PART - A : INTRODUCTORY MACROECONOMICS

UNIT – I: NATIONAL INCOME AND RELATED AGGREGATES

CHAPTER-1

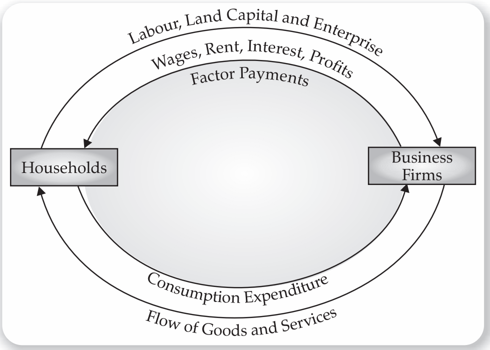
NATIONAL INCOME AND RELATED AGGREGATES

Topic-1 Macroeconomics with Basic Concepts and Circular Flow of Income

Concepts Covered • *Meaning of Macroeconomics,* • *Basic concepts in macroeconomics;* • *Circular Flow of Income in a 2-sector economy..*

Revision Notes

- Macroeconomics refers to that branch of economics that deals with economic problems or economic issues at the level of an economy as a whole, e.g. it deals with aggregates like national income, general price level, etc.
- **Consumption Goods:** Goods which are used by the consumers to satisfy human wants directly are called consumption goods.
- **Capital Goods:** All goods which are used in the production of other goods either as fixed assets or as inventory/ stock are called Capital Goods.
- **Final Goods:** Those goods which are purchased either for final consumption by consumers (consumer goods) or for investment by producers (capital goods) are final goods.
- **Intermediate Goods:** Those goods and services which are purchased as raw material for further production or for resale in the same year.
- **Stock:** Stock is a quantity measurable at a particular "point of time", e.g. wealth, assets, money, inventory, etc. A stock variable is nothing but an accumulated sum of flows.
- **Flow:** Flow is a quantity that can be measured over a specific "period of time", e.g. national income, change in stock, etc.
- **Gross Investment:** Total addition made to physical stock of capital during a period of time. It includes depreciation. It is also known as Gross Capital Formation.
- **Net Investment:** Net addition made to the real stock of capital during a period of time.
- **Depreciation: It** means fall in value of fixed capital goods due to normal wear and tear, expected obsolescence and efflux of time.
- **Circular flow of income:** Circular flow of income refers to the flow of activities of production, income generation and expenditure involving different sectors of the economy.
- **2-Sector Model of Circular Flow:** It is assumed that:
  - **(i)** Domestic economy comprises only 2 sectors, the **producers** and the **households**.
  - **(ii)** The households spend their entire income, so that there is no savings.
  - **(iii)** Domestic economy is a **closed economy** (no exports and imports).
  - **(iv)** There is no government in the economy.
- Production in the producing sector generates income for the households who are owners of the factors of production. Expenditure by the households generates demand for further production. These movements keep chasing each other continuously moving in a circle.



- **Significance of Circular Flow of Income:** **(i)** It reflects structure of an economy, **(ii)** It shows interdependence among different sectors, **(iii)** It shows injections and leakages from flow of money, **(iv)** It helps in estimation of national income and related aggregates.

Key Words

Producers: The entity in the economy that produces goods and services.
Household: The entity in the economy that supply labour and consume the goods produced.
Closed Economy: The economy which does not indulge in foreign trade

Topic-2 National Income Accounting

Concepts Covered • *Methods of calculating National Income and their precautions.*

Revision Notes

- **National Income:** National Income is the sum total of factor incomes earned by normal residents of a country.
- **Measurement of National Income:** In every economy, the circular flow of production, income and expenditure remains in operation continuously due to economic activities. Production generates income which creates demand and hence, expenditure. In this way, the national income of a country may be measured by three alternative methods. These are: **(a)** In the form of flow of goods and services, **(b)** In the form of income flow, **(c)** In the form of expenditure flow.

Amazing Facts

India's GDP in 2020 stood at 2.62 lakh crores USD.

- **Value Added Method or Production Method:** Product Method or Valued Added Method is the method which measures the national income by estimating the contribution of each producing enterprise to produce in the **domestic territory** of the country in an accounting year. For measuring national income by this method, we have to estimate the following components:
- **Net Domestic Product at Market Price (NDP_{MP}):** Gross Valued Added by [Primary Sector + Secondary Sector + Tertiary Sector] - Depreciation
- **Net National Product at Factor Cost (NNP_{FC}) or NI:** NDP_{MP} – Net Indirect Tax + **Net Income from Abroad**.
- **Value Added Method (Product Method):** Gross Value Added at Market Price (GVA_{MP}) = Sales + Change in Stock – Intermediate Consumption.
  GDP_{MP} = GVA_{MP} of all sectors + Depreciation + Net Indirect Taxes
  OR
  Value of output – Intermediate consumption
  NVA_{FC} = GVA_{MP} – Depreciation – Net Indirect Taxes (NIT)
- **Precautions while using Value Added Method:**
  (i) The value of intermediate goods should not be included.
  (ii) Purchase and sale of second hand goods should not be included.
  (iii) Imputed or estimated value of self-consumed goods should be included but self-consumed services should not be included.
  (iv) Own account production should be included.
  (v) Commission earned on account of sale and purchase of second hand goods is included.
- **Income Method:** It measures national income in term of payments made in the form of wages, rent, interest and profit to the primary factors of production, *i.e.*, labour, land, capital and enterprise respectively for their productive services in an accounting year.
- **Net Domestic Income or Net Domestic Product at Factor Cost:** Compensation to Employees + Operating Surplus + Mixed Income from Self Employment.
  National Income = Net Domestic Income + Net Income from Abroad.
- **Precautions while using Income Method:**
  (i) Income from illegal activities like smuggling, theft, gambling, etc., should not be included.
  (ii) Imputed rent of owner occupied structure and value of production for self-consumption is included but value of self-consumed services like those of housewife is not included.

(iii) Brokerage on the sale/purchase of shares and bonds is to be included.

(iv) Income in terms of windfall gains should not be included.

(v) Transfer earning like old age pensions, unemployment allowances, scholarships, pocket expenses, etc. should not be included.

- **Expenditure Method:** By this method, the total sum of expenditures on the purchase of final goods and services produced during an accounting year within an economy is estimated to obtain the value of GDP.
- **Final Expenditure:** It is the expenditure on the purchase of final goods and services, during an accounting year. It is broadly classified into four categories:

(i) Private final consumption expenditure,

(ii) Government final consumption expenditure,

(iii) Investment expenditure,

(iv) Net exports, *i.e.*, difference between exports and imports during an accounting year.

- **Computation of National Income (by expenditure method)** $NNP_{FC} = GDP_{MP}$ – Depreciation + NFIA – Net Indirect Tax. Where, GDP_{MP} = Private Final Consumption Expenditure + Government Final Consumption Expenditure + Gross Domestic Capital Formation + Net Exports (Exports – Imports). Where, Gross Domestic Capital Formation = Gross Domestic Fixed Capital Formation + Change in Stock (Closing Stock – Opening Stock)
- **Precautions while using Expenditure Method:**

(i) Only final expenditure is to be taken into account to avoid error of **double counting**.

(ii) Expenditure on second hand goods is not to be included.

(iii) Expenditure on **transfer payments** by the government is not to be included.

(iv) Imputed value of expenditure on goods produced for self consumption should be taken into account.

(v) Expenditure on shares and bonds is not to be included in total expenditure.

- **Gross Domestic Product (GDP):** It is the total value of all the final goods and services by all the enterprises (both resident and non-resident) within the domestic territory of a country in a particular year.
- **Gross Domestic Product at Market Price (GDP_{MP}):** Private Final Consumption Expenditure (C) + Government Final Consumption Expenditure (G) + Investment Expenditure (I) or Gross Capital Formation + Net Exports (X – M).

Net Domestic Product at Market Price (NDP_{MP}) = GDP_{MP} – Depreciation

Net Domestic Product at Factor Cost (NDP_{FC}) = GDP_{MP} – Indirect Taxes + Subsidies

National Income = GDP_{MP} – Depreciation – Net Indirect Taxes + Net Income from Abroad

- **Nominal Gross Domestic Product:** When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at current year's prices or current prices, it is called Nominal GDP or GDP at current prices. It is influenced by change in both physical output and price level. It is not considered a true indicator of economic development.
- **Real Gross Domestic Product:** When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at base year's prices or constant price, it is called real GDP or GDP at constant prices. It changes only by change in physical output and not by change in price level. It is called a true indicator of economic development.
- **Gross National Product:** It is defined as the total value of all final goods and services produced in a country in a particular year, plus the income which is earned by its citizens who are located abroad and minus the income of non-residents located within the country.

