Indian Economy · GS - III

The growing valuation of artificial intelligence companies reflects investor expectations about the future of technology-driven economic growth. Examine the opportunities and risks associated with high valuations in the AI startup ecosystem.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 10/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Artificial intelligence, startup ecosystem, venture capital, IPO, market valuation, technological innovation, speculative investment, financial stability, competition, corporate governance.

Model Answer

Introduction

Artificial intelligence has attracted substantial investment due to its potential to transform industries, improve productivity and create new business models. High valuations of AI startups reflect expectations of future growth and commercial opportunities.

Opportunities

- **Innovation:** Investment supports research in generative AI, robotics and advanced computing.
- **Economic growth:** AI adoption can improve productivity across healthcare, finance and manufacturing.
- **Employment and entrepreneurship:** Emerging technologies create opportunities for specialised skills and new businesses.
- **Capital formation:** IPOs provide companies access to public investment for expansion.

Risks and Challenges

- **Valuation uncertainty:** High valuations may exceed the revenue and profitability supported by existing business models.
- **Market volatility:** Disappointment over commercial returns can trigger sharp corrections.
- **Competition:** High computing and research costs may create barriers for smaller firms.
- **Governance:** Data privacy, transparency and responsible AI remain important concerns.

Conclusion

AI investment can strengthen technological innovation, but sustainable growth requires realistic valuations, transparent disclosures, sound corporate governance and demonstrable commercial viability.

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