Additional Case Studies(HOTS Category)

CASE STUDY-1

Read the following text and answer the given questions:

NSO released the First Advance Estimates (FAE) of national accounts for FY22 on January 7, 2022. India's real GDP growth in FY22 is estimated at 9.2%, that is 30 basis points lower than the RBI and IMF projection of 9.5%. The adverse effects of the third wave of COVID-19 during the last quarter of FY22 may call for a further downward adjustment in the growth rate to about 9%. The main sectors that have held back a more robust recovery are trade, transport, etc., on the output side and Private Final Consumption Expenditure (PFCE) on the demand side as their annual estimated FY22 magnitudes remain below the corresponding levels in FY20.

1. What do you understand by "real GDP growth"?

Ans. Real GDP means the sum total of the money value of all goods and services produced in an economy during a year. The money value of output is estimated based on some base year price. This estimate is also known as GDP at constant prices.

The growth rate is estimated as percentage change in output in the current year over output in the preceding year.

2. Which of the following sectors have pushed up the growth rate?

(a) Agriculture
(b) Trade
(c) Transport
(d) Tourism

Ans. (a) Agriculture

3. Discuss briefly the adverse effects of COVID-19 on Indian economy.

Ans. Adverse effects of COVID-19 on Indian economy are:

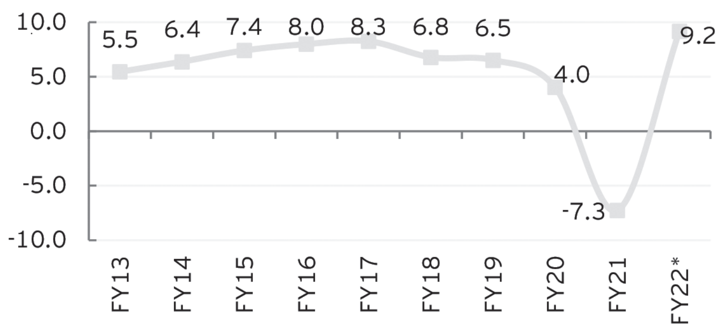
(i) Loss of output and employment
(ii) Fall in growth rate of the economy
(iii) Massive fall in Private Final Consumption Expenditure.
(iv) Majority of service sector units were badly hit, particularly toursim, transport, education, etc.

CASE STUDY-2

Read the following text and answer the given questions:

As per the First Advance Estimates (FAE) of national accounts data released by the Ministry of Statistics and Programme Implementation (MoSPI) on January 7, 2022, real GDP is estimated to grow by 9.2% year-on-year (y-o-y) in FY22 (Chart 1). With this, the implied growth for second-half of FY22 is estimated at 5.6%.

Chart 1: Real GDP growth (%, y-o-y)



* First Advance Estimates (FAE)

1. What explains the fall in real GDP during FY21?

Ans. The fall in real GDP can be directly attributed to the pandemic that hit the economy.

2. How did the pandemic adversely affect the growth?

Ans. The pandemic adversely affected all components of aggregate demand (AD), *viz*. consumption expenditure and investment expenditure. We know AD = C + I. With the fall in both C and I, the AD curve moved downwards, bringing about a fall in national output and employment level.

3. According to the given data, what are the projections about the year FY22 for the Indian economy?

Ans. Real GDP growth will move in the positive territory. This will not only cover last year's loss but will also make a net contribution to growth.

CASE STUDY-3

Read the following text and answer the given questions:

On the external front, exports of goods and services are estimated to grow by 16.5% in FY22. With imports growth likely to be significantly higher than exports, the contribution of net exports to real GDP growth is estimated to be negative at (–)2.9% points in FY22. On the output side, real GVA is estimated to grow by 8.6% in FY22 after contracting by (–)6.2% in FY21, surpassing its FY20 magnitude by ₹ 2.5 lakh crore.