$GNP_{MP} = GDP_{MP}$ + Net Factor Income from Abroad

- **Net National Product at Factor Cost (NNP_{FC}):** It is the sum total of **factor incomes** (rent + interest + profits + wages) earned by normal residents of a country during the period of an accounting year. It is also known as the National Income.

$NNP_{FC} = GNP_{FC}$ – Depreciation

OR

$NNP_{FC} = NDP_{FC}$ + NFIA

- **Net National Product at Market Price (NNP_{MP}):** It refers to market value of final goods and services produced during the year inclusive of **Net Factor Income from Abroad** but exclusive of depreciation.

$NNP_{MP} = GDP_{MP}$ – Depreciation + NFIA

Mnemonics

Concept 1: Value Added Method
Mnemonics: PST and **Denit** discussed about **GDP of MP**.
Interpretations:
GDP of MP: GDPMP
P: Gross Value added by **Primary Sector**
S: Gross Value added by **Secondary Sector**
T: Gross Value added by **Tertiary Sector**
De: Depreciation
nit: Net Indirect Taxes
Concept 2: Net Domestic Income or Net Domestic Product at Factor Cost Mnemonics
CM of **O**rrisa dictated to **NIA** deptt.
Interpretations:
C: Compensation of Employees
M: Mixed Income of Self-employed
Orrisa: Operating Surplus
NIA deptt.: Net Income from Abroad
Concept 3: Gross Domestic Product at Market Price
Mnemonics: Students of **GIC** College decorated **X-mas** tree.
Interpretations:
G: Government Expenditure
I: Investment Expenditure
C: Consumption Expenditure (Private)
X-mas: Export - Imports

Key Words

Net Factor Income from Abroad (NFIA): This is the difference between the income earned from abroad for rendering factor services by the normal residents of the country to the rest of the world and the income paid for the factor services rendered by non-residents in the domestic territory of a country.
Factor Income: These are incomes received by the owners of factors of production for rendering their factor services to the producers.
Transfer Payments: These are all those unilateral payments corresponding to which there is no value addition in the economy, e.g., gifts, donations, etc.
Domestic Territory: Domestic or Economic territory is the geographical territory administered by a government within which persons, goods and capital circulate freely.
Market Price: It is the price at which a commodity is sold and purchased in the market.
Double Counting: Counting the value of the same product more than once in calculation of National Income

Example 1

Find Net Value Added at Factor Cost:

S.No	Items	(₹ in crore)
(i)	Intermediate Cost	15,000
(ii)	Output Sold (units)	9,000
(iii)	Price per unit of output	4
(iv)	Consumption of Fixed Capital	2,000
(v)	Excise Duty	4,000
(vi)	Change in stock	(-)1,000

Solution:

NVA_{FC} = (ii × iii) + (vi) – (i) – (v) – (iv)
= [Output × Price] + [Change in Stock] – [Intermediate Cost] – [Excise Duty] – [Consumption of Fixed Capital]
= [₹ 9,000 × 4] + [– ₹ 1,000] – [₹ 15,000] – [₹ 4,000] – [2,000]
= ₹ 36,000 – ₹ 1,000 – ₹ 15,000 – ₹ 4,000 – ₹ 2,000
= ₹ 36,000 – ₹ 22,000
NVA_{FC} = ₹ 14,000 crore

Topic-3 GDP and Welfare

Concepts Covered • *Why GDP is not an appropriate indicator of Welfare*

Revision Notes

- **GDP and Welfare:** In general, Real GDP and Welfare are directly related with each other. A higher GDP implies more production of goods and services. It means more availability of goods and services. But more goods and services may not necessarily indicate that the people were better off during the year. In other words, a higher GDP may not necessarily mean higher welfare of the people.

- **Welfare** means material well being of the people. It depends on many economic factors like national income, consumption level, quantity of goods, etc., and non-economic factors like environmental pollution, law and order, etc. The welfare which depends on economic factors is called economic welfare and the welfare which depends on non-economic factor is called non-economic welfare. The sum total of economic and non-economic welfare is called social welfare.

Amazing Facts

Negative Externalities can be profitable for a company for the short run growth.

- **GDP is not an appropriate indicator for Welfare:** GDP may be a good indicator of economic growth but not of economic welfare or economic development because of:
  - **(a) Externalities:** Externalities refer to benefits or harms of an activity caused by a firm or an individual, for which they are not paid or penalized. For example, environmental pollution caused by industrial plants is a **negative externality** and building a flyover is a **positive externality.**
  - **(b) Composition of GDP:** GDP does not exhibit the structure of the product. If the increase in GDP is mainly due to increased production of war equipment and ammunitions, then such an increase cannot improve welfare in economy.
  - **(c) Distribution of GDP:** When GDP is unevenly distributed, increase in GDP does not increase welfare.
  - **(d) Non-monetary exchanges:** Many activities in an economy are not evaluated in monetary terms, they are not included in GDP, due to non availability of data. However, such activities influence the economic welfare of people of the economy.

Key Words

Negative Externalities: The activity done by the firm or an individual which causes harm.
Positive Externalities: The activity done by the firm or an individual which benefits.

UNIT – II: MONEY AND BANKING

CHAPTER-2

MONEY ANG BANKING

Topic-1 Money

Concepts Covered • *Definition of Money,* • *Supply of Money.*

Revision Notes

- **Definition of Money:** Money may be defined as anything which is generally acceptable as a medium of exchange and also acts as common measures of value, store of value and standard of deferred payment. Functions of Money:
  (1) Medium of exchange
  (2) Unit of Accounts
  (3) Store of value
  (4) Standard of deferred payments
- **Money Supply:** Total of money (currency notes, coins and demand deposits of banks) in circulation held by the public at a given point of time.
- **Measures of Money Supply:** In India, RBI uses four measures of money supply. These are M_1, M_2, M_3 and M_4.
- **Narrow Approach of Money Supply:** In narrow sense, we include only liquid assets which are easily acceptable for payments. It includes M_1 and M_2.
- **Broad Approach of Money:** It refers to currency held by public, demand deposits and time deposits. It includes M_3 and M_4.

Key Words

Central Bank: A central bank is a financial institution that is responsible for overseeing the monetary system and policy of a nation or group of nations, regulating its money supply, and setting interest rates.
Government: The Government of India, also known as the Central or Union Government or simply the Centre, is the union government created by the Constitution of India as the legislative, executive and judicial authority to govern the union of twenty eight states and eight union territories.

- **Currency with Public (C):** Currency of a country is issued either by the **Government** or by the **Central Bank.** It is called Legal Tender Money.
- **Demand Deposits (DD):** Public deposits with bank which public may withdraw at any time or on demand, bank has to pay it.

  Other Deposits (OD): These deposits include:
  (i) Demand Deposits of public financial institutions with RBI
  (ii) Demand Deposits of international financial institutions with RBI
  (iii) Demand Deposits of foreign **Government** and **Central Banks** with RBI
- **Time Deposits (TD):** Those deposits of public with bank which can be withdrawn only after completes of that period for which it has been deposited with banks.
- **Stock of Money:** If supply of money is studied at a point of time; it is called Stock of Money.
- **Flow of Money:** When supply of money is considered over a period of time; it is called Flow of Money.
- **High Powered Money or Reserve Money:** It is the sum of **(i)** Currency held by the public **(ii)** Cash reserve of the banks.

  $H = C + R$

Mnemonics

Concept: Factors affecting Money Supply
Mnemonics: **C**harles and **C**arla **G**ave **B**ob some **V**ery good **V**ariety of **A**ntiques
Interpretations:
C: Central Bank
C: Commercial Banks
G: Government
B: Banking Habits of the People
V: Velocity of Circulation
V: Volume of Trade
A: Amount of Demand Deposits

- **Factors affecting Money supply:**
  (i) **Central Bank**
  (ii) Commercial Banks
  (iii) **Government**
  (iv) Banking habits
  (v) Velocity of Circulation
  (vi) Volume of trade
  (vii) Amount of demand deposits
- **Who Supplies Money:** **Central Bank** of the country. However, coins are issued by the Government of India under Ministry of Finance. In India, Reserve Bank of India is the **Central Bank**.

Topic-2 Banking

Concepts Covered • *Money Creation of Commercial, Bank, Functions and Credit Control Measures*

Revision Notes

- **Money creation by Commercial Banks:** Money creation is a process in which a Commercial Bank creates total deposits many times the initial deposits.

Key Words

Banker's Bank: A bankers' bank is a specific type of bank that a group of larger, more established banks create.
Monopoly: A market structure characterized by a single seller, selling a unique product in the market.

The capacity of commercial banks to create money depends on two factors:

(i) Amount of initial fresh deposit

(ii) Legal Reserve Ratio (LRR)

Money Multiplier = 1/LRR

Money Creation = Initial Deposit × Money multiplier.

