as it was has led to large savings rate during the period and afterwards reaching around 21.7% of the GDP.

But it faced challenges later because of huge loss to the banks by lending out to public sector and other major merger issues. This is still evident as NPA crisis in our economy.

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

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Indian taxation system before 1991 had many critique from different scholars.

Challenges of taxation system:

① Higher rates of taxation → reduced willingness to pay by the people.
eg:- Corporate tax (1970s) - 85% + 35% surcharge

② No accurate data on actual incomes → possibility of tax evasion ↑.

③ Large ~~scale~~ scale difference in tax rates at different states.

④ Multiple tax systems in both direct and indirect taxes.

⑤ Government relied wholly on approach of socialist model → taking loan from rich

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and investing it → investment largely suffered because of this.

(6) Presence of instability totally. However after 1991, more developmental efforts led to greater changes in taxation system that made more revenues from both direct and indirect taxes.

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

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The Industrial Policy Resolution, 1956 was the 2nd Industrial policy brought as a part of industrial development in India.

Main features of IPR, 1956

① Classification of industries

Schedule A - 17 industries - out of which three — arms & ammunition, railways, atomic energy was reserved as monopoly of government. The remaining could continue as private sector if they are already so, but no new private players in them.

Schedule B — Private industries could be made, but with heavy government regulation.

Schedule C — All other industries other than schedule B & C.

② Creation of Small Scale industries

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for mostly generating employment and some boards like Coir Board, Khadi board for its ~~19~~ regulation.

(3) Achieving objective of regional growth and spread of development

(4) Go for an import - substituting industrialisation.

It was an improvement of IPR, 1948 ~~as~~ because:

(1) It clearly made distinction among industries where private investment was followed.

(2) Largely organised plan with clear cutting roles of SSIs.

(3) More suited to the changing Indian economy.

But IPR, 1956 failed in many aspects seeh that over-centralisation of industries led to structural retrogression from 1965-80.

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

India faced continuous BoP crisis before 1991 due to as evident from the turbulence of 1960s & 1970s. (1967 - major one).

Reasons :

① Lack of food security till 1965 → import of PL-480 → large drain of forex reserves

② Historical drain of wealth by British who made our reserve systems empty.

③ Turbulence of global economy → even if India devalued its currency in 1966 ⇒ (J curve) did not work well due to global market

④ Lack of competitive industries for export promotion ⇒ Often producing for domestic needs only.

⑤ Presence of Dual Gap

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→ Domestic savings - Investment gap

→ No forex reserves for environment. getting foreign investments.

(6) "Commanding heights' of Public Sector which imposed licenses and quotas for imports & exports.

(7) Large scale rent-seeking by the companies in India.

(8) Large scale dependence on multilateral organisations — often leading to heavy debts & low forex reserves.

(9) Oil crisis

However the great BoP crisis of 1991 was dealt by our policy makers with great enthusiasm and many structural reforms which make us now $6 billion forex reserves owned country.

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

The agriculture before green revolution had many issues like low amount of land to people, ~~too~~ more usury markets and land lordism based feudalistic economy.

It was in 1965 that Green Revolution brought a change in agricultural sector — with high yielding crops.

Policies before Green Revolution

① Land reforms :

Included →
- Tenancy reforms
- consolidation of landholdings
- Abolition of ~~land reforms~~ intermediaries
- ~~Regulated~~ Security of Tenure.

However they were not successful

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due to bureacratic apathy and narrow definitions of personal cultivation, eh..

② Init five year plan (1951-56) focusing on agriculture.

③ Policy of Intensive Area Irrigation Programme and Intensive Area Development programme on a pilot basis.

However, these policies couldn't address agriculture and we still imported goods like PL-480 from US. This finally led to Green revolution introduction in 1965-66.

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

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C.N Vakil and Brahmananda on their book, "Planning for an expanding economy" brought out the 'wage goods' model - focusing on a consumption-led growth.

According to Vakil,

Putty capital refers to the capital which could be utilised for the production of any type of goods, be it capital good, consumer good or luxury good.

Clay capital refers to the capital which could be used to produce only specific types of goods. eg :- Railway tracks.

