Indian Economy · GS - III

“Unprecedented investment in Artificial Intelligence has revived fears of a dot-com style bubble.” Examine the factors behind these concerns. What lessons should India draw for its own AI strategy?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 17/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Define a bubble. Then cover the reasons for concern: too much spent on infrastructure, applications lagging behind, high valuations, unclear returns. For India: build for real use cases, use public digital infrastructure, invest in skills, and use capital prudently.

Model Answer

An economic bubble forms when asset prices rise far above their underlying value because of speculation. Baidu’s Robin Li recently warned that AI could become one if investment does not turn into business profits.

Why the concern:

- **Uneven spending:** Money is going mostly into chips, data centres and foundation models, while applications have been slow to spread.
- **Weak returns:** Most firms using AI have not yet seen higher revenue or profits.
- **High valuations:** A few chip and big-tech firms dominate stock indices, which echoes the 2000 dot-com crash.
- **Circular financing:** Debt-funded capex and deals among the same small group of firms add to systemic risk.

Lessons for India:

- **Applications first:** Use AI to raise productivity in agriculture, health, MSMEs and governance, rather than chasing the race for ever-larger models.
- **Build on DPI:** Layer AI on Aadhaar, UPI and Bhashini so it reaches people cheaply and at scale.
- **Shared compute:** Use the IndiaAI Mission's common GPU facility instead of every firm building its own.
- **People and regulation:** Invest in skilling and in rules that protect workers and users.

Conclusion: AI's long-term value is real. Whether it becomes a bubble depends on whether it is widely adopted and actually raises productivity.