PART-A

1	**India facing Stagflation, Tell us what exactly STAGFLATION Means?** Dr. C. Rangarajan, Chairman of the Prime Minister's Economic Advisory Council (PMEAC), has become the first high ranking policy maker to declare, during March, 2013, that Indian Economy faces Stagflation, it is a state of high inflation, and poor growth rate. **Stagflation refers to economic condition where economic growth is very slow or stagnant and prices are rising. Stagflation is a situation when economic growth of a country stagnates while inflation is rising.** *The term stagflation was coined by British politician Iain Macleod*, who used the phrase in his speech to parliament in 1965, when he said: "We now have the worst of both worlds - not just inflation on the one side or stagnation on the other. We have a sort of 'stagflation' situation." **The side effects of stagflation are increase in unemployment accompanied by a rise in prices, or inflation. Stagflation occurs when the economy isn't growing but prices are going up.** At international level, this happened during mid 1970s, when world oil prices rose dramatically, fuelling sharp inflation in developed countries. [One would have thought that policy makers had learnt the right lessons from the oil price shock of the seventies which administered a lasting negative shock to final disposable income in oil importing countries. Several western economies tried to stimulate their way out of the problem. The result was stagflation, until the US Federal Reserve under Paul Volcker forced painful adjustment on America by raising – rather than lowering – interest rates. Volker became famous for steep interest rate increases in early 80s to fight stagflation after the Arab Oil shock.] India's economic growth rate plunged to a decade low of 4.5% in the December, 2012 quarter and the Central Statistics Office forecasts 5.5% growth for the fiscal year. The scene on the inflation front is confusing with the Wholesale Price Index easing from its peaks as inflation dampened price

	rise in manufactured goods. Consumer prices, however, are continuing to climb. More readings: Indian economy is in stagflation: Moody's; Modi is fixing UPA's broken economy; the stagflation cycle to end soon
2	**What is Fiscal Cliff?** "Fiscal" means involving financial matters. We frequently use this like "Fiscal Year" and Fiscal Deficit". Coming to second word "Cliff", which is more known to people who live in hills, it means "a steep, or overhanging face of the rock, especially at the edge of sea". **What is Fiscal Cliff :** Towards the end of 2012 in USA, the Fiscal Cliff terms is hotly discussed. **Fiscal Cliff here refers to the economic effects that could result from (a) tax increases, (b) spending cuts and (c) a corresponding reduction in the US Budget deficit beginning in 2013, if the existing laws are not changed by the end of 2012.** Interestingly, there are number of scheduled measures in the US economy which took effect beginning of January 2013. If these measures are allowed to take place, the deficit in US budget (we know deficit is the difference between what the government takes and what is spends) is likely to be reduced by almost half beginning the first days of 2013. **This kind of sudden fall in deficit in a short period of time is known as "fiscal cliff".** ***It's a package of spending cuts and expiring tax cuts set to kick in on Jan. 1. All told, they will reduce the 2013 deficit by $770 billion, or around 5 percent of GDP (depending on whose numbers you look at). (An Extremely Simple Explanation of the 'Fiscal Cliff')*** **Impact of Fiscal Cliff i.e. If no action is taken and legislations are allowed to expire :** What is worrying the US analysts and economists is that federal government allowed the above two events to proceed (revenue increase and spending cuts) as planned, they could have a detrimental effect on an already shaky US economy. The results can lead even sending the economy back into an official recession as it cut household incomes, increased unemployment rates and undermined consumer and investor confidence. At the same time, it was predicted that going over the fiscal cliff would significantly reduce the federal budget deficit. There are wild talks that in case Congress and President Obama do not act to avert this perfect storm of legislative changes, USA will, "fall over the cliff."