- **Central Bank:** A Central Bank is an apex institution in the banking structure of the country. It supervises, controls and regulates the activities of Commercial Banks and acts as a **Banker** to them. RBI (Reserve Bank of India) is the Central Bank of India.
- **Functions of RBI/Central Bank:**

  (i) Monopoly of Note Issue/Bank of Issue

  (ii) **Banker** to the Government

  (iii) **Bankers' Bank**

  (iv) Controller of Credit
- **Monetary Management:** It means to regulate money and credit in such a way that it may satisfactorily meet the demand for money needed for trade, business and economic activities.
- **Methods of Credit Control / Instruments of Monetary Policy:** Methods of credit control can be classified into two categories. These may be Quantitative tools (controlling extent of money supply) or Qualitative (persuasion, policy measure, etc.).

Mnemonics

Concept: Functions of the Central Bank
Mnemonics: **M**aria **B**lossom **B**aked **C**ake
Interpretations:
M: Monopoly of Note Issue/Bank of Issue
B: Banker to the Government
B: Bankers' Bank
C: Controller of Credit

These are:

(i) **Cash Reserve Ratio (CRR):** This refers to the proportion of total deposit of the commercial banks which they must keep as Cash Reserves with Central Bank.

(ii) **Statutory Liquidity Ratio (SLR):** This refers to liquid assets of the commercial banks which they must maintain (on daily basis) as a minimum percentage of their total deposits.

(iii) **Repo Rate:** It is the rate of interest at which the Central Bank gives short-period loan to the commercial banks against security pledged for the loan.

(iv) **Reverse Repo Rate:** It is the rate of interest at which the Central Bank of a country borrows money from commercial banks.

(v) **Bank Rate:** It is the rate of interest at which the Central Bank gives long-term/long period loan to the commercial banks without any security to cope with immediate cash crunch.

(vi) **Open Market Operations:** Open market operations refer to the sale and purchase of securities in the open market by the Central Bank. By selling the securities (like, National Saving Certificates— NSCs), the Central Bank soaks liquidity (cash) from the economy. And, by buying the securities, the Central Bank releases liquidity.

(vii) **Margin Requirements:** Margin Requirement refers to the difference between market value of the securities offered for loans and the amount of loan offered by the commercial banks.

Example 1

If the total deposits created by commercial banks is ₹10,000 crores and legal reserve requirements is 10%, what will be the amount of initial deposits?

Solution:

Legal Reserve Requirement (LRR) = 10% = 0.1

$$\text{Money Multiplier} = \frac{1}{LRR} = \frac{1}{0.1} = 10$$

Total Deposits = ₹ 10,000 crores

$$\text{Initial Deposits} = \frac{\text{Total deposits}}{\text{Money multiplier}} = \frac{10,000}{10}$$

$$= ₹\,1,000 \text{ crore}$$

UNIT – III: DETERMINATION OF INCOME AND EMPLOYMENT

CHAPTER-3
AGGREGATE DEMAND AND SHORT-RUN EQUILIBRIUM OUTPUT

Topic-1 Aggregate Demand and Saving

Concepts Covered • *Aggregate demand and its constituents;* • *Consumption and Savings Functions;* • *APC, MPC, APS, MPS.*

Revision Notes

- **Aggregate Demand:** Aggregate Demand refers to the total demand for all goods and services in the economic system as a whole. This is expressed in terms of total expenditure made in the economy.
- **Constituents of Aggregate Demand (AD):** In an open economy, constituents of AD are:
  (i) Consumption Expenditure
  (ii) Investment Expenditure
  (iii) Government Expenditure
  (iv) Net Exports
  AD = C+ I + G + (X – M)
- **Private Consumption Expenditure:** The total demand for all goods and services by the household in an economy during an accounting year is termed as Private Consumption Expenditure. It is determined by the level of personal disposable income of the economy.
- **Private Investment Expenditure:** The expenditure of households and private investor to purchase goods or services that adds to their stock of capital is termed as Private Investment Expenditure. It mainly depends on market rate of interest.
- **Government Expenditure:** It includes the total expenditure of government on the purchase of consumption goods and investment expenditure. There is a significant difference between government and private investment. Private investments are done on consideration of profit and termed as Induced Investment.
- **Autonomous Investment:** Government investment expenditure done on considerations of social welfare like construction of roads, schools, dams and flyover are termed as Autonomous Investment.
- **Aggregate Supply:** The concept of aggregate supply is related to the total supply of goods and services made available by all the producers in the economy. It can be expressed in three forms:
  (i) Money value of goods and services produced during a year in an economy, i.e., National Income.
  (ii) In the form of total income, i.e., consumption + saving.
  (iii) In the form of minimum income which the firm will receive as sale proceeds from the sale of goods and services.
- **Effective Demand:** It signifies the point where aggregate demand equals to aggregate supply. Thus, that level where aggregate demand equals aggregate supply is called Effective Demand.
- **Consumption Function:** The relationship between consumption and income is Consumption Function.
  C = f (Y)
- **Algebraic Expression of Consumption Function:** The algebraic expression of consumption function is given by:

$$C = \bar{C} + b(Y)$$

where, C = Consumption
$\bar{C}$ = Minimum Level of Consumption at Zero Income
b = Marginal Propensity to Consume
Y = Income

- **Propensity to Consume:** It expresses the consumption levels at different levels of income.
- **Average Propensity to Consume (APC):** It is the ratio of Consumption Expenditure to any particular level of income.

$$APC = \frac{\text{(C) Consumption}}{\text{(Y) Income}}$$

- **Marginal Propensity to Consume (MPC):** It is the ratio of a change in Consumption to a change in Income.

$$MPC = \frac{\text{Change in Consumption}}{\text{Change in Income}} = \frac{\Delta C}{\Delta Y}$$

- **Propensity to Save:** It is the ratio of saving to income at different levels of income.
- **Saving Function:** It denotes the relation between saving and income. It shows the desire of savings at various levels of income.

$$S = f(Y)$$

- **Algebraic Expression of Saving Function:** The algebraic expression of saving function is given by:

$$S = (-)\bar{S} + b(Y)$$

where,
S = Saving
$\bar{S}$ = Level of saving when Income is Zero
b = Marginal Propensity to Save
Y = Income

- **Average Propensity to Save (APS):** It is the ratio of saving to income.

$$APS = \frac{\text{Saving}}{\text{Income}} = \frac{\Delta S}{Y}$$

- **Marginal Propensity to Save (MPS):** It is the ratio of change in saving to a change in income.

$$MPS = \frac{\text{Change in Saving}}{\text{Change in Income}} = \frac{\Delta S}{\Delta Y}$$

- **Relationship between Propensity to Save and Propensity to Consume:**

$$MPC + MPS = 1$$
or
$$MPC = 1 - MPS$$
$$MPS = 1 - MPC$$
$$APC + APS = 1$$
$$APC = 1 - APS$$
or
$$APS = 1 - APC$$

- **Investment Expenditure:** Investment expenditure includes expenditure for producer's durable equipment, new construction and the change in inventories.
- **Induced Investment:** It depends upon income and profit in the economy. Investment made with expectation of profit is called induced investment. It depends upon **(i)** **Marginal efficiency of capital**, and **(ii)** **Rate of Interest**.
- **Autonomous Investment:** This investment is independent of income and employment. Such investment is made by the government with the motive of social welfare.
- **Equilibrium Volume of Investment:** Investment decisions depend upon the relative superiority of **MEC** over rate of interest.

MEC = r [Passive Effect on Investment or Neutral]
MEC > r [Favourable effect on Investment]
MEC < r [Adverse effect on Investment]

Mnemonics

Concept: Constituents of Aggregate Demand
Aggregate Demand = Consumption Expenditure + Investment Expenditure + Government Expenditure + Net Exports
Mnemonics: **A**ndhra **P**radesh **C**annot **I**mport **G**ood **N**uts

Interpretations:
A: Aggregate Demand
C: Consumption Expenditure
I: Investment Expenditure
G: Government Expenditure
N: Net Exports

Key Words

Marginal Efficiency of Capital (MEC): Marginal efficiency of capital is expected rate of return on an additional unit of capital goods over its cost.

$$\text{MEC} = \frac{\text{Prospective Yield}}{\text{Cost (Supply Price of Capital)}}$$

Rate of Interest: Interest is the reward for parting with liquidity for a specified period.
Ex-Ante Saving: It is the planned or desired or intended saving during a particular period.
Ex-Ante Investment: It is the planned or desired or intended investment during a particular period..