Table 1: Real GDP and GVA growth (%, annual)

Agg. demand	FY18	FY19	FY20	FY21	FY22 (FAE)	FY22 minus FY20 (₹ lakh crore)
PFCE	6.2	7.6	5.5	-9.1	6.9	-2.4
GFCE	11.9	6.3	7.9	2.9	7.6	1.7
GFCF	7.8	9.9	5.4	-10.8	15.0	1.2
EXP	4.6	12.3	-3.3	-4.7	16.5	3.1
IMP	17.4	8.6	-0.8	-13.6	29.4	3.9
GDP	**6.8**	**6.5**	**4.0**	**-7.3**	**9.2**	**1.8**
Output side						
Agr.	6.6	2.6	4.3	3.6	3.9	1.5
Ming.	-5.6	0.3	-2.5	-8.5	14.3	0.1
Mfg.	7.5	5.3	-2.4	-7.2	12.5	1.0
Elec.	10.6	8.0	2.1	1.9	8.5	0.3
Cons.	5.2	6.3	1.0	-8.6	10.7	0.1
Trans.	10.3	7.1	6.4	-18.2	11.9	-2.3
Fin.	1.8	7.2	7.3	-1.5	4.0	0.7
Publ.	8.3	7.4	8.3	-4.6	10.7	1.0
GVA	**6.2**	**5.9**	**4.1**	**-6.2**	**8.6**	**2.5**

Source: MoSPI, Government of India

1. Which of the following components of Aggregate Demand (AD) did not move in the negative territory during FY21?

(a) PFCE (b) GFCE

(c) Exports (d) Imports

Ans. (b) GFCE

2. On the output side, which of the following sectors did not move in the negative territory?
   (a) Mining (b) Electricity
   (c) Construction (d) Transport

Ans. (b) Electricity

3. Which of the following sectors recorded the sharpest fall in FY21?
   (a) GFCF (b) PFCE
   (c) Exports (d) Imports

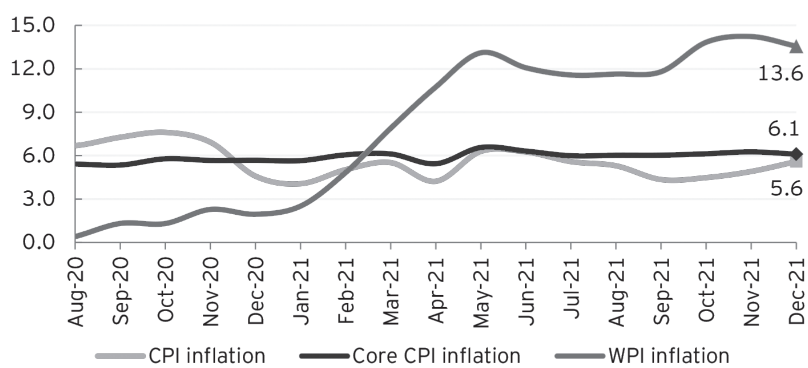
Ans. (d) Imports

CASE STUDY-4

Read the following text and answer the given questions:

Consumer Price Index (CPI) inflation increased to 5.6% in December 2021 from 4.9% in November 2021 led by a significantly lower contraction in vegetable prices (Chart 2). Consumer food inflation increased to a five-month high of 4.0% in December 2021 from 1.9% in November 2021. The pace of contraction in vegetable prices reduced to a six-month low of (–)3.0% in December 2021 from (–)13.6% in November 2021. Core CPI inflation was high at 6.1% in December 2021 as compared to 6.3% in November 2021 due to continued pressures from clothing and footwear, health and transportation and communication sub-groups. Core CPI inflation has ranged between 6.0-6.6% since May 2021. WPI inflation remained elevated at 13.6% in December 2021 as compared to an all-time high (2011-12 series) of 14.2% in November 2021 due to broad-based inflationary pressures. Core WPI inflation at 11.0% in December 2021 was above 10% for the eighth successive month. Inflation in manufactured basic metals remained elevated at 22.2% in December 2021, although lower than 29.1% in November 2021.

Chart 2: Inflation (y-o-y, in %)



Source: MoSPI, Office of the Economic Adviser, Government of India

1. What do you mean by inflation y–o–y in %?

Ans. y–o–y inflation is measured as percentage change in price index in a month in the current year over the price index in the corresponding month in the preceding year.

2. Which index is added to measure CPI inflation?

Ans. Consumer price index.

3. How is core inflation measured?

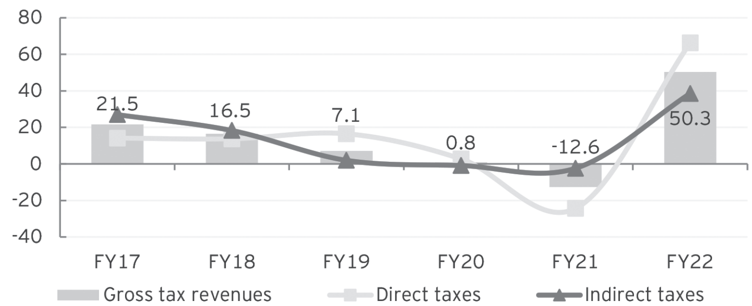
Ans. Core CPI inflation is measured in different ways by different organisations/agencies. Here, it has been calculated by excluding food, fuel and light from the overall index.