	Among other things, it will mean a tax increase the size of which has not been seen by Americans in 60 years. The Tax Policy Center estimates that middle-income families are likely to pay an average of $2,000 more in taxes in 2013. Many itemized deductions will be subject to phase-out, and popular tax credits like the earned income credit **Bright Side of the Fiscal Cliff :** Certainly there are few who feel Fiscal Cliff would have a long-term positive impact. These people argue that the U.S. has to certainly tackle its deficits at some point of time. It is better to bite the bullet at this stage and this initiative can prove a step the right direction. Although the short-term impact could be severe (recession in 2013), the bullish argument would hold that the long-term gains (lower deficits, lower debt, better growth prospects, etc.,) would be worth the short-term pains. More Readings: How to Explain the Fiscal Cliff to Your Kids (and Yourself!)
3	**What is Hyperinflation ?** Hyperinflation is a situation where the price increases are too sharp. Hyperinflation often occurs when there is a large increase in the money supply, which is not supported by growth in Gross Domestic Product (GDP). Such a situation results in an imbalance in the supply and demand for the money. In this, this remains unchecked; it results into sharp increase in prices and depreciation of the domestic currency. **Definition of Hyperinflation** Inflation is an economic concept that can be defined two different ways, both of which mean the same thing. First, inflation can measure the rate at which prices rise. Remember hearing stories about being able to buy a candy bar for a nickel at the local grocery store? That same candy bar probably costs over $1 now. That's because as a general economic rule, prices tend to rise over time. The second way you can define inflation is the rate at which money loses its value. If you think about it, prices going up and the value of one dollar going down are really the same thing. Inflation is the reason you need more money today than you needed five years ago to buy something.

Hyperinflation, an economic condition most often seen in third-world countries or emerging economies, is when inflation is extremely high and increasing at a rapid pace. The typical inflation rate for the United States, and any healthy economy, is around two percent per year. In 2008, Zimbabwe experienced days when the annualized inflation rate was eight billion percent.

Yes, you read that correctly - eight billion percent. Had that rate continued for an entire year, something that cost $1 on day one would cost $8 billion at the end of the year. Lucky for Zimbabwe, its hyperinflation didn't continue at that rate for an entire year. But, it lasted for long enough that Zimbabwe has the distinguished honor of printing the largest denomination of currency ever - a 100 trillion dollar bill. At the time it was printed in 2008, it was worth about $2.80 in American dollars.

Causes and Effects of Hyperinflation

There are two primary causes of hyperinflation and both of them are basically our own fault. When hyperinflation really takes hold, like the Zimbabwe example in 2008, or the examples of Germany after World War I and Hungary after World War II, it is usually these two factors occurring simultaneously.

The first cause is when the market - consumers and other users of a currency - begin to lose faith in a country's currency. Remember, currency is only as good as the government issuing the currency, and if consumers believe that the government won't honor the promissory notes (cash) it is issuing, then nobody wants to hold that cash. I'm pretty confident that the U.S. dollar will still be legitimate currency tomorrow, so I can sell you something in exchange for U.S. dollars. But, if we were in Zimbabwe in 2008, I might not

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	have that confidence. Why would I sell you a loaf of bread today if you were giving me something that may be worthless tomorrow? The other cause of hyperinflation is actually caused by the government issuing the currency. As a government prints more money the value of that money goes down - just like the value of any commodity decreases as supply increases. The government may print more money to pay its own debts, and by doing so, starts the inflation cycle. That, and people's confidence in that government, can start the hyperinflation ball rolling, and once it starts it can be very, very difficult to stop.
4	**What is Headline Inflation ?** Headline inflation refers to inflation figure which is not adjusted for seasonality or for the often volatile elements of food & energy prices, which are removed in the Core CPI. Headline inflation will usually be quoted on an annualized basis, meaning that a monthly headline figure of 4% inflation equates to a monthly rate that, if repeated for 12 months, would create 4% inflation for the year. Comparisons of headline inflation are typically made on a year-over-year basis. Also known as "top-line inflation".
5	**What is Inflation or What is the meaning of Inflation?** In economics inflation means, a rise in general level of prices of goods and services in a economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. Thus, inflation results in loss of value of money. Another popular way of looking at inflation is "toomuch money chasing too few goods". The last definition attributes the cause of inflation to monetary growth relative to the output / availability of goods and services in the economy. In case the price of say only one commodity rise sharply but prices of other commodities fall, it will not be termed as inflation. Similarly, in case due to rumors if the price of a commodity rise during the day itself, it will not be termed as inflation. What are different types of inflation : Broadly speaking inflation is divided into two categories i.e. **(a) DEMAND - PULL INFLATION:** In this type of inflation prices increase results from an excess of demand over supply for the economy as a whole. Demand inflation occurs when supply cannot expand any more to meet

