

1. Discuss the impact that fluctuations in oil prices have on economy. Also, suggest steps on how should India prepare itself to deal with fluctuations in oil prices? (250 words)

Answer:

Background:-

- Oil constitutes one-third of the country's total imports and is considered to have wide-ranging impact on its economy.
- There are two main reasons for the fluctuation of oil prices at present
 - For instance IPO of Saudi Aramco, the largest oil company in the world is scheduled and the company will get a better valuation if the oil price is high. This means that Saudi is likely to work in a manner so as to keep oil prices high.
 - Second, the United States (US) has just re-initiated sanctions on Iran. So oil importing countries are likely to move away from buying oil from Iran. This is likely to drive up global oil prices further.
 - The rupee has been rapidly losing value against the dollar. This will add to the country's oil import bill and pull down the GDP to that extent

Impact :-

- **Impact of low oil prices:-**
 - **Fall in oil prices helped the government so far in two ways:**
 - A fall in oil imports, helped in pushing up the gross domestic product
 - Led to increase in taxes which helped the central government as well as the state governments shore up their tax revenues.
 - Due to falling oil prices India's macro-economic indicators such as inflation, current account deficit (CAD), and trade balance improved.
 - Lower oil prices reduce cost of transport and lead to lower costs for business, which can increase profitability. Consumers see a reduction in cost of transport and heating, leading to higher discretionary incomes.
 - Decline in crude oil price has helped the government to manage its finances better as it translates into lower subsidies on petroleum products (LPG and kerosene), thereby resulting in lower fiscal deficit.
 - Decline in oil prices significantly dampens investor sentiment which in turn negatively impacts exploration and production activities. Often existing projects are abandoned and new projects are delayed.
 - Lower oil prices allow importing nations to advance reforms, rationalize oil subsidies, and progressively levy carbon taxes
- **High oil prices:-**
 - Surge in price negatively impacts oil importing nations and helps exporting nations to strengthen their economic development.
 - **Depreciation of Indian rupee:-**
 - Rise in crude oil prices through this year, amidst rising geopolitical tensions in West Asia and dwindling global supply, have obviously hurt the rupee and the trade balance.
 - Global oil prices are continuously increasing on the back of tight output controls marshalled by the Organisation of the Petroleum Exporting Countries, Brent crude futures have gained almost 12% through 2018

- This in turn has bloated India's crude import bill and widened the trade deficit appreciably
- Economy which also explains the results that oil leads money supply and interest rate. Additionally, oil leads gold prices implying that as oil price shock leads to inflation, gold's demand as an inflation-hedging tool rises.

Way forward:-

- Expedite the process of exploring domestic avenues and diversify its sources of oil supply.
- There is an urgent need for development of non-conventional (including renewable) sources as a substitute for conventional sources to meet the energy needs.
- Energy subsidy reforms along with regulations, standards, and targets directing the efficient level of utilization of oil as a fuel are important to reduce dependence on oil imports.
- Public Transport should be made available and user friendly so that Individual vehicles reduce and demand for oil decreases.

PRACTICE QUESTIONS

Answer the following Questions

1. Critically analyze the process of selection of the Supreme Court judges in India. Suggest measures to prevent the executive's unnecessary intervention into the judiciary. (250 words)
2. The resolution of Bhushan Steel case, should not deflect our attention from the challenges still plaguing the bankruptcy resolution process. Analyse. (250 words)