CASE STUDY-5

Read the following text and answer the given questions:

As per the Controller General of Accounts (CGA), the Centre's Gross Tax Revenues (GTR) grew by 50.3% during April-November FY22 as compared to a contraction of (–)12.6% during the corresponding period of FY21. Growth in the Centre's GTR, when calculated over April-November FY20, was at 31.3% (Chart 3). Direct and indirect taxes grew by 66.3% and 38.6% respectively during April-November FY22 as compared to a contraction of (–)24.4% and (–)2.4% respectively in the corresponding period of FY21. Growth in direct and indirect taxes, when evaluated over the corresponding period of FY20, was at 25.7% and 35.3% respectively.

Chart 3: Growth in central gross tax revenues during April-November (%, y-o-y)



Source: Monthly Accounts, Controller General of Accounts (CGA), Government of India

Notes: (a) Direct taxes include personal income tax and corporation tax, and indirect taxes include union excise duties, arrears of service tax, customs duty, and GST (comprising CGST, UTGST, IGST and GST compensation cess), (b) Other taxes (securities transaction tax, wealth tax, fringe benefit tax, banking cash transaction tax, etc.) are included in the Centre's gross tax revenues along with direct and indirect taxes, (c) IGST revenues are subject to final settlement.

1. During FY21, which of the following tax-groups moved in the negative territory?
   (a) Direct taxes (b) Indirect taxes
   (c) Both direct taxes and indirect taxes (d) None of these

Ans. (c) Both direct taxes and indirect taxes

2. Which of the following groups of taxes is projected to grow sharpest in FY22?
   (a) Direct taxes (b) Indirect taxes
   (c) Both of these (d) None of these

Ans. (a) Direct taxes

3. Centre's non-tax revenue contracted during FY21. True/False.

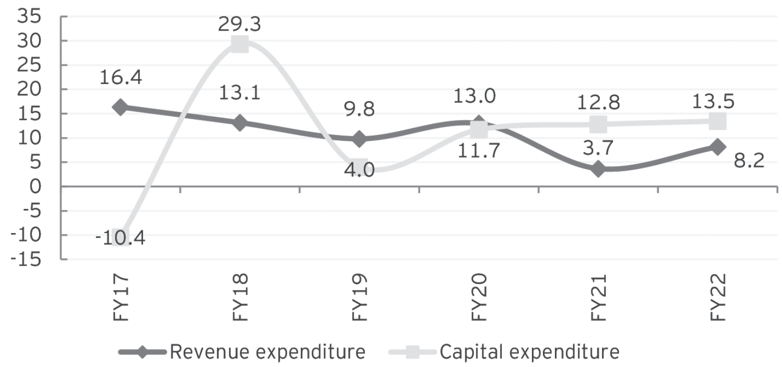
Ans. True

CASE STUDY-6

Read the following text and answer the given questions:

Centre's total expenditure grew by 8.8% during April-November FY22 as compared to 4.7% during the corresponding period of FY21. Total expenditure during the first eight months of FY22 stood at 59.6% of the annual Budget Estimate (BE) as compared to the corresponding ratio of 62.7% last year. Revenue expenditure showed a growth of 8.2% during April-November FY22 as compared to 3.7% during the corresponding period of FY21 (Chart 4). Revenue expenditure during the first eight months of FY22 stood at 61.5% of the annual BE, slightly lower as compared to the corresponding ratio of 63.3% in FY21. Growth in Centre's capital expenditure slowed to 13.5% during April-November FY22. This is marginally higher than the growth of 12.8% during the corresponding period of FY21. Capital expenditure during the first eight months of FY22 stood at 49.4% of the annual BE, significantly lower than 58.5% during the corresponding period of FY21.

Chart 4: Growth in central expenditures during April-November (%, y-o-y)



Source (basic data): Monthly Accounts, Controller General of Accounts (CGA), Government of India

1. Growth in revenue expenditure has always been more than the growth in capital expenditure except during the year
   (a) FY18. (b) FY20.
   (c) FY21. (d) FY22.