	demand; that is, when critical production factors are being fully utilized, also called Demand inflation. **<u>(b) COST - PUSH INFLATION:</u>** This type of inflation occurs when general price levels rise owing to rising input costs. In general, there are three factors that could contribute to Cost-Push inflation: rising wages, increases in corporate taxes, and imported inflation. [imported raw or partly-finished goods may become expensive due to rise in international costs or as a result of depreciation of local currency .
6	**What is Deflation ?** Deflation is the opposite of inflation. Deflation refers to situation, where there is decline in general price levels. Thus, deflation occurs when the inflation rate falls below 0% (or it is negative inflation rate). Deflation increases the real value of money and allows one to buy more goods with the same amount of money over time. Deflation can occur owing to reduction in the supply of money or credit. Deflation can also occur due to direct contractions in spending, either in the form of a reduction in government spending, personal spending or investment spending. Deflation has often had the side effect of increasing unemployment in an economy, since the process often leads to a lower level of demand in the economy. **Definition:- When the overall price level decreases so that inflation rate becomes negative, it is called deflation. It is the opposite of inflation.** ***Definition:*** When the overall price level decreases so that inflation rate becomes negative, it is called deflation. It is the opposite of the often-encountered inflation. ***Description:*** A reduction in money supply or credit availability is the reason for deflation in most cases. Reduced investment spending by government or individuals may also lead to this situation. Deflation leads to a problem of increased unemployment due to slack in demand. Central banks aim to keep the overall price level stable by avoiding situations of severe deflation/inflation. They may infuse a higher money supply into the economy to counter-balance the deflationary impact. In most cases, a depression occurs when the supply of goods is more than that of money. Deflation is different from disinflation as the latter implies decrease in the level of inflation whereas on the other hand deflation implies negative inflation.

	Effects of Deflation: • Deflation results in the improvement of production efficiency, due to lowering of the overall price of commodities. • The rate of increase in money supply is not maintained in proportion to the positive population and the general growth of the economy. • Deflation generally exerts negative impact on a country's economic conditions. • Deflation discourages both investment and expenditure. • Further Reading Refer:- Effects of Deflation More readings: Articles about Deflation That dreaded D word: Is India heading toward deflation? Is India staring at deflation?
7	What is recession? **Recession is defined as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real gross domestic product (GDP), real income, employment, industrial production and wholesale-retail sales".** In economics, a recession is a business cycle contraction, a general slowdown in economic activity. During recessions, many macroeconomic indicators vary in a similar way. Production, as measured by gross domestic product (GDP), employment, investment spending, capacity utilization, household incomes, business profits, and inflation all fall, while bankruptcies and the unemployment rate rise. Recessions generally occur when there is a widespread drop in spending, often following an adverse supply shock or the bursting of an economic bubble. Governments usually respond to recessions by adopting expansionary macroeconomic policies, such as increasing money supply, increasing government spending and decreasing taxation. A recession has many attributes that can occur simultaneously and includes declines in component measures of economic activity (GDP) such as consumption, investment, government spending, and net export activity. These summary measures reflect underlying drivers such as

	employment levels and skills, household savings rates, corporate investment decisions, interest rates, demographics, and government policies. **Factors that Cause Recessions** High interest rates are a cause of recession because they limit liquidity, or the amount of money available to invest. Another factor is increased inflation. Inflation refers to a general rise in the prices of goods and services over a period of time. As inflation increases, the percentage of goods and services that can be purchased with the same amount of money decreases. Reduced consumer confidence is another factor that can cause a recession. If consumers believe the economy is bad, they are less likely to spend money. Consumer confidence is psychological but can have a real impact on any economy. Reduced real wages, another factor, refers to wages that have been adjusted for inflation. Falling real wages means that a worker's paycheck is not keeping up with inflation. The worker might be making the same amount of money, but his purchasing power has been reduced. Economist Richard C. Koo wrote that under ideal conditions, a country's economy should have the household sector as net savers and the corporate sector as net borrowers, with the government budget nearly balanced and net exports near zero. When these relationships become imbalanced, recession can develop within the country or create pressure for recession in another country. Policy responses are often designed to drive the economy back towards this ideal state of balance.
8	What is Double Dip Recession? Double Dip recession is, the recession happening two times with the small gap in between. Most of the analysts, predicts that there is possibility of the double dip recession in 2010 0r 2011. After the 2008 recession, there is no significant recovery in the developed countries like USA,UK, etc. The situation the in the Europe is worst compare to other countries. The above factors may derail the economic recovery and dive into another recession. There is severe blow on the stock market across the globe.