Topic-2 Short Run Equilibrium Output

Concepts Covered • *Employment equilibrium in the short run;* • *Effect of change in equilibrium.*

Revision Notes

- **Short Run**: According to J. M. Keynes, "A period of time during which level of output is determined exclusively by the level of employment in the economy, is termed as short run."
- **Full Employment**: It refers to a situation, where all those workers who are able to work and willing to work get employment at prevailing wage rate.
- **In an Economy:**
  Income Equilibrium Level (Y) = Output Equilibrium Level (O) = Employment Equilibrium Level (N)
- Short Run Equilibrium, i.e., Keynesian Approach
  AD = AS

Amazing Facts

An economy never reaches the level of full employment.

(i) Employment is determined at a point where AD = AS.
(ii) If AD > AS, firm will employ more factors of production and it will again attain AD = AS.
(iii) If AD < AS, firm will cut employment and it will bring again AD = AS.

- **Change in Equilibrium:** Equilibrium position described above may be of full employment or may not be of full employment. It only determines the level of income. Therefore, for full employment we have to twist AD or AS. But AS depends on technological factors therefore if AD increases, it will raise the level of employment.

$$S = I$$

- According to Keynes income-employment equilibrium is determined at a point where S = I.
  (i) If S > I then equilibrium income will have a tendency to reduce.
  (ii) If S < I then equilibrium income will have a tendency to increase.

Key Words

Output: The produce produced in the economy.
Employment: The work-force being employed.

Mnemonics

Concept: Equilibrium Level
Income Equilibrium Level (Y) = Output Equilibrium Level (O) = Employment Equilibrium Level (N)
Mnemonics: **I**ndia **O**ut performing **E**conomy.
Interpretations:
I: Income Equilibrium Level
O: Output Equilibrium Level
E: Employment Equilibrium Level

Example 1

An economy is in equilibrium. Calculate the Marginal Propensity to Save from the following:

National Income = ₹1,000

Autonomous Consumption = ₹100

Investment= ₹120

Solution:

Step I: Given, Y = ₹1,000

C = ₹ 100

I = ₹ 120

Step II: We know, Y = C + b(Y) + I

or ₹1,000 = ₹100 + b(₹1,000) + ₹120

or ₹1,000 = ₹220 + ₹1,000b

or $$b = \frac{₹\,1000 - ₹\,220}{₹\,1000}$$

$$b = \frac{₹\,780}{₹\,1000}$$

or b = 0.78

1 – MPC = MPS

or 1 – 0.78 = MPS

or MPS = 0.22

Topic-3

Investment Multiplier and Its Working

Concepts Covered • *Multiplier and its relation with Marginal propensity to Consume.*

Revision Notes

- **Multiplier:** It establishes relation between income and investment. It measures the change in **income** due to change in investment.

$$K = \frac{\Delta Y}{\Delta I} = \frac{\text{Change in Income}}{\text{Change in Investment}}$$

Amazing Facts

The concept of Multiplier was developed by Kahn and then refined by Keynes.

- **Relationship between Multiplier and Marginal Propensity to Consume (MPC):** The size of multiplier is determined by the Marginal Propensity to Consume. There is a direct relation between MPC and K. Higher the MPC, higher is the value of K and vice-versa.

$$K = 1 - MPC$$

and $$K = \frac{1}{MPS}$$

if MPC = Zero

K = 1

MPC = 1

$K = \infty$

Value of K lies between 1 and infinity.

- **Forward and Backward action of multiplier:** Multiplier is two-edge instrument and hence, it works in both directions.

  (i) Forward Action: Additional investment creates additional income many more times.

  (ii) Backward Action: Withdrawal of investment decreases income many more times.

  Full employment: It refers to a situation, where all those workers who can work and are willing to work get employment at prevailing wage rate. **Involuntary unemployment:** When people who are able and willing to work at the prevailing wage rate, do not get employment, it is a situation of involuntary unemployment

Mnemonics

Concept: Investment Multiplier

$$K = \frac{\text{Change in Income}\,(\Delta Y)}{\text{Change in Investment}\,(\Delta I)}$$

Korea **C**harges **C**ulprit

K: Investment Multiplier

C: Change in Income

C: Change in Investment

Key Words

Investment multiplier: It is the ratio between change in income and change in investment.

Example 1

What is investment multiplier? Explain its working using a suitable numerical example.

Solution :

Step I: Meaning
investment multiplier is a measure of the effect of change in the initial investment on change in final income.

Step II: Schedule

Round	ΔY	C	ΔS
I	100	80	20
II	80	64	
III	64	51.2	12.8
	–	–	–
	–	–	–
Total	500	400	100

(or any other relevant example)

Step III: Numerical example
Suppose ΔI = ₹100 crore
MPC = 0.8

Step IV: Calculation

$$K = \frac{1}{1 - MPC}$$

$$K = \frac{1}{1 - 0.8}$$

So $\Delta Y = K.\Delta I$

$= 5 \times 100 =$ ₹500

Step IV: $\Delta C = MPC \times \Delta Y = 0.8 \times 500$

$= 400$

$\Delta S = MPS \times \Delta Y = (1 - 0.8) \times 500$

$= 100$

CHAPTER-4

PROBLEMS AND MEASURES OF EXCESS AND DEFICIENT DEMAND

Revision Notes

- **Deficient Demand:** When AD falls short of AS at full employment, it is called deficient demand.
  Deficient Demand = AD < AS (at full employment level).
- **Reasons for Deficient Demand:**
  - **(i)** Decrease in investment expenditure
  - **(ii)** Decrease in propensity to consume
  - **(iii)** Increase in Taxes
  - **(iv)** Reduction in Public Expenditure
  - **(v)** Increase in Propensity to Save
  - **(vi)** Decline in Export Demand
- **Effects of Deficient Demand:**
  - **(i)** Fall in production level
  - **(ii)** Fall in price level
  - **(iii)** Increase in unemployment
- **Excess Demand:** Excess demand refers to a situation when aggregate demand exceeds aggregate supply corresponding to full employment. AD > AS (at full employment level).

- **Reasons for Excess Demand:**
  (i) Increase in public expenditure
  (ii) Reduction in taxes
  (iii) Deficit financing
  (iv) Increase in investment demand
  (v) Increase in propensity to consume
  (vi) Increase in export demand
- **Effects of Excess Demand:**
  (i) Decrease in unemployment
  (ii) Increase in production level
  (iii) Increase in price level.
- **Cyclical Fluctuations:** In real life, Aggregate demand does not match Aggregate Supply. Consequently, economy faces economic fluctuations like:

  Depression → Recovery → Full employment → Propensity → Recession → Again depression and process goes on.

Key Words

- **Taxes:** The type of surcharge that the government imposes on the income and goods.
- **Unemployment:** The situation where the able persons who are willing to work are not employed.
- **Depression:** Employment, income, and output begin to decline sharply in the economic fluctuation.

- **There are four important ways to correct Excess and Deficient Demand:**
  (i) Fiscal Policy
  (ii) Monetary Policy
  (iii) Foreign Trade Policy
  (iv) Other Measures
- **Fiscal Policy:** Government measures related to **public expenditure,** taxation and **public debt** are referred as fiscal measures and the policy related to these measures is called Fiscal Policy.
- **Instruments of Fiscal Policy:** **Public expenditure,** taxation, **public debt** and **deficit financing.**
- **Monetary Policy:** A policy, which controls the money supply, credit availability and its cost is termed as monetary policy. Central Bank of the country frames this policy and ensures its execution.
- **Measures of Monetary Policy:**
  (i) **Quantitative:** Bank Rate, Open Market Operations, Minimum Reserve Ratio and Liquidity Ratio.
  (ii) **Qualitative:** Margin requirement of loans, Rationing of credit, Direct action and Moral pressure.

Mnemonics

(i) Quantitative Monetary Policy Measures
Mr. **BR** purchased **OMO M**all of Mr. **LR**.
BR = Bank Rate
OMO = Open Market Operations
M = Minimum Reserve Ratio
LR = Liquidity Ratio

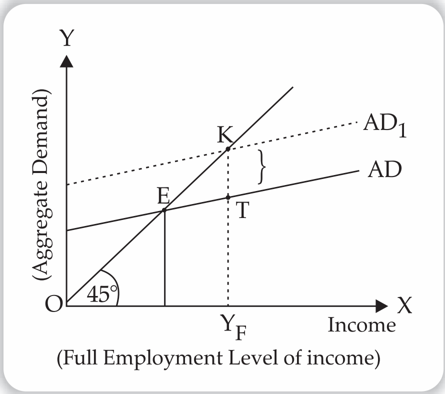
(ii) Qualitative Monetary Policy Measures
Madhav **R**an **D**irectly to his **M**other.
M: Margin requirement of loans
R: Rationing of credit
D: Direct action
M: Moral pressure

Key Words

- **Public Expenditure:** The expenditure done by the government on the development of various infrastructural projects.
- **Public Debt:** The loan taken by the government from the general public or from the foreign financial institutions.
- **Deficit Financing:** The budgetary situation where expenditure is higher than the revenue.