Ans (a) FY18.

2. The slowest growth in revenue expenditure took place in the year
   (a) FY19. (b) FY20.
   (c) FY21. (d) FY22.

Ans. (c) FY21.

3. Analyse the trend in Capital Expenditure over the years.

Ans. In the Indian economy over the years (2017–22) capital expenditure has witnessed an abrupt/wayward movement. Whereas it was in negative zone in FY17, it touched 29% in FY18. This marked a mammoth rise of around 40% in just one year.

The same had registered a fall of around 25% in next fiscal year dropping to a mere 4% as compared to 29% in last fiscal year. However, in next three FYs-20,21 and 22 the government has made all possible efforts to reduce massive fluctuations and maintaining it at 11.7%, 12.8% and 13.5% respectively.

4. Analyse the trend in Revenue Expenditure over the years.

Ans. Since FY17 the government has tried to exercise control over the revenue expenditure of the nation. Whereas it stood at 16.4% in FY17 the same is brought down to half (approximately) standing at 8.2% in FY22. Reduction in revenue expenditure is the result of the endeavour of the government to exert lesser pressure on the front of fiscal deficit of the nation.

CASE STUDY-7

Read the following text and answer the given questions:

As per the Organisation for Economic Cooperation and Development (OECD), the global economy contracted by (–)3.4% in 2020 due to the adverse impact of the pandemic. Amongst selected major economies, the rate of contraction was the sharpest in the UK, followed by India and the Euro area. Global growth is estimated to have recovered to 5.6% in 2021 (Table 2). However, the rebound has still not led to a full healing of the global economy with global GDP in mid-2021 remaining 3.5% lower than projected before the pandemic.

Table 2: Real GDP Growth (%, annual)

Country	2020	2021	2022	2023
US	-3.4	5.6	3.7	2.4
UK	-9.7	6.9	4.7	2.1
Euro area	-6.5	5.2	4.3	2.5
Japan	-4.6	1.8	3.4	1.1
Brazil	-4.4	5.0	1.4	2.1
Russia	-3.0	4.3	2.7	1.3
India*	-7.3	9.4	8.1	5.5
China	2.3	8.1	5.1	5.1
World	**-3.4**	**5.6**	**4.5**	**3.2**

Source: OECD Economic Outlook, December 2021; *data pertains to fiscal year

1. During 2020, the only country that recorded a sharper fall in GDP than India was
   (a) UK. (b) Russia.
   (c) China. (d) USA.

Ans. (a) UK.

2. Among all the major economies, the fastest recovery recorded in FY21 was in
   (a) UK. (b) India.
   (c) China. (d) USA.

Ans. (b) India.

3. Among all the major economies, the sharpest growth during 2020-2023 was projected in
   (a) UK. (b) India.
   (c) China. (d) Bangladesh.

Ans. (b) India.

4. China has been recording a higher inflation rate than India during all the years except 2020. True/False.

Ans. False

5. Among the major economies, Russia is projected to have a higher inflation rate than India. True/False.

Ans. True

CASE STUDY-8

Read the following text and answer the given questions:

As per NSO's First Advance Estimates (FAE), at the end of FY22, the magnitude of GDP in real terms is estimated at ₹ 147.5 lakh crore, which is only marginally higher than ₹ 145.7 lakh crore in FY20. In other words, due to the three waves of COVID-19 that India has experienced, nearly two years of real growth in economic activity has been wiped out. The economy has to now start on a clean slate in FY23. Growth in this year would depend on the basic determinants such as the savings and investment rates in the economy. As per the FAE, the Gross Fixed Capital Formation (GFCF) relative to GDP at current prices stands at 29.6% in FY22.

1. Nearly two years of real growth in economic activity has been wiped out due to COVID-19. True/False.

Ans. True.

2. Given the state of the economy, what limitations on growth can be identified?

Ans. At present, Private Final Consumption Expenditure (PFCE) continues to show a low growth. As per the FAE, this growth has been estimated at 6.9% in FY22. Any pick up in consumption demand would continue to be constrained by low-income growth in sectors characterised by a high Marginal Propensity to Consume (MPC) such as the trade, transport, hotels, etc., and the MSME sector more broadly. Growth in FY23 would also continue to be constrained by supply-side bottlenecks and high prices of global crude and primary products. As such, it may not be prudent to expect a real GDP growth which is tangibly higher than 7%. The Implicit Price Deflator (IPD)-based inflation which is estimated to be as high as 7.7% in FY22, may come down but still be in the range of 6-6.5%. Thus, we may expect a nominal GDP growth of about 13-14% in FY23.