	Small Investor to stay away from the market to avoid any loss. There will be more downturn in the next couple of months. It is very difficult to predict the exact impact of the Europe problem in world market. Reportedly China too in the housing market bubble. All these factors will dampen the investors party.
9	RECESSION AND MANAGING DEBTS? Managing Debts In the recession times, managing debts is one of the difficult task for all the people. When the market is good, bankers are offered wide variety of discounts to lure the customers by offering the unlimited credit period and huge credit limits for their credit cards. If you don't have proper plan to repaying the debts like used credit limit on your credit cards, that will add up you more interest payment to the principal amount. So, it is wise to plan your debt repayment and don't postpone your plan. Your hard earned money have to be spend in the wise manner. Here is few tips on how manage your debts.
7	What is Liquidity Trap? ***Definition:*** **Liquidity trap is a situation when expansionary monetary policy (increase in money supply) does not increase the interest rate, income and hence does not stimulate economic growth.** ***Description:*** **Liquidity trap is the extreme effect of monetary policy. It is a situation in which the general public is prepared to hold on to whatever amount of money is supplied, at a given rate of interest. They do so because of the fear of adverse events like deflation, war.** **In that case, a monetary policy carried out through open market operations has no effect on either the interest rate, or the level of income. In a liquidity trap, the monetary policy is powerless to affect the interest rate.** **There is a liquidity trap at short term zero percent interest rate. When interest rate is zero, public would not want to hold any bond, since money, which also pays zero percent interest, has the advantage of being usable in transactions.**

	Hence, if the interest is zero, an increase in quantity of money cannot not induce anyone to buy bonds and thereby reduce the interest on bonds below zero. A liquidity trap is a Keynesian theory that a situation can develop in which interest rates reach near zero yet do not effectively stimulate the economy. In theory, near-zero interest rates should encourage firms and consumers to borrow and spend. However, if too many individuals or corporations focus on saving or paying down debt rather than spending, lower interest rates have less effect on investment and consumption behavior; the lower interest rates are like "pushing on a string." Economist Paul Krugman described the U.S. 2009 recession and Japan's lost decade as liquidity traps. One remedy to a liquidity trap is expanding the money supply via quantitative easing or other techniques in which money is effectively printed to purchase assets, thereby creating inflationary expectations that cause savers to begin spending again. Government stimulus spending and mercantilist policies to stimulate exports and reduce imports are other techniques to stimulate demand.
8	What is Quantitative easing? The term quantitative easing (QE) describes a form of monetary policy used by central banks to increase the supply of money in an economy when the bank interest rate, discount rate and/or inter-bank interest rate are either at, or close to, zero. A central bank does this by first crediting its own account with money it has created ex nihilo ("out of nothing"). It then purchases financial assets, including government bonds and corporate bonds, from banks and other financial institutions in a process referred to as open market operations. The purchases, by way of account deposits, give banks the excess reserves required for them to create new money by the process of deposit multiplication from increased lending in the fractional reserve banking system. The increase in the money supply thus stimulates the economy. Risks include the policy being more effective than intended, spurring hyperinflation, or the risk of not being effective enough, if banks opt simply to pocket the additional cash in order to increase their capital reserves in a climate of increasing defaults in their present loan portfolio. Watch Video for a clear understanding: Quantitative Easing
9	What is Debt Trap? Debt Trap is a situation where you add on a new debt in order to pay an existing debt. Generally, when the firm in over-leveraged all the credit sources are exhausted, firm arrives at a situation of debt trap.
10	What is De-coupling effect?

