

INDIAN INSTITUTE OF TECHNOLOGY KHARAGPUR

Department of Humanities and Social Sciences

End-Autumn Semester Examination - 2018-19

Date: November 20, 2018

Full Marks: 50

Time: 2.00-5.00 PM

Sub. Code: HS30085

Indian Economy

Instructions:

Question paper consists of three parts; Part C is compulsory

Each question carries 10 marks

Credit will be given for orderly, effective and exact expression combined with due economy of words

Part A

Answer any two

1. What are the causes of declining population of bovine and consequent disruption in India's balanced bovine economy? Critically examine the whether the recent policies in this regard address the problem? Please suggest the appropriate measures to protect the Indian bovine breeds.
2. State the current scenario of gender-wage gap and lack of females in boardroom of Indian corporates. How the construction of gender explain such situation? Does neo-liberal economic policy liberate the females from discrimination and inequality in the economy?
3. What are challenges of higher education funding in India? Discuss the effect of post reform measures of funding on women and deprived communities' access to higher education.

Part B

Answer any two

4. Is the IL & FS fiascos a Lehman moment of India? Discuss the causes and effect of IL & FS default. Is the crisis a case of crony capitalism or result of systemic problems in infrastructure sector?
5. Discuss the causes of rupee depreciation in recent months. Do you agree to the view that rupee was overvalued? Will intervention measures taken by the government help lift the rupee Explain.

6. What is universal basic income (UBI)? Present your views on UBI? What are the prospects and challenges of introduction of UBI in India?

Part C: Case Analysis

7. **Is rumoured Urjit Patel's resignation, the apocalypse for the Indian economy?**

The rift between Reserve Bank of India (RBI) and the Government has become visible in public domain after the speech by Viral Acharya, the Deputy Governor of RBI. While delivering the A.D. Shroff Memorial Lecture in Mumbai on October 26, 2018, Viral Acharya warned Government about the potentially catastrophic effects of undermining the central bank's independence. In his hard-hitting speech, C.V. Starr Professor of Economics Viral Acharya, who is on leave from Stern Business School, New York University said "As many parts of the world today await greater government respect for central bank independence, independent central bankers will remain undeterred. Government that do not respect central bank independence will sooner or later incur the wrath of financial markets, ignite economic fire, and come to rue the day they undermined an important regulatory institution."

Government was unhappy with the speech for publicly talking about the rift fearing it could tarnish the image of country among investors. According to a report published in Reuters, top official expressed their displeasure about speech. According to a report in Livemint, the Union finance minister Arun Jaitley accused the central bank of sleeping on the job for its failure to check indiscriminate lending by public sector banks between 2008 and 2014. DEA Secretary Subhas Chandra Garg taking a dig at Viral Acharya tweeted "Rupee trading at less than 73 to a dollar, Brent crude below \$73 a barrel, markets up by over 4% during the week and bond yields below 7.8%. Wrath of the markets?"

For long, Government pursuing RBI for cut in interest rates. Government wants RBI to relax prompt correction action framework, dilute disclosure norms for defaults, pay higher dividend to the government, and open special refinance window for mutual funds, NBFCs and housing finance companies among other demands. Quoting sources in the government, Financial Express reported that the government is asking the central bank to hand over a part of its surplus reserves and the matter is pending before the board of RBI and may be taken up at its next meeting likely on November 19.

According to reports published in the Economic Times, Government has sent a number of letters to Governor Urjit Patel exercising powers under Section 7 of the RBI Act on issues. The analysts and major domestic and global think tanks raised concern over curtailment of autonomy. They hold assembly election in five states and general

election around corner as reasons for Government's pressure on the RBI and such intervention leads to election bubble in financial markets. Former Reserve Bank of India Governor Raghuram Rajan, who did not seek second term, defended the central bank's call for greater autonomy from the government, saying ultimately the nation stands to benefit from an independent and robust RBI. S. Gurumurthy, cooperative banker and government nominee on board of RBI complained about the Viral Acharya's speech to Governor. He also tweeted in July 2018 "Raghuram Rajan destroyed the RBI's independence by making it subservient to global thought rather than pursue India centric solutions. The RBI can't now move away from that line for fear of going against global financial opinion. RBI has lost its capacity to think for India".

MoneyLife, the online financial publication headed by famous investigative reporter Sucheta Dalal reported that Governor Urjit Patel could resign at the central bank's next board meeting on November 19, as he was tired of the struggle with the government, and it was having a negative impact on his health.

The spat between RBI and Government is not new as India witnessed such spats innumerable times. However, market pundits and political analysts are of the view that the independence of RBI is not on par with that of Fed or ECB; and the unprecedented use of Section 7 will dent a blow to whatever autonomy RBI enjoys now. The simmering rift between RBI and the Government once again brought the debate of central bank independence.

- (a) Do you think that weakening central bank independence lead to a more pronounced political business cycle and financial instability? Is this statement true, false or uncertain? Explain.
- (b) The independence of RBI leaves it completely unaccountable for its actions while elected government is answerable to the voters. Is this statement true, false or uncertain? Explain.
- (c) What do you think markets, economy and exchange rate will respond if Governor Patel resigns?
- (d) The RBI and Government are working under a neoliberal policy framework. The current rift is not a result of independence Vs intervention but a internal contradiction of global capitalism. Do you agree? Explain.