Example 1

Q. In the given figure, what does the gap 'KT' represent? State any two fiscal measures to correct the situation.



Solution:

The Gap 'KT' represents 'Deficient demand'. Deflationary gap is that situation when Aggregate demand is lesser than Aggregate supply corresponding to full employment level.

Two fiscal measures to control it are:

(a) Decrease in Taxes: To curb the deflationary gap the government may decrease the taxes. This may increase the purchasing power in the hands of the people which in turn may increase the Aggregate Demand in the economy to bring it equal to the Aggregate Supply.

(b) Increase in Government Expenditure: To curb the deflationary gap the government may increase its expenditure. This may increase the purchasing power in the hands of the people which in turn may increase the Aggregate Demand in the economy to bring it equal to the Aggregate Supply.

UNIT – IV: GOVERNMENT BUDGET AND THE ECONOMY

CHAPTER-5

GOVERNMENT BUDGET AND THE ECONOMY

Revision Notes

- **Budget:** Budget is a financial statement showing the expected receipt and expenditure of Government for the coming fiscal or financial year. It is a constitutional requirement in India (Article 112).
- **Objectives of Government Budget:**
  - **(i)** Encouragement to **economic development**
  - **(ii)** Balanced regional development
  - **(iii)** Redistribution of income and property
  - **(iv)** Economic stability
  - **(v)** Generation of employment
  - **(vi)** Management of public enterprises
- **Components of Government Budget**:
- **Revenue Budget:** It shows revenue receipts and revenue expenditure of the government related to the current financial year only.
- **Revenue Receipts: (a)** Which do not cause any reduction in assets; and **(b)** Which do not create any corresponding liability to the government. Example: Tax receipts of the government.
- **Tax:** It is a compulsory contribution by an individual, household or a firm to the government without receiving anything in return directly. Government uses these receipts for social and development work.
- **Direct Tax:** When Government imposes a tax on a person and it is paid by the same person it is called direct tax. Its burden cannot be shifted to others. For example: Income Tax, Property Tax.

Key Words

Economic Development: Eco- **nomic Development** is a compre-hensive concept including increasing real per capita income of a country over a long period of time along with reduction in poverty, inequality and unemployment.

Disinvestment: Disinvestment is the process of the selling of the shares of the public sector units by the government to the private enterprises or individual.

Anticipated Expenditure: Anticipated expenditure if the expenditure which the government has planned to occur during the financial year.

Anticipated Revenue: Anticipated revenue is the revenue that the government has planned to get during the financial year.

Planned Expenditure: These are incurred in accordance with planned development programmes of the country.

- **Indirect Tax:** It is a tax on goods and services. It is to be initially paid by the producers / traders but its final burden can be passed on to the final buyers by way of inclusion or increase in price of the taxed commodity. GST or VAT is an example of it.
- **Non-Tax Receipts:** Non-Tax Receipts are those receipts which are received from sources other than taxes, e.g., Fees, Fines, Escheats, Grants / Donations, etc.
- **Revenue Expenditure:** It is the expenditure by the government that is related to the current financial year. These expenses:
  (i) Do not cause increase in government assets, and;
  (ii) Do not cause any reduction in government liability.
- **Capital Budget:** It shows capital receipts and capital expenditure of the government.
- **Capital Receipts: (a)** Which create corresponding liability for the government. Example: Loans by the Government; and **(b)** Which cause reduction in assets of the government. Example: Disinvestment.

Mnemonics

(i) Objective of Government Budget:
Encourage **B**y **R**ole **E**mpower **M**ore **G**oal
E: Encouragement to economic development
B: Balance Regional development
R: Redistribution of income and property
E: Economic stability.
(ii) Concept: Measures to correct Different deficit
Mnemonics: **R**adio **M**aster **B**ooked **D**ancing **L**uis
Interpretations:
R: Raising government revenue
M: Monetary Expansion or Deficit Financing
B: Borrowing from general public
D: Disinvestment
L: Lowering government expenditure
Concept: Objectives of Government Budget
Mnemonics: **E**ngland **B**elgium **R**ussia **E**thiopia **G**ermany **M**alaysia
Interpretations:
E: Encouragement to economic development
B: Balanced Regional development
R: Redistribution of Income and Property
E: Economic stability
G: Generation of employment
M: Management of public enterprises

- **Capital Expenditure:** It is the expenditure by the government which:
  (i) Causes increase in government assets; and
  (ii) Causes reduction in government liability.
- **Budget Deficit:** It is the excess of total estimated expenditure over total estimated revenue.
  (i) Revenue Deficit: Revenue Expenditure – Revenue Receipts.
  (ii) Fiscal Deficit: [Revenue Expenditure + Capital Expenditure] – [Revenue Receipts + Capital Receipts (other than government borrowings)].
- **Primary Deficit:** By deducting interest payment from fiscal deficit, we get primary deficit.
  Primary Deficit = Fiscal Deficit – Interest Payment
- **Types of Budgets**
  (i) Balanced Budget: Total Expenditure = Total Revenue
  (ii) Deficit Budget: Total Expenditure > Total Revenue
  (iii) Surplus Budget: **Total Anticipated Expenditure < Total Anticipated Revenue**

Amazing Fact

The government can have a fiscal deficit but a revenue surplus.

Measures to Correct Different Deficit:

(i) Raising government revenue

(ii) Monetary Expansion or Deficit Financing

(iii) Borrowing from general public

(iv) Disinvestment

(v) Lowering government expenditure

Example 1

Items	Amount is ₹ Crore
Capital Expenditure	1,000
Revenue Expenditure	1,200
Tax Receipts	700
Non Tax Receipts	400

Interest Payment	100
Long Term Borrowings	150
Capital Receipts including Long Term Borrowings	1,000

(a) What is the revenue deficit?

Solution:

Revenue Deficit = Revenue Expenditure – Revenue Receipts

= 1,200 – (7,00 + 4,00) = ₹100 crore

(b) What is the fiscal deficit?

Solution:

Fiscal Deficit

= [Revenue Expenditure + Capital Expenditure] – [Revenue Receipts + Capital Receipts] (other than government borrowings)

= [1,200 + 1,000] – [1,100 + 1,000 – 150]

= 2,200 – 1,950 = ₹250 crore

(c) What is the Primary deficit?

Solution:

Primary Deficit = Fiscal Deficit – Interest Payment

= 250 – 100 = ₹150 crore

UNIT – V: BALANCE OF PAYMENTS

CHAPTER-6

BALANCE OF PAYMENTS

Revision Notes

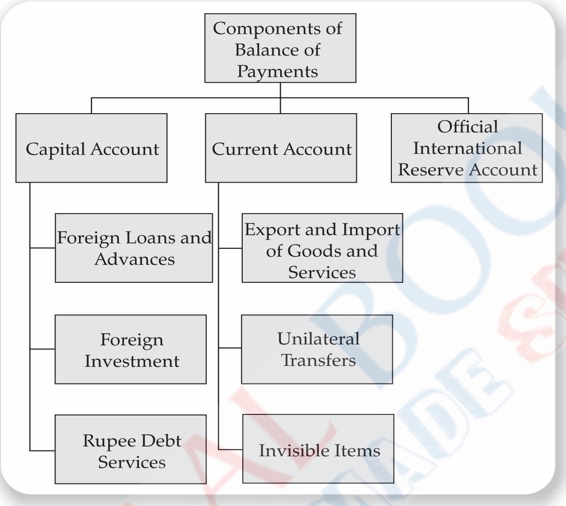
- **Balance of Payments:** The Balance of Payments (BoP) records the transactions in goods, services and assets between **residents** of a country with rest of the world for a specified time period (a year).
- **Components of BoP (Balance of Payments) Account:** The transactions entering into the balance of payments account can be grouped under three broad accounts:
  (i) Current Account
  (ii) Capital Account
  (iii) Official International Reserve Account
- **Current Account:** Transactions related to trade in goods and services and transfer of payments constitute the current account. The components of current account do not cause a change in **assets** or **liabilities** status of the residents of a country or its government.
- **Items of Current Account:**
  (i) Merchandise Account
  (ii) Invisible items
  (iii) **Unilateral transfers**

- **Capital Account:** Capital account represents international **capital transactions** which include sale and purchase of assets such as bonds, equities, lands, loans, bank accounts, etc. The components of capital account cause a change in assets and liabilities status of the residents of a country or its government.

Amazing Fact

The Balance of Trade could be in deficit even though there is a Balance of Payment Surplus.
The Government can have a current account surplus but still have an unfavourable Balance of Payment.