	US been the main market where each and every country is dependent on. thus if US coughs, the world sneezes, this has been the phenomenon for the last few decades, slowly and slowly other economy China and India in particular are coming on their own and the domestic consumption story has been told and retold in the recent years. thus these countries are getting more self reliant (I mean they are able to withstand the US decline) and are able to substain there GDP growth irrespective of US. thus there is a theory floating that that few countries are decoupled from the rest of the world market and can move ahead with GPD growth irrespective of others performance or not. this is the decoupling theory. Only the BRIC [Brazil, Russia, India & China] countries are discussed for Decoupling as only these countries have strong domestic demand to substain the growth. The term "decoupling" is used in many different contexts. Speaking in financial terms, Decoupling holds that European and Asian economies, especially emerging ones, have broadened and deepened to the point that they no longer depend on the United States for growth, leaving them insulated from a severe slowdown there, even a fully fledged recession. That means countries like India, China, Brazil can grow on their own even if developed nations like USA/UK face recession. The decoupling hypothesis is the idea that business cycles in emerging market economies have become more independent of - or decoupled from - business cycles in advanced economies in recent years.
11	What is Money Supply i.e. M3 ? This refers to the total volume of money circulating in the economy, and conventionally comprises currency with the public and demand deposits (current account + savings account) with the public. The RBI has adopted four concepts of measuring money supply. The first one is M1, which equals the sum of currency with the public, demand deposits with the public and other deposits with the public. Simply put M1 includes all coins and notes in circulation, and personal current accounts. The second, M2, is a measure of money, supply, including M1, plus personal deposit accounts - plus government deposits and deposits in currencies other than rupee. The third concept M3 or the broad money concept, as it is also known, is quite popular. M3 includes net time deposits (fixed deposits), savings deposits with post office saving banks and all the components of M1. For M-3 as of 11.01.2016 refer link:- Sources of Money Stock
12	YTM FOR ZERO COUPON BONDS - WHY SUPERIOR METHOD?

	The reason that YTM applies exactly to a zero coupon bond is that there is no interest to be reinvested. The entire return comes from the difference between the purchase price and the face value of the bond. In ordinary bonds, this difference is treated as a capital gain/loss and taxed when sold. However in a zero coupon bond, that gain is treated as interest income and taxed annually according to the gain in accreted value. Since there are no interest payments to reinvest and therefore none to spend, achieving the quoted YTM is automatic when a zero coupon bond is held to maturity. Of course this ignores the annual income tax bite.
13	**How GST is expected to play a significant role in economy?** *(Here is edited version of article written by Ms Priya Garg on 26.11.15.*) **ROLE IN ECONOMY** As we already know about GST which will be expectedely implemented in India from Year 2016 by replacing the existing taxes levied by Central and State Governments. So it will be very important for us to know about its importance in Economy. The introduction of GST would be significant step in the reform of Indirect Taxation in India. Amalgamating of several Central and State Taxes into single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of tax should lead to easier administration and enforcement. **Benefits of GST** **1. For Consumers or Common Ma**n The biggest advantage for common man would be in terms of a reduction in overall tax burden on goods. All taxes that currently exist will not exist anymore. This means current Taxes like Excise, Octroi, Sales Tax, CENVAT, Service Tax, Turnover Tax, etc will not be applicable and all that will fall under common tax called as GST. So it will help Common man to save more money through GST. **2. For Business point of View** GST will be boon for business man. No multiple taxes means compliance and Documentation will be easy. Return filing, tax payment and refund process will be easy and hassle free. There are many other Advantages for Manufacturers and Traders:- **1. Common Market-** There will be coomon market pan India in the absence of CST and entry tax. At present, goods are being sold mostly within the state in order to avoid paying the CST which is not credited at the stage of manufacture or in course of trading. Good quality products being manufactured in one part of the country will find more market on the farthest part of the country also because there will be no cst and no entry tax. It will make one National Market.

	2. Difference between Goods and Services will go- In some cases, there is distinction between goods and services when they are sold as a package. These controversies will go. **3. Invoicing will be simple**r- At present, the invoices are more detailed since taxes on goods and services are written separately for one transaction. With the introduction of GST only one rate will be written. **4. Cost Reduction**- The suppliers, manufacturers, wholesalers and retailers will be able to recover GST incurred on input costs as tax credits. This reduces the cost of doing business, thus enabling fairer prices for consumers. **Some Common Benefits of GST are:-** ***Number of Tax Department will be reduced*** which in turn may lead to less corruption, which will help in reducing corruption- ***Effectiveness***- GST is more comprehensive, effective, transparent and business friendly tax system. So overall we can say that, GST is expected to bring a no. of benefits to the Indian economy. It is also important for businesses to start gearing themselves for GST. They should evaluate their present business scenarios and brainstorm what kind of changes GST will bring to their business. As and when the Government gives an opportunity to the industry, they should be ready with their representations and suggestions. Further, since GST is expected to completely transform the way business is done, the respective teams should be communicated about the transition, like IT, finance, Compliance , supply chain, pricing, procurement etc. For Example:-The IT teams should be prepared for changing the IT infrastructure in alignment with GST like change in the invoice formats, accounting records etc **<u>Conclusion:-</u>** GST is probably one of the most positive and transformational change in the tax structure of India. It is expected to trigger our economy to a great growth.
14	**What is Quid Pro Quo ? Define Quid Pro Quo?** This is a latin phrase and literally means "this for that", and is frequently used "a favour for a favour" or as in political circles and organisations we call "you scratch my back, I will scratch your back". In legal terms it indicates that an item or a service has been traded in return for something of value, usually when the propriety or equity of the transaction is in question.
15	**What is Sweetheart Deal? Explain Sweetheart Deal?** A deal in which one party offers the other party with very attractive terms and conditions. Such deals are usually considered as unethical. Such contracts are abnormally favourable contractual arrangements and frequently used in describing deals involving government or political associated officials and hints at the presence of corruption. It is also used to describe an action between two parties in which a third party is put at distinct disadvantage. It is sometimes also used to refer to collusive, unethical agreements between

