



Daily Article (Bharath's Reading list) - Answers and Explanations 25.07.2023

Article link : <https://bit.ly/45ido7V> (Half-eaten dinners in Delhi, dashes to D.C., and many houses divided)

1. Why, according to the article, was the 1966 devaluation a key moment in Indian history?

A. The 1966 devaluation took place in exchange for billion dollars' worth of aid annually but the move was perceived as shameful and hence done in secret without apprising even chief ministers of the move

B. The failure of the 1966 devaluation led to increased state control and stagnant growth in the following decades, leading to the 1991 devaluation to unsettle the stasis

C. The 1966 devaluation was seen as a sign of the government's inability to hold down its policy positions and led to the ousting of the Congress from the central government in the next general elections

D. All the above

Explanation : B

Note the lines, 'Outside economic circles, the 1966 devaluation is now mostly forgotten. But it was a key moment in Indian economic history, because its failure led India down the path of increased state control and regulation in the 1970s and 1980s.... Ultimately, it would take India's third devaluation in 1991 to unsettle the stasis.'

Options A and C are factually incorrect, based on the article.

2. In 1964, India was under pressure to liberalise its economic policy as:

A. Almost a quarter of the total allocation of the Second Plan was to be financed by India's foreign exchange reserves, which could only be increased through increasing exports

- B. India's trade balances were net negative as it followed the policy of import substitution and for domestic production, it needed to import raw materials to set up those industries in first place
- C. India had already drawn \$250 million from the IMF and with the 1962 war with China, defence expenditure had skyrocketed
- D. All the above

Explanation: D

All given reasons are mentioned in the article.

3. "The episode was "like a surgeon opening a patient but not operating," C. Subramaniam wrote later." Why was it so?

- A. The 1966 devaluation was not followed by supporting policies on trade, commerce and industry to liberalize imports, eliminate export subsidies and exercise greater fiscal discipline
- B. Foreign aid, which was a big motivation for the 1966 devaluation did not come through promptly or in sufficient amount in the following years
- C. Devaluation backfired, with the country's exports declining and inflation spinning out of control
- D. All the above

Explanation: A

Option A states the reason why the quoted statement was made. Options B and C, while true, are unrelated to the question.