Vakil made the model in such a way that there should be utilisation of these capital in such a way that there would be maximum utilisation

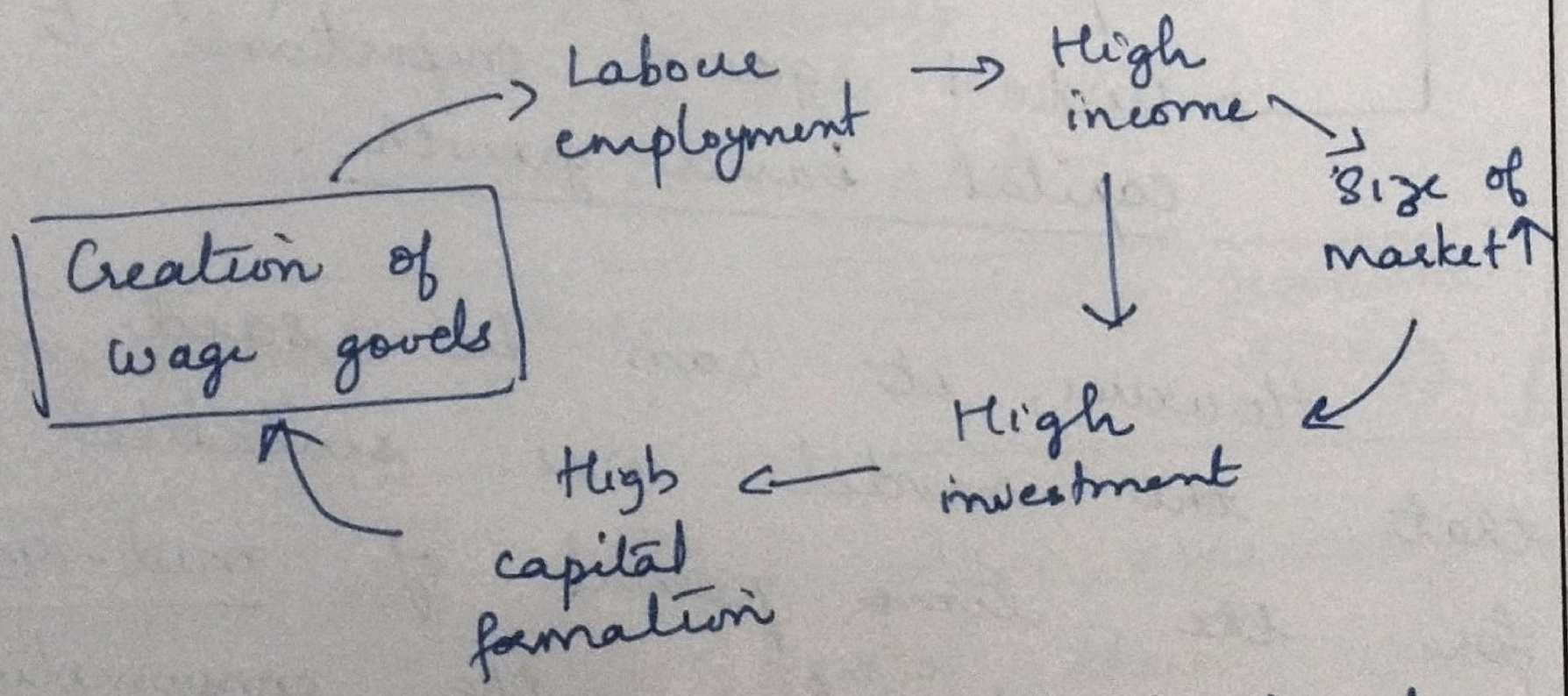
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of both types of capital.

Vakil and Brahmananda opined that India's growth should be focused on putty capital and put forward the **wage goods model**.

They opined that there should be diversion of putty capital to wage goods production such that it would gradually lead to capital formation and would inturn be self-sustaining.



Wage goods model which leads to a self sustaining growth.

They were against the Mahalanobis model involving investment in

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the large basic and key capital industries. They believed that investment on wage goods such as matchbox, toys, etc.. ~~that~~ would drive up high capital and High growth, and utilise the lower $\frac{K}{L}$ ratio in an optimal way.

Criticisms

→ did not consider total factor productivity.

→ Initial level of income was not high during the time of independence to purchase wage goods for people.

→ Didn't gaive importance to capital based growth.

However, it can be said that the model was suitable for the time period of mid-1960s and beyond, when the consumption industry was lagging behind capital goods and India had a low industrial growth.