	unethical union officials and management, wherein such union officials may gain personal benefits by granting certain concessions to management / employer.
16	**What is GAAR in simple terms ?** Tax Avoidance is an area of concern across the world. The rules are framed in different countries to minimize such avoidance of tax. Such rules in simple terms are known as " General Anti Avoidance Rules " or GAAR. Thus GAAR is a set of general rules enacted so as to check the tax avoidance. News for GAAR has been in prominence in last few years as Indian Government has taken initiative to introduce GAAR or General Anti Avoidance Rules with a view to increase tax collections. GAAR is a concept which generally empowers the Revenue Authorities in a country to deny the tax benefits of transactions or arrangements which do not have any commercial substance or consideration other than achieving the tax benefit. Whenever revenue authorities question such transactions, there is a conflict with the tax payers. Thus, different countries started making rules so that tax can not be avoided by such transactions. Australia introduced such rules way back in 1981. Later on countries like Germany, France, Canada, New Zealand, South Africa etc too opted for GAAR. However, countries like USA and UK have adopted a cautious approach and have not been aggressive in this regard. Thus, in nutshell we can say that GAAR usually consists of a set of broad rules which are based on general principles to check the potential avoidance of the tax in general, in a form which can not be predicted and thus can not be provided at the time when it is legislated.
17	**GAAR in India - Discuss?** In India, the real discussions on GAAR came to light with the release of draft Direct Taxes Code Bill (popularly known as DTC 2009) on 12th August 2009. It contained the provisions for GAAR. Later on the revised Discussion Paper was released in June 2010, followed by tabling in the Parliament on 30th August, 2010, a formal Bill to enact the law known as the Direct Taxes Code 2010. The same was to be made applicable wef 1st April, 2012. However, owing to negative publicity and pressures from various groups, GAAR was postponed to at least 2013, and was likely to be introduced along with the Direct Tax Code (DTC) from 1st April 2013. Moreover, an Expert Committee has been set by

	Prime Minister (Manmohan Singh) in July 2012 to vet and rework the GAAR guidelines issued in June 2012. The latest reports (September 2012) indicates, it may not be implemented even for 3 years i.e. this will be postponed for 3 years (2016-17). Some of recent developments about GAAR are :- (a) 16th March, 2012 : Finance Minister, Pranab Mukherjee takes a tough stand and announces that the government will crack down on tax avoidance effective from fiscal year 2012-13 (b) 7th May, 2012 : Finance Minister, Pranab Mukherjee forced to eat his words and agreed to defer GAAR by a year as his announcements spooked oversea investors (c) 28th June, 2012 : Finance Ministry releases first draft on GAAR; There is wide criticism of the provisions. (d) 14th July, 2012 : PM, Manmohan Singh, forms review committee under Parthasarathi Shome, for preparing a second draft by 31st August and final guidelines by 30th September, 2012 (e) 1st September, 2012 : Shome Committee recommends to defer GAAR by three years. It also recommends some more investor friendly measures
18	**What is Difference between GAAR and SAAR ?** Anti Avoidance Rules are broadly divided into two categories namely "General" and "Specific". Thus, legislation dealing with "General" rules are termed as GAAR, whereas legislation dealing with "Speicifc avoidnace are termed as "SAAR" In India till recently SAAR was in vogue i.e. laws were amended to plug specific loopholes as and when they were noticed or were misused enmasse. However, now Indian tax authorities wants to move towards GAAR but are facing severe opposition as tax payers fear that these will be misused by tax authorities by giving arbitrary and wide interpretations. We can say SAAR being more specific provide certainty to taxpayers where as GAAR being general in nature can be misused and is subject to arbitrary interpretation by tax authorities.