Key Diagram



- **Balance of Payments is always balanced:** The equality of both sides of balance of payments is only accounting equality, not the real equality.
- **Currency with Public (C):** Currency of a country is issued either by the **government** or by the **Central Bank.** It is called Legal Tender Money.
- **Balancing Items of Balance of Payments:** (i) The official settlements account, and (ii) Errors and Omissions.
- **Surplus Balance of Payment:** When the total inflow of foreign exchange on account of autonomous transaction are more than the total outflows on account of such transactions then there is a surplus Balance of Payment
- **Deficit of BoP Account:** When total inflows of foreign exchange on account of **autonomous transactions** are less than the total outflows on account of such transactions then there is a deficit in BoP.
- **Causes of Disequilibrium of Balance of Payments:**
  (i) Natural Causes: (a) Natural calamities; **(b)** Any disease spreads
  (ii) Economic Factors: (a) Development activities; **(b)** High rate of inflation; **(c)** Trade cycle; **(d)** Change in cost structure of trading partners; **(e)** Development of import substitutes.
  (iii) Political Factors: (a) Political stability; **(b)** Political influence on foreign trade
  (iv) Social Factors: (a) Demonstration effect; **(b)** Change in tastes and preferences; **(c)** Cross border prejudices

Example 1

The balance of trade shows a deficit of ₹ 5,000 crores and the value of imports are ₹ 9,000 crores. What is the value of exports?

Solution: Balance of Trade= – ₹ 5,000 crores

Value of Imports = ₹ 9,000 crores

Balance of Trade (Deficit) = Value of Exports – Imports

Value of Exports = Balance of Trade(Deficit) + Imports

= – ₹ 5,000 crores + ₹ 9,000 crores = ₹ 4,000 crores

Mnemonics

Concept: Components of Balance of Payments
Mnemonics: **C**hief **C**oordinating **O**fficer
Interpretations:
C: Current Account
C: Capital Account
O: Official International Reserve Account

Concept: Items of Current Account
Mnemonics: Modern Indian Unit
Interpretations:
M: Merchandise account
I: Invisible items
U: Unilateral transfers

Key Words

Residents: The people who stay in the country.
Assets: The items which the government owns.
Liabilities: The items that the government owes and has to repay back.
Capital Transactions: The transactions that are related to buying or selling of assets or increase or decrease in the liabilities.
Autonomous Transactions: Autonomous items are those items of balance of payments which are related to such transactions as are determined by the motive of profit maximisation and not to maintain equilibrium in Balance of Payments. These items are generally called 'Above the Line Items' in balance of payments.
Accommodating Items: Refers to all the items related to the monetary transfers (or official reserve transactions), correcting balance of payments disequilibrium. Accommodating items refers to transactions that take place because of other activities in Balance of Payments. These transactions are meant to restore the Balance of Payments identity. These items are generally called 'Below the Line Items'.
Unilateral transfers: Transfer of goods or services from one country to another without receiving anything in return, e.g., foreign aid.

CHAPTER-7

FOREIGN EXCHANGE RATE

Revision Notes

- **Foreign Exchange Rate:** Foreign exchange rate refers to the rate at which one unit of the currency of a country can be exchanged for the number of units of the currency of another country.

SYSTEM OF EXCHANGE RATE

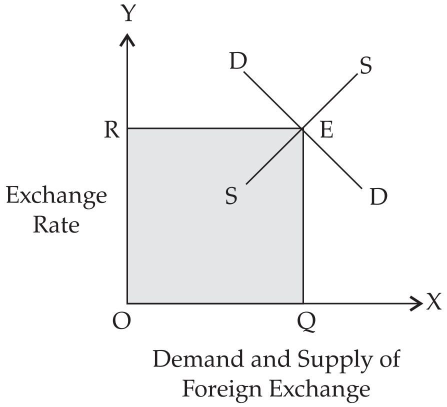
Fixed Exchange Rate | Managed Floating Exchange Rate | Flexible Exchange Rate

- **Types of Foreign Exchange Rates:**
  - **(i) Fixed Exchange Rate:** When the Central Bank of a country fixes (or pegs) the value of exchange rate, it is called Fixed Exchange Rate system or Pegged Exchange Rate System.
  - **(ii) Flexible Exchange Rate System:** The system of exchange rate in which value of a currency is allowed to adjust freely or to float as determined by the demand for and supply of foreign exchange is called Flexible Exchange Rate System.
  - **(iii) Managed Floating System:** It is a system in which the Central Bank allows the exchange rate to be determined by market forces but intervenes at times to influence the rate. When Central Bank finds the rate is too high, it starts selling foreign exchange from its reserve to bring it down. When it finds that the rate is too low, it starts buying to raise the rate.

Amazing Fact

Bretten Woods Conference that happened in 1944, pegged the value of gold in terms of US dollars and made all foreign transactions to be done in terms of dollar instead of gold.

- **Merits of Fixed Exchange Rate:**
  - Promotion of international trade
  - Incentives of foreign capital
  - Acceleration in capital formation
  - Economic planning
  - Source of economic benefit
  - Helpful in maintaining favourable Balance of Payments
  - Ensures stability in exchange rate
  - Helpful to check inflation
- **Demerits of Fixed Exchange Rates :**
  - Neglects National interest
  - Control over various sectors
  - High fluctuation in exchange rates
  - Intervention of Central Bank
- **Merits of Flexible Exchange Rate System :**
  - Simple system
  - Continuous adjustment
  - Lesser requirement of reserve funds
  - Efficient utilization of resources
- **Demerits of Flexible Exchange Rate System :**
  - Bad effects of less elasticity
  - Creates uncertainty
  - Instability in international trade
- **Merits of Managed Floating Exchange Rate:**
  - Improved Balance of Payment
  - Reduced risk of inflation and deflation
  - Balances the Economy
  - Long-term Growth Potential
- **Demerits of Managed Floating Exchange Rate:**
  - Large forex reserves need to be maintained
  - Speculation
  - Conflict with macroeconomic objectives.
- **Determination of Flexible Exchange Rate/Demand and Supply theory of exchange rate/ determination of Equilibrium Rate of Exchange :** Exchange rate is determined by the interaction of demand and supply in foreign exchange market. There is an inverse relationship between price of foreign exchange (i.e., rate of exchange) and demand for foreign exchange rate. On the contrary, there is direct relation between foreign exchange rate and supply of foreign exchange.



Inverse Relationship:

High rate of exchange – Low demand for Forex

Low exchange Rate – Increased demand for Forex

Direct Relationship:

High Exchange Rate – Increased supply of Forex

Low Exchange Rate – Decreasing Supply of Forex

- **Reasons for the Demand of Foreign Exchange :** The demand of foreign exchange has inverse relation with flexible exchange rate. If flexible exchange rates rise, the demand of foreign exchange falls and vice versa. The demand for Foreign Exchange is created due to the following purposes :
  - **(i)** To purchase goods and services from the rest of world.
  - **(ii)** To purchase financial assets (i.e., to invest in bonds and equity shares) in a foreign country.
  - **(iii)** To invest directly in shops, factories, buildings in foreign countries.
  - **(iv)** To send gifts and grants abroad.
  - **(v)** To speculate on the value of foreign currency.
  - **(vi)** To undertake foreign tours.
- The supply of foreign exchange has positive relation with foreign exchange rate. If foreign exchange rate rises, the supply of foreign exchange rate also rises and vice versa. **Sources of Supply of Foreign Exchange :**
  - **(i)** Direct purchase by foreigners in domestic market.
  - **(ii)** Direct investment by foreigners in domestic market.
  - **(iii)** Remittance by non-residents living abroad.
  - **(iv)** Flow of foreign exchange due to speculative purchases by N.R.I.
  - **(v)** Export of goods and services.

Key Words

Demand: The want of foreign exchange in order to import goods.

Supply: The foreign exchange available in the market due to exports.

Remittance: The money sent by a non resident to their family.

PART - B : INDIAN ECONOMIC DEVELOPMENT

UNIT – VI: DEVELOPMENT EXPERIENCE (1947-90) AND ECONOMIC REFORMS SINCE 1991

CHAPTER-8

DEVELOPMENT EXPERIENCE (1947-90) AND ECONOMIC REFORMS SINCE 1991

Topic-1 Indian Economy on the Eve of Independence

Concepts Covered • *Indian Economy at the time of independence,* • *Occupational Structure,* • *Sectoral contribution,* • *Problems due to British Policy.*

Revision Notes

- India had an independent economy before the advent of British rule. Though agriculture was the main source of livelihood for most of the people, yet, the economy of the country was characterised by various kinds of manufacturing activities. The objective of policies adopted by the colonial government was to export raw material from India and import manufactured goods from England.