CASE STUDY-9

Read the following text and answer the given questions:

There are two major challenges faced by the global economy with significant ramifications for the Indian economy. The first one pertains to the emerging variants of COVID-19 leading to a sharp surge in infections across the globe, posing a downside risk to growth. The second one relates to the unfolding of an unprecedented era of high inflation in major advanced economies (AEs) and emerging market and developing economies (EMDEs).

1. Throw light on the emerging compulsions of the global economy.

Ans. (a) **Rising COVID-19 cases:** The global economy is seriously beset with the current surge in COVID-19. Individual economies, with different peaking patterns, are suffering from their fourth or fifth COVID-19 waves. As on 21st January 2022, the highest number of new cases were seen in the US at 763,000, followed by France at 422,000 and India at 347,000. New COVID-19 cases in Brazil were at 205,000 and in Italy, these were recorded at 199,000. In Germany, the cases were at 140,000 and in the UK, these were at 107,000. Major European economies as well as the US have been affected in a significant way and many of them may not show a positive growth in their real GDP in 2022 over 2020. India also experienced its third COVID-19 wave in January 2022. However, future COVID-19 waves have not been ruled out.

(b) **Unprecedented high inflation trend in selected AEs:** Inflation pressures have emerged in almost all economies in 2021. Major factors that have contributed to a surge in headline inflation across countries are: (1) disruptions in energy, food and commodity markets which have significantly pushed up food, energy and transportation prices, adversely affecting low-income households in particular, (2) disruptions in manufacturing of key materials and intermediate goods due to high energy prices and fuel shortages, and (3) bottlenecks in production chains that are spreading to more generalised shortages of goods.

CASE STUDY-10

Read the following text and answer the given questions:

A contraction of (–)5.9% in global output in 2020 has adversely impacted the volume of global exports including that from India. Global exports have been adversely affected by supply-side impediments including extreme weather incidents, shortages of inputs such as semiconductors, and shipping delays that have constrained production in some industries and have held back merchandise trade growth. High uncertainty due to multiple COVID-19 waves and weak confidence has inhibited tourism and business travel, slowing the recovery in services trade.

1. Discuss the impact of global recovery on India's growth.

Ans. In the medium term, India may benefit from the emerging trend of relocation of global investment and supply sources. Investors have shown confidence in the Production Linked Incentive (PLI) scheme introduced by the Government of India. India has recently turned from being an importer to an exporter of mobile phones. This trend is likely to spill over to other sectors also. As companies look to diversify their supply chain risks, India has a significant opportunity to emerge as the preferred destination for global companies. In this context, the vision of 'Atmanirbhar Bharat' is extremely important. There is a renewed impetus on Make in India 2.0. this would be facilitated further by government's recent emphasis on infrastructure spending as evidenced by the National Infrastructure Pipeline (NIP) and the National Monetisation Pipeline (NMP).

2. What should be the focus area of public expenditure?

Ans. Expenditure prioritisation in FY23 should focus on reviving both consumption and investment demand. The NIP should be reassessed, and its path may be recast in order to make up for existing deficiencies in relation to the original targets particularly in the health sector. In this regard, the infrastructure investment undertaken by the state governments and the public sector should be realistically ascertained and shortfalls with respect to original targets may be identified. According to available information for 27 states which had budgeted for an aggregate capital expenditure of nearly 2.7% of GDP in the current fiscal year, only 38.5% of their combined budget target had been achieved by October/November 2021, amounting to about 1.1% of GDP. Since consumption demand remains weak, some fiscal support in the form of an urban counterpart to MGNREGA may be considered in addition to directly supporting some of the contact-intensive sectors which are suffering due to COVID-19. Revival of the economy in FY23 would critically depend on containing the adverse economic impact of COVID-19's third and subsequent waves to the minimum.

CASE STUDY-11

Read the following text and answer the given questions:

The Fifteenth Finance Commission (FC 15) had suggested a fiscal consolidation path where the FY23 fiscal deficit for the Centre was benchmarked at 5.5% of GDP. In their pessimistic scenario, it was kept at 6% of GDP. It may be best to limit the reduction in fiscal deficit to about 1% point of GDP to say, 6% in FY23. From here on, a stepwise reduction of 0.5% points per year would enable a level of about 4.0% of GDP by FY26. By this time, as suggested by the FC 15, a high-powered intergovernmental group should be constituted to re-examine the sustainability parameters of debt and fiscal deficit of the central and state governments in the light of new empirical realities particularly taking into account, the falling interest rate on government debt.