19	**What is the Basic Criticism of GAAR ? Why GAAR is dreaded ?** Many provisions of GAAR have been criticised by various people. However, the basic criticism of GAAR provisions is that it is considered to be too sweeping in nature and there was a fear (considering poor record of IT authorities in India) that Assessing Officers will apply these provisions in a routine manner (or read misuse) and harass the general honest tax payer too. There is only a fine distinction between Tax Avoidance and Tax Mitigation, as any arrangement to obtain a tax benefit can be considered as an impermissible avoidance arrangement by the assessing officer. Thus, there was a hue and cry to put checks and balances in place to avoid arbitrary application of the provisions by the assessing authorities. It was felt that there is a need for further legislative and administrative safeguards and at least a minimum threshold limit for invoking GAAR should be introduced so that small time tax payers are not harassed. Two Examples to Understand GAAR provisions : (Source GAAR Committee) Example 1: Facts: A business sets up an undertaking in an under developed area by putting in substantial investment of capital, carries out manufacturing activities therein and claims a tax deduction on sale of such production/manufacturing. Is GAAR applicable in such a case ? Interpretation: There is an arrangement and one of the main purposes is a tax benefit. However, this is a case of tax mitigation where the tax payer is taking advantage of a fiscal incentive offered to him by submitting to the conditions and economic consequences of the provisions in the legislation e.g., setting up the business only in the under

	developed area. Revenue would not invoke GAAR as regards this arrangement. Example 2: Facts: A business sets up a factory for manufacturing in an under developed tax exempt area. It then diverts its production from other connected manufacturing units and shows the same as manufactured in the tax exempt unit (while doing only process of packaging there). Is GAAR applicable in such a case ? Interpretation: There is an arrangement and there is a tax benefit, the main purpose or one of the main purposes of this arrangement is to obtain a tax benefit. The transaction lacks commercial substance and there is misuse of the tax provisions. Revenue would invoke GAAR as regards this arrangement. Further Reading refer: - Report on General Anti-Avoidance Rules (GAAR)
20	**What is Grandfather clause?** Grandfather clause is a situation in which an old rule continues to apply to some existing situations, while a new rule will apply to all future situations. Frequently, the exemption is limited; it may extend for a set period of time, or it may be lost under certain circumstances. An exemption that allows persons or entities to continue with an activity they were engaging in before but the same activity is not allowed to new entities. For example, a car manufacturer is allowed to produce cars with certain environment norms, but new entities are required to fullfil strictly norms.

21	**What is Federal Reserve System or FED ?** Federal Reserve System is world wide popularly is known as FED is the Central Banking System of the United States. It was established on 23rd December 1913, with the enactment of the Federal Reserve Act. Its Headquarters is at Washington DC.
22	**What are Objectives or Roles Given to FED?** FED was originally established with three with three key objectives for monetary policy - (a) Maximum employment; (b) Stable Price; and (c) Moderate long term interest rates. The first two system are popularly known as the 'Federal Reserve's Dual Mandate. Over the years, the roles and duties of the FED have grown and now includes the responsibilities for monetary policy, supervising and regulating banking institutions, maintaining the stability of the financial system and providing financial services to depository institutions, the US government and foreign official institutions.
23	**Structure of Federal Reserve System or FED ?** Federal Reserve System broadly consists of following :- (A) Board of Governors appointed by President. It is called known as "Federal Reserve Board". (B) Federal Open Market Committee (Popularly known as FOMC). The details of this Committee are given below (C) Twelve regional Federal Reserve Banks. These are located in major citiies of USA The above structure is unique in the world for a central bank as FED has both private and public components and was envisaged to serve the interests of both the general public and private bankers. Surprisingly, US currency is not created by FED, but by the U.S. Department of Treasury's Bureau of Engraving and Printing prints paper money, while the Treasury's U.S. Mint produces coins. FED is considered as an independent body but within government. The monetary policies decided by FED need to be approved by either President of USA or anyone else in the executive or legislative branches of government. (A) Board of Governors : It is a seven member body and member is chosen by President of USA for a term of 14 years and are confirmed by Senate. The term of one Governor

begins every two years on 1st February of even numbered years. A member who serves a full term may not be reappointed. However, a member who completes an unexpired portion of a term may be reappointed. If a member leaves the Board before his or her term expires, the person appointed and confirmed to serve the remainder of the term may be later reappointed to a full term. All terms end on their statutory date regardless of the date on which the member is sworn into office. The Chairman and Vice Chairman of the Board of Governors are appointed by the President from among the sitting Governors. They have a term of four years but can be re-nominated as many times as the President wishes until their terms on the Board of Governors expire.