  The colonial government never made any sincere attempt to estimate India's national income and per capita income. First scientific estimate was made by **V.K.R.V. Rao** in 1931-32 during colonial rule.
- **Agriculture sector on the Eve of Independence:** Indian economy under the British colonial rule remained fundamentally agrarian. The main causes of stagnation of agricultural sector were as follows:

Change in Tenurial system and Commercialization of agriculture:

Change in System and Tenure: (i) Permanent settlement or **Zamindari system**, **(ii)** Ryotwari system, and **(iii)** Mahalwari system.

Commercialisation of Agriculture: Main causes were:

(i) Industrial revolution **(ii)** Commercial policy of British Government, **(iii)** Increase in foreign trade, **(iv)** Payment of Land Revenue in cash, **(v)** Use of money, **(vi)** Development of the means of transportation and communication, **(vii)** Expansion of the agricultural market, **(viii)** High price of cash crops.

Amazing Fact

14 major famines took place in India during the British Raj in which the Great Bengal Famine of 1943 was totally man-made as Winston Churchill the PM of UK took the grains from Bengal and left the people of Bengal in hunger. It is said that Bengal has still not been able to be over the famine.

India's GDP before the British Raj was 25 - 35% of the world's GDP and after they left it was 2% of the world's GDP

- **Industrial Sector on the Eve of Independence:** Like agriculture, industrial sector of India could not develop. At the time of independence, the condition of industrial sector was as follows: **(i) De-industrialisation** or decline of Indian handicraft industry, **(ii)** One sided modern industrial structure, **(iii)** Lack of capital goods industries, **(iv)** Limited operation of public sector.
- **Main Characteristics of Industrial Development during British Rule: (i)** Development of consumer product industries, **(ii)** Rising share of Indian capital, **(iii)** Concentration of enterprises in few hands, **(iv)** Dominance of foreign capital, **(v)** Investment of own capital of capitalists, **(vi)** Industrial policy, **(vii)** Regional imbalance in industrial development.
- **Foreign Trade on the Eve of Independence:** India was a trading nation before the advent of colonial rule. But due to restrictive policies adopted by the colonial government, India's foreign trade was affected adversely. Foreign trade conditions on the eve of independence were as follows: **(i)** Export of primary products and import of finished goods, **(ii) Monopoly** control of Britain on foreign trade, and **(iii)** Drain of Indian wealth.
- **Demographic conditions on the eve of Independence:** First Census of population of British India was made in 1881. At the time of independence, the features of demographic conditions were as follows:
  (i) High birth and death rate, **(ii)** High infant mortality rate, **(iii)** Low life expectancy ratio, **(iv)** Low literacy rate, **(v)** Low standard of living.
- **Occupational structure on the eve of independence:** Occupational structure refers to distribution of working population across different industries and sectors. During colonial rule, occupational structure did not change much. The state of occupational structure during the British rule was as follows:
  (i) Pre-dominance of agricultural sector, and **(ii)** Growing regional variation.
- **Infrastructure on the eve of independence:** Under infrastructure, we include all those industries and services which are used to develop other industries. Development of infrastructure during colonial rule was not to provide better facilities to general public but serve the British interest only. We include the following under infrastructure:
  (i) Railway, **(ii)** Roads, **(iii)** Water and Air transport, **(iv)** Communication system.
- **Indian Economy on the Eve of Independence: (i)** Colonial economy, **(ii)** Semi-feudal economy, **(iii)** Backward economy, and **(iv)** Stagnant economy.
- **Positive Contribution of British rule: (i)** Self-sufficiency in food grain production, **(ii)** Better means of transportation, **(iii)** Check on famines, **(iv)** Shift to monetary economy, and **(v)** Effective administration set up.
- After independence, India envisaged an economic system which combines the best features of socialism and capitalism — this culminated in the mixed economic model.

Key Words

Zamindari System: The system in which the land was given to a landlord or zamindar who was to collect the tax from the peasants and give it to the British Empire.

De-industrialisation: The policy in which the industries are destroyed or made inoperable with high taxes.

Monopoly: The market condition where there is only one seller.

Demography: The type of population living within the territory of a country.

Mnemonics

Concept: Change in System and Tenure
Mnemonics: **P**atna **R**aipur **M**umbai are **C**apital **C**ities
P: Permanent settlement or Zamindari system
R: Ryotwari system
M: Mahalwari system

Concept: Foreign Trade on the eve of Independence
Concept: Indian Economy on the Eve of Independence
Mnemonics: **E**ena **M**eena **D**ica
E: Export of primary products and import of finished goods

Mnemonics: **C**ody **S**aw **B**aby **S**eal
M: Monopoly control of Britain on foreign trade
C: Colonial economy
D: Drain of Indian wealth
S: Semi-feudal economy
B: Backward economy
S: Stagnant economy

Topic-2 Common Goals of Five-Year Plans

Concepts Covered • *Meaning and Objectives of Planning,* • *India's success and failure during different plan periods,* • *NITI Aayog*

Revision Notes

- **Meaning of Planning:** Planning is a technique and a means to attain goals. These pre-determined goals are specially formulated by the central planning authority.

Amazing Fact

Atmanirbhar Bharat, Make in India all have been a part of India's Planning Policy.

- **Characteristics of Economic Planning:** **(i)** Organisation system, **(ii)** Maximum utilisation of resources, **(iii)** Applicable on the whole economy, **(iv)** Central Planning Authority, **(v)** Interference by the State, **(vi)** Changes in the economy, **(vii)** Long term process, **(viii)** Pre-determined objectives, **(ix)** Existence of valuation mechanism, **(x)** Achievement of objectives.
- **Plan Period in India:** India has completed 12 Five Year Plans. Time Period of 12th Plan was 2012-2017.
- **Indian Planning Commission:** The Planning Commission of India was established on 15th March, 1950, to evaluate the physical, capital and human resources and on this basis make programmes for the Plan Development and its evaluation.
  The Planning Commission of India has now been dissolved in 2015 and replaced with National Institution for Transforming India (NITI) Aayog.
- **National Development Council (NDC):** As an apex body to planning, it was constituted on 6th August, 1952. No plan was implemented without its approval.
- **Objectives of Planning in India:** **(i)** Economic **growth**, **(ii) Modernisation**, **(iii) Self-reliance**, and **(iv)** Economic equity.
- **Achievements of Indian Plans:**
  (i) Growth-Oriented Development Strategy (1951-65): In first plan, actual growth rate was higher than targeted. But in second and third plans, it was less than targeted.
  (ii) Equity Oriented Development Strategy (1966-90): There are two big achievements in the field of self-reliance. **(i)** India attained almost self-sufficiency in the field of food grains, and **(ii)** due to development of heavy engineering, machinery equipment, iron and steel and other capital goods industries, India become self-sufficient in machinery equipment and other capital goods.
- **Failures of Economic Planning:** **(i)** Slow progress in per capita and national income, **(ii)** Unemployment, **(iii)** Increase in economic disparity, **(iv)** Economic instability, **(v)** Failure in agriculture sector, **(vi)** Failure in industrial sector, **(vii)** Failure in resource mobilisation, **(viii)** Dependence on foreign aid, **(ix)** Defective regulatory policy.
- **Suggestions for the Success of Plans:** **(i)** Widespread mass participation, **(ii)** Control on prices, **(iii)** Co-ordination between public and private sector, **(iv)** Integration between long term and short term programmes, **(v)** Physical achievements should be basis of success, **(vi)** Encouragement of saving and investment, **(vii)** Control on population growth, **(viii)** Job oriented economic planning, **(ix)** Coordination between capital intensive and consumption oriented industries, **(x)** Utilisation of human power, **(xi)** Clean administration.
  Demography: The type of population living within the territory of a country.

Key Words

Growth: It refers to increase in the country's capacity to produce the output of goods and services within the country.
Modernisation: Adaptation of new technology for economic growth and development.
Self-reliance: The state of being self-sufficient so as to decrease imports.

Mnemonics

Concept: Objectives of Planning in India
Mnemonics: Extra **M**arks for **S**ocial **E**conomy
E: Economic growth
M: Modernisation
S: Self-reliance
E: Economic equity

Topic-3 Agriculture: Features, Problems and Policies

Concepts Covered • *Condition of Agriculture from 1950 to 1990,* • *Importance of Agriculture,* • *Land Reforms, Land Ceiling, Green Revolution and other measures taken by the government.*

Revision Notes

- During the Colonial rule, there was neither growth nor equity in **agriculture** sector. The policy makers of independent India had to address these issues which they did through land reforms and promote the use of High Yielding Varieties of Seeds which ushered revolution in Indian agriculture.
- **Importance of Agriculture in Indian Economy:** **(i)** Main source of employment, **(ii)** Contribution in National Income, **(iii)** Base of industrialisation, **(iv)** Base of economic development, **(v)** Importance in Foreign Trade, **(vi)** Supply of food grains, **(vii)** Contribution in revenue, **(viii)** Dependence on trade and transport, **(ix)** Capital formation, **(x)** Rainbow of revolution.
- **Characteristics of Indian Agriculture:** **(i)** Main source of livelihood, **(ii)** Disguised and seasonal unemployment, **(iii)** Labour intensive agriculture, **(iv)** Excess dependence of agriculture on monsoon, **(v)** Small size of land holdings, **(vi)** Low level of productivity, **(vii)** Old and defective agricultural production, **(viii)** Pre-dominance of food crops.
- **Land Reforms:** Land reforms primarily refer to change in the ownership of holdings. It was done with the purpose of increasing agricultural production, the direct intervention of government in agrarian structure.
- **Need for Land Reforms:** **(i)** Retrograde agrarian structure and agrarian relation and **(ii)** Small and fragmented agricultural holdings.
- **Land Reform Measures:** **(i)** Abolition of intermediaries, **(ii)** Tenancy Reforms, **(iii)** Re-organisation of agriculture.
- **Land Ceiling:** It was the policy which recommended the fixation of maximum size of land which would be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands.
- **Green Revolution:** Green Revolution implies the strategy related to improving production technique and productivity in agriculture.
- **Features of Green Revolution:** **(i)** **High Yielding Varieties of seeds**, **(ii)** Extensive use of **fertilisers**, **(iii)** Expansion of irrigation facilities, **(iv)** Plant protection, **(v)** Establishment of different institutions, **(vi)** Agro-service centres, **(vii)** Multiple cropping programme, **(viii)** Mechanisation, **(ix)** Scientific method of agriculture, **(x)** Development of agricultural land, **(xi)** Improvement of animal husbandry, **(xii)** Fixation of Minimum Support Prices.
- **Achievements of Green Revolution:** **(i)** Rise in production and productivity, **(ii)** Increase in income, **(iii)** Increase in employment, **(iv)** Rural prosperity, **(v)** Industry and agriculture relationship, **(vi)** Innovation.
- **Economic Subsidies:** To assure availability of fertilizers to the farmers at reasonable prices government is providing subsidies. A current debate is should subsidy continue or we may go without subsidy. Arguments are put forward both in favour and against subsidy

Key Words

Agriculture: The economic activity that is related to growing of food and other related activities.
HYV seeds: The variety of seeds that gives more agricultural produce.
Fertilizers: The chemical used to increase the fertility of the soil.

Mnemonics

Concept: Importance of Agriculture in Indian Economy
Mnemonics: **M**ahindra **C**an **B**oost its **B**ase in **S**ale of **C**ars by **D**irectly **I**nvesting in **C**ustomer **R**elations
M: Main source of employment
C: Contribution in National Income
B: Base of industrialisation
B: Base of economic development
I: Importance in Foreign Trade
S: Supply of food grains
C: Contribution in revenue
D: Dependence on trade and transport
C: Capital formation
R: Rainbow of revolution

Concept: Characteristics of Indian Agriculture
Mnemonics: **M**an **D**emands **L**uxury, **E**xtra **S**mooth and **L**ight **O**perating **P**roducts
M: Main source of livelihood
D: Disguised and seasonal unemployment
L: Labour intensive agriculture
E: Excess dependence of agriculture on monsoon
S: Small size of land holdings
L: Low level of productivity
O: Old and defective agricultural production
P: Pre-dominance of food crops

Topic-4 Industries: Features, Problems and Policies

Concepts Covered • *Industrial Policy of India between 1950 and 1990,* • *Problems of Industrial development and measures to overcome them,* • *Role and problems with Small-scale and cottage industries.*

Revision Notes

- In the Pre-British period, India was an industrially advanced country. But the British rule systematically destroyed the Indian industries. As a result, at the time of independence, India had a weak industrial base, poorly developed infrastructure and a stagnant economy.
- **Basic features of India's industrial development during Plan Period:** **(i)** Increase in industrial growth rate, **(ii)** Increase in contribution of industrial sector in GDP, **(iii)** Rapid development of basic industries, **(iv)** Strong infrastructural base, **(v)** Import substitution, **(vi)** Establishing enterprises with foreign assistance, **(vii)** Increase in export of industrial products, **(viii)** Establishment of financial institution, **(ix)** Development of information technology and electronics industries, **(x)** Development of small and cottage industries, **(xi)** Disinvestment in public sector, **(xii)** Development of food processing industry, and **(xiii)** Emergence of consultancy services.
- **Problems of Industrial Development in India:** **(i)** Problem of energy, **(ii)** High cost, **(iii)** Shortage of capital, **(iv)** Shortage of foreign exchange, **(v)** Lack of able **entrepreneurs**, **(vi)** Irregular rate of industrial growth, **(vii)** Unemployment problem ignored, **(viii)** Industrial unrest, **(ix)** Small and medium sector neglected, **(x)** Problem of industrial sickness, **(xi)** Less utilisation of installed capacity, **(xii)** Regional disparity, **(xiii)** Increase in concentration of economic power, **(xiv)** Failure of public sector enterprises.
- **Measures to Encourage Industrial Development:**
  (i) Creation of economic and social infrastructure,
  (ii) Development of entrepreneurial skill,
  (iii) To ensure availability of capital,
  (iv) Financial stability,
  (v) Rehabilitation of sick units,
  (vi) Removal of control,
  (vii) Human capital formation,
  (viii) Modernisation,
  (ix) Improvement in industrial relation,

(x) Professionalisation of management,

(xi) Industrial research.

- **Industrial Policy:** It refers to such formal declaration made by the Government which describes the general policies which will be adopted by the Government towards the industries.

Fundamental Fact

Industrial Policy 1956, Dr. Shyama Prasad Mukherjee , made India a mixed economy.

- **Industrial Policy Resolution, 1956: (i)** Classification of industries into public and private sectors, **(ii)** Stress on the role of cottage and small-scale industries, **(iii)** Reduction in **regional disparities**, **(iv)** Foreign capital, **(v)** Facilities for labourers.
- **Industrial Licensing Policy:** Industrial licensing is an authority issued by the government organisation to permit the institutions for starting an industry or to start a function. In India it was started in 1952. The basis of this policy was Industries (Development and Regulation) Act, 1951, and New Industrial Policy for 1991.
- **Public Sector Enterprises:** A public sector enterprise is that enterprise which is owned and managed by the government.
- **Characteristics of Public Enterprises: (i)** Public ownership, **(ii)** Socio-economic objective, **(iii)** Accountability towards public, **(iv)** Financing from government funding.
- **Role of Public Sector in Industrialisation: (i)** Contribution in National Income, **(ii)** Contribution in employment generation, **(iii)** Contribution in export, **(iv)** Development of small-scale sector, **(v)** Development of backward area, **(vi)** Expansion of technological base, **(vii)** Help in achievement of self-sufficiency.
- **Problems of Public Sector: (i)** Bureaucratic delays, **(ii)** Lack of technical efficiency, **(iii)** Discriminating policy of organisation, **(iv)** Lack of incentives, **(v)** Inadequate control of parliament, **(vi)** Lack of mutual co-operation, **(vii)** Over capitalisation, **(viii)** Operational and managerial inadequacies, **(ix)** Under utilisation of production capacity, **(x)** Over-sized plants, **(xi)** Take-over of sick units, **(xii)** Long gestation period.
- **Suggestions for Reforms of Public Sector: (i)** Appropriate pricing policy, **(ii)** Test of efficiency, **(iii)** Full utilisation of production capacity, **(iv)** Quantitative determination of objectives, **(v)** Use of latest techniques, **(vi)** Precautions in appointment of employees.
- **Disinvestment in Public Sector:** It refers to the dilution of stake (claims) of the government in the equity of public sector undertaking so as to transfer the ownership rights to private hands.
- **Small Scale Sector in India:**

  Cottage Industry: These industries are mostly traditional, producing traditional products by employing traditional methods.

  Small Sector Industries: These are defined in relation to capital investment in machines and buildings. Presently, this limit is ₹5 crores.
- **Role of Small Sector in Indian Economy: (i)** Provide economic equality, **(ii)** Production of artistic goods, **(iii)** Protection from clan-struggle, **(iv)** Need less technology, **(v)** Protection from bad effects of **urbanisation** and **industrialisation**, **(vi)** Less dependency on imports, **(vii)** Important place in country's exports.
- **Problems of Small Sector: (i)** Shortage of capital, **(ii)** Undeveloped production system, **(iii)** Problem of raw material, **(iv)** Lack of organised market, **(v)** Competition from large scale units, **(vi)** Lack of education, **(vii)** Lack of standardization, **(viii)** Export neglected, **(ix)** Dis-interest of consumers, **(x)** Non-receipt of payments in time.

Key Words

Entrepreneurs: The factor