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

Candidates must not write on this margin

The import substitution policy was adopted by India during the first phase of planning - especially by 2nd Five Year Plan or Mahalanobis plan where we decided to produce the import goods through heavy industrialisation.

Methods adopted
- → MRTP Act, 1969.
- → Public sector as Commanding heights
- → Reserving goods for small scale industries.
- → Licensing rules for imports.
- → FERA act.

Empowered Indian industry quantitatively

During the initial phase, especially during 1951-65 period, there was a high ~~capital~~ industrial growth. (around 12% in 1961-65).

Other data → Capital goods - 16%.
Consumer goods - 4%.
Basic goods - 11%.
} 1951-65

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During this time, the industry grew almost in double digits, with capital goods industry growing more than consumer goods. But in quantitative terms too, they suffered backfie; because there was a decline of industrial growth to single digit growth after 1965. For instance, 1966 – 76 period roughly experienced 3% growth in industry with capital industry falling down to mere 4%.

Discouraged quality of production

The quality of production was also deteriorated because of the inefficiency of the Public sector companies where ~~the~~ running with less efficient labour force and higher wages & excess capacity.

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Most of the capital goods didn't create any multiplier impacts due to their less quality. (as K/L ratio was very less for India; ICOR was just 4%).

The reduction of quality could be witnessed in the stagnation of growth of complete industrial sector. There was low quality goods which couldn't be used due to lack of labour & enhancing techniques along with huge capital investment and lacked consumer goods production too. The License Raj led to unequal regional development and ~~thus~~, ~~to~~unfavourable License Raj systems.

In short, it can be said that the structural retrogression was due to low quality goods even though there was increase in quantity at first period.

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

Candidates must not write on this margin

Savings and Investment showed an increasing trend + stagnation + increase during the period before 1991. This was due to policy & institutional measures during that time.

Savings Trend

Phase 1 – Low savings phase (1951-65)

1951 → 4% of GDP 1965 – 14% of GDP

↓

not sufficient to meet growth rate of 5%, because 20% was needed.

Low growth due to
- → no developed agricultural sector
- → no financial reliability due to lack of financial institutions
- → Government had less savings.

Phase 2 – Savings increasing (1966-76)

- Savings reached around 19% of GDP
- This was due to the farmers

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income picking up due to growth of green revolution, ~~etc.~~, presence of

Phase 3 – ~~High~~ savings phase (1970-80)

nationalisation of commercial banks, establishment of mutual funds, ed

Phase 3 – High savings phase (1976-80)

This was due to huge growth of agriculture & allied sectors, formation of RRB (1974), government's lenient tax laws, ed..

savings reached **21.7%** of GDP at the end of this period.

Phase -4 1979-80 to 1981-85 — Stagnation

The savings ~~stagnated~~ stagnated due to rapid rise in consumption goods and less incentive to save.

Phase 5 – Recovery (1985-90)

The savings picked up due to lenient tax laws, and more liberalisation from government's part.

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Trend of Investments

Phase 1 - 1951-65 - Low investment phase:

This was due to less development of agricultural investment and Government's lack of resources to invest. However there was 16% of GDP as investment, with most from business private investment.

Phase 2 - High investment (1965-75)

In this phase, the investment reached around 24% due to greater public investment where there was followed import-substitution + growth of PSUs, along with which crowding in increased. There was agricultural investment too.

Phase 3 - Stagnation (1975-80)

This was due to stringent rules

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on private participation like MRTP act and licensing policies which made crowding out.

Phase 4 - Investment picking up (1980-1990)

(i) This was due to the liberalised policy of Government on the private industries which picked up private investment along with public investments.

In short, investments were mostly high during period before 1991 and that too, a majority being private investment.

The savings and investments helped in the growth of Indian economy to provide a base for liberalised economy after 1991.

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

India had a less developed agriculture sector during the time of independence with the presence of ~~fee~~ feudalism, usury market and low productivity. ~~this~~

This was mainly due to the continuous droughts that happened during British period and lack of rebuilding of the economy to a normal state.

Main steps by Government to promote food security

① Land reforms – dividing the land to tenants for cultivation – smaller lands – bring more efficiency (In 1951).

② Green Revolution – In 1965, it was introduced to bring self-sufficiency in food security. (reduce PL-480 imports from US).

