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Q50

Despite being a high saving economy, capital formation may not result in significant increase in output due to (a) weak administrative machinery (b) illiteracy (c) high population density (d) high capital-output ratio Official key: D.

UPSC Civil Services Prelims 2018 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation**(a)**

(a) Weak administrative machinery. Administration can waste investment, but the precise efficiency link in the stem is the capital-output ratio, not bureaucracy as such. This is not the key.

(b)

(b) Illiteracy. Human-capital gaps matter for growth, yet they are not the definitional reason high saving fails to raise output here. This is not the key.

(c)

(c) High population density. Density is not the capital-efficiency statistic in the question. This is not the key.

(d) Official key

(d) High capital-output ratio. **(d) Official key:** Capital-output ratio is capital required per unit of extra output. If it is high, even a large saving-investment effort yields little additional output. That is the stored key.

Summary

Official key is (d) high capital-output ratio. Saving finances investment, but output response depends on how much capital each extra unit of GDP needs. A high ratio means weak productivity of capital. Administration, literacy and density are other constraints, not this identity. Honour the stored letter (d).

Related possible facts

These can be asked in a future Prelims paper.

Capital-output ratio

K/Y ; incremental ICOR for extra output

Harrod-Domar

$\text{Growth} \approx \text{saving rate} / \text{ICOR}$

ICOR

Incremental capital-output ratio

India debate

High ICOR implies inefficient investment

Saving-investment identity

Closed-economy saving finances capital formation

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