1. What do you mean by fiscal consolidation?

Ans. Fiscal consolidation is defined as concrete policies aimed at reducing government deficits and debt accumulation.

2. How is revenue deficit defined?

Ans. Revenue deficit implies a situation in which revenue expenditure by the government exceeds revenue receipts during a year.

3. Which of the following represents fiscal deficit?
   (a) Total receipts – total expenditure.
   (b) Total expenditure – (revenue receipts + non-debt creating capital receipts).
   (c) Total expenditure + total capital receipts – foreign exchange inflows.
   (d) Any of these.

Ans. (b) Total expenditure – (revenue receipts + non-debt creating capital receipts).

4. Fiscal deficit is financed by
   (a) raising new taxes.
   (b) increasing tax rates.

(c) market borrowings by the government.

(d) All of these.

Ans. (c) market borrowings by the government.

5. Fiscal deficit may coexist with

(a) revenue deficit. (b) revenue surplus.

(c) revenue balance. (d) All of these.

Ans. (d) All of these.

CASE STUDY-12

Read the following text and answer the given questions:

Current account recorded a deficit at (–)1.3% of GDP in the second quarter of FY22 (2QFY22) as compared to a surplus of 0.9% of GDP in the first quarter of FY22 (1QFY22). Net merchandise trade deficit deteriorated to a nine-quarter high of (–)5.9% of GDP in 2QFY22 from (–)4.4% in 1QFY22 as merchandise imports rose to a 12-quarter high of 19.9% of GDP in 2QFY22 from 18.5% in 1QFY22. Merchandise exports relative to GDP were at a 27-quarter high of 14.0% in 2QFY22, the same level as seen in 1QFY22. Net service receipts and net transfer receipts relative to GDP weakened to 3.4% and 2.5% respectively in 2QFY22 from 3.7% and 2.7% respectively in 1QFY22.

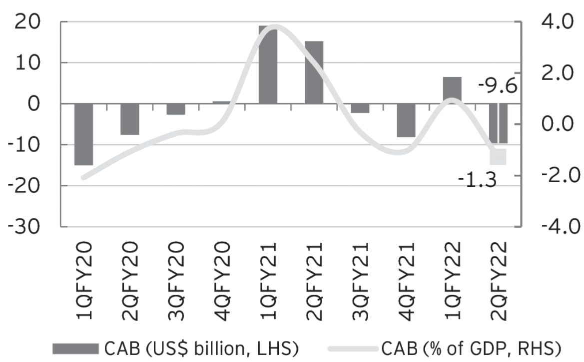
Table 3: Components of Current Account Balance (CAB) in US$ billion

Fiscal year	CAB as % of nominal GDP	CAB	Goods account net	Invisibles* net
FY18	-48.7	-1.8	-160.0	111.3
FY19	-57.3	-2.1	-180.3	123.0
FY20	-24.7	-0.8	-157.5	132.8
FY21	32.1	0.9	-60.4	92.5
3QFY21	-0.3	-2.2	-34.6	32.4
4QFY21	-1.0	-8.2	-41.7	33.6
1QFY22	0.9	6.5	-30.7	37.2
2QFY22	-1.3	-9.6	-44.4	34.8

Source: Database on Indian Economy, RBI

Note: (–) deficit; (+) surplus; *invisibles include services, current transfers and income components

Chart 5: CAB



Source: Database on Indian Economy, RBI

1. Current account balance is made up of

(a) Net balance on trade in merchandise.

(b) Net balance on trade in services.

(c) Both (a) and (b)

(d) None of these.

Ans. (c) Both (a) and (b)

2. Foreign exchange reserves of a country increase when there exists

(a) Trade surplus. (b) Current invisibles balance.

(c) Capital account surplus. (d) All of these.

Ans. (c) Capital account surplus.

3. In recent years, India had

(a) negative invisible balance. (b) positive merchandise balance

(c) negative current balance. (d) surplus invisible balance.

Ans. (d) surplus invisible balance.

Source: *Economy Watch,* Ernst & Young LLP

NOTES