

1. What do you understand from crowding-out? It is said that economists must calculate the net crowding-out rather than advising against crowding-out in general. Critically analyze. (250 words)

**Answer:**

- Crowding out is an economic phenomenon which takes place when increased governmental spending decreases private sector investments and fails to increase aggregate demand. Higher government spending requires capital. This capital is also required by private investors, including individuals, companies, etc for investment purposes. To attract this capital, government has to raise the interest rate of securities, so as to make them attractive. The higher interest rate means high borrowing rates, which discourage people from borrowing money and causes private sector investments to fall.
- Crowding in also originates from government deficit spending, but relies mostly on how much the government puts in to increase economic activity. An increase in economic activity creates an opportunity for businesses to increase their operations towards profitability. Thus the private sector crowds-in to meet the increasing consumer needs, which also maximizes their profits.
- Crowding-in advances a counter argument against a strict crowding-out hypothesis. This is because while crowding-in asserts economic growth due to deficit spending, crowding-out suggests increased interest rates caused by deficit spending.
- In times of economic recession, people and businesses are desperate to save their money and invest it securely. In such times, the government can borrow money even at a lower interest rate and continue deficit spending. However, in such a scenario, it is likely that government spending will also increase productive activities and boost demand, thus leading to increased private sector investment. For businesses, crowding in is a preferable scenario as it boosts profits.
- Thus, rather than focusing on crowding-out effect of government borrowing and consider it to be principally wrong, economists must consider net-crowding-out, which factors-in crowing in and the multiplier effect of government spending.

## PRACTICE QUESTIONS

**Answer the following Questions**

1. The crisis in India's higher education system has only deepened with time. Analyse in the light of various ills plaguing our higher education system. (250 words)
2. The current policy of integrating existing coastal SEZs into the overarching plan of coastal development under 'Sagarmala' can lead to a turnaround for SEZs. Analyze. (250 words)