Indian Economy · GS - III

Examine how rapid advances in Artificial Intelligence can create risks for financial stability and economic growth.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 23/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Artificial Intelligence, Technological Disruption, Corporate Bond Market, Credit Risk, Credit Spreads, Investor Confidence, Job Displacement, Financial Stability, Regulatory Uncertainty.

Model Answer

Introduction:

Artificial Intelligence (AI) is transforming productivity and business models. However, rapid technological change can also create financial and economic risks.

Major Risks:

1. Industrial disruption: AI may weaken the competitiveness of businesses unable to adapt, affecting their revenues and repayment capacity.
2. Financial market volatility: Overvaluation of technology stocks may trigger sharp corrections if expected profits fail to materialise.
3. Rising borrowing costs: Concerns about corporate defaults can widen credit spreads, making loans and bond financing more expensive.
4. Employment challenges: Automation may displace workers in certain sectors, affecting household income and consumption.
5. Regulatory uncertainty: Unclear rules on data, liability and AI safety can increase business uncertainty.

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Way Forward:

Regulators should strengthen financial-risk monitoring, improve disclosure of AI-related exposures and encourage responsible innovation. Governments should also invest in reskilling workers and support affected sectors.

Conclusion:

AI offers significant productivity gains, but balanced regulation, workforce adaptation and financial oversight are necessary to ensure that technological progress supports inclusive and stable economic growth.

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