The Federal Reserve's responsibilities include:

(a) conducting the nation's monetary policy to help maintain employment, keep prices stable, and keep interest rates relatively low

(b) supervising and regulating banking institutions to make sure they are safe places for people to keep their money and to protect consumers' credit rights.

(c) providing financial services to depository institutions, the U.S. government, and foreign central banks, including playing a major role in clearing checks, processing electronic payments, and distributing coin and paper money to the nation's banks, credit unions, savings and loan associations, and savings banks.

The Federal Reserve System also conducts research on the U.S. and regional economies. distributes information about the economy through publications, speeches, educational seminars, and web sites.

(B) Federal Open Market Committee :

The Federal Open Market Committee is popularly known as FOMC. This Committee consists of twelve members--(a) the seven members of the Board of Governors, (b) the president of the Federal Reserve Bank of New York, and (c) four of the other eleven Reserve Bank presidents. The four Reserve Bank presidents serve one-year terms on a rotating basis. Non-voting Reserve Bank presidents attend the meetings of the Committee, participate in discussions, and contribute information about economic conditions in their District.

The FOMC schedules eight meetings per year, one about every six weeks or so. The Committee may also hold unscheduled meetings as necessary to review economic and financial developments. The FOMC issues a policy statement following each regular meeting that summarizes the Committee's economic outlook and the policy decision at that meeting. Four times per year the Chairman holds a press briefing after the FOMC meeting to present

	the FOMC's current economic projections and to provide additional context for the FOMC's policy decisions. A full set of minutes for each FOMC meeting is published three weeks after the conclusion of each regular meeting, and complete transcripts of FOMC meetings are published five years after the meeting. The purpose of the FOMC is to determine the nation's monetary policy. The FOMC holds EIGHT regularly scheduled meetings each year in Washington, D.C. At these meetings, the FOMC reviews economic and financial conditions and sets monetary policy. The term "monetary policy" refers to the actions taken by a central bank, such as the Federal Reserve, to help encourage a healthy economy. The actions taken influence the availability and cost of money and credit, which affect a range of economic variables, including output, employment, and prices of goods and services. At each of its meetings, the FOMC decides whether or not to change its target for the federal funds rate, and if so, by how much. The FOMC also issues a statement after each meeting explaining its decision, and these statements contain some important information about the FOMC's evaluation of the economy (C) 12 Federal Reserve Banks? Under the Federal Reserve System, the United States is divided into twelve regions, or Districts. Each District has a Reserve Bank serving it. The twelve Reserve Banks are named after the city in which they are located: Boston | New York | Philadelphia | Cleveland | Richmond | Atlanta | Chicago St. Louis | Minneapolis | Kansas City | Dallas | San Francisco. Thus, there are 12 Federal Reserve Banks (with 25 branches) . Each reserve Bank is responsible for member banks located in its district. The size of each district was set based upon the population distribution of the United States when the Federal Reserve Act was passed. Each regional Bank has a president, who is the chief executive officer of their Bank. The Federal Reserve Banks have an intermediate legal status, with some features of private corporations and some features of public federal agencies. The United States has an interest in the Federal Reserve Banks as tax-exempt federally-created instrumentalities whose profits belong to the federal government, but this interest is not proprietary. These twelve Federal Reserve Banks and their Branches carry out functions like operating a nation wide payments system, distributing the nation's currency and coin, supervising and regulating member banks and bank holding companies and serving as a banker for the US Treasury. Each of these banks is responsible for the particular geographic are or district of US, these also act as a depository for the banks in their own district and fulfill other responsibilities.

	ADVISORY COMMITTEES : The above Federal Reserve System also uses Advisory Committees for carrying out its varied responsibilities. There are three main Committees which directly advise the Board of Governors, namely (a) Federal Advisory Council - composed of 12 representatives of the banking industry.; (b) Consumer Advisory Council : It advises the Board on the exercise of its responsibilities under the Consumer Credit Protection Act on other matters in the area of consumer financial services; (c) Thrift Institutions Advisory Council.