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Features → introduction of high yielding varieties of wheat and rice - short crop with many branches
→ Large scale 'mechanisation' using fertilizers & perticides for high output
→ Use of large lands

③ Fifth year plan — Garibi Hatao and PDS system (in 1970s).

④ Operation flood — Yello Poultry needs.

But these steps had many issues :

① Land reforms
- presence of poor tenancy laws
- Lack of proper definition of 'personal cultivation'
- Lack of proper Consolidation

② Green revolution
① Huge regional imbalance — only North Western states like Punjab, Haryana & South — Andhra and Tamilnadu benefitted.
② Monocropping and less growth of diversified diet → led to

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only production of rice & wheat.

(3) Environmental degradation through overirrigation, salination of soil.

(3) The bringing up of Public Distribution system faced huge inclusion and exclusion errors coupled with black marketing of the govts.

(4) Large scale inequality due to inaccessibility and adaptability due to these policies.

The measures ensured food security to a great extent as the food grains were a surplus for India after Green revolution (around 132 million tonnes in 1991). But the nutritional security wasn't achieved, which is a persisting challenge now.

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

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Indian economy witnessed a growth opposed to what Kuznets suggested, which is a shift from agriculture to services directly skipping huge growth in industrial sector.

Sectoral trends

Sector share (1951 (occupational share)) growth	1971	1991
Agriculture	53.1% (73%)	42% (68%)	29% (65%)
Industry	17% (11%)	24% (12%)	28% (14%)
Services	29% (16%)	34% (20%)	43% (21%)

Analysis — Sectoral share

Agricultural sector:

The agricultural share was the highest during 1951 due to the low development of the economy at the time of independence and mostly the industries were not developed. The share of agriculture gradually

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reduced with more investment going to the industry and services.

~~Agriculture~~ Industry:

The industrial sector showed an increasing growth trend due to investment in heavy and capital goods industries (Basic industries). But it didn't overpower other two sectors due to import-substitution industrialisation and less private sector participation.

Services:

The services sector were mostly dominant by trade, internal services, ~~hotels~~, ~~etc~~ etc. during the independence which later gave way for telecom sector, and public services that led to its higher share in GDP.

Analysis — Occupational share

Agriculture

↳ Continued to employ most of

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the people creating Disguised unemployment. Since the share in GDP decreased, people due to lack of skills and rural development relied on agriculture.

Industry:

↳ Share of labour force was increasing less because of a capital-intensive production in India rather than labour-intensive production in basic and key industries.

Services:

↳ There was widespread lack of education and human development which hindered people to be in services.

This specific growth pattern led to the issue of jobless growth and still prevalent structural gap in Indian economy.

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

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Indian economy witnessed a period of structural retrogression during the period of 1966-80 which had everlasting impacts on Indian economy's growth prospects.

~~Reasons~~ The scenario was first that the industrial sector growth was rapidly declined from double digits to single digits, especially the capital goods sector decreased from 16% to mere 4% in 1966-80, with total industrial growth falling to 4% from 12% in 1951-55.

Reasons for Structural Retrogression

① Poor performance of Public Sector Enterprises — most of them were operating in ~~exce~~ under

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capacity, especially the capital goods industry. This was due to underutaffing, huge payment of wages and ~~no proper~~ Political issues.

② Import-substitution was a failure because there was no quality goods for consumption needs as well as lack of technology

③ Presence of excessive governmental control through:

→ Passing Foreign Exchange Regulation Act.

→ Reserving 800 goods for Small scale industries.

→ Passing MRTP Act, 1969 → restricting private investments and participation.

→ Presence of "License Raj" system — leading to ~~less~~ more

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restrictions.

(4) Regional imbalance on development of industries concentrated at Maharashtra, Gujarat, etc.. → reducing spill over effects.

(5) The effect of droughts preceding the period.

(6) Low effect of devaluation in the economy – The $\frac{\partial}{\partial}$ curve didn't work well due to overall dip in global demand and prices.

(7) The wars had drained India's resources (Indo – china war, Indo – Pak war, etc..)

(8) Consequent recessions (eg :- 1962-63, 1967).

(9) Huge scale welfare activities and poverty alleviation schemes

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without proper checks and balances.

(10) Presence of high fiscal deficit (around 7.8%).

However, the government slowly overcame from the crisis in 1980s by liberalising the definitions of MRTP Act, opening up to more privatisation, etc.. But still its consequences are reflected as low growing industrial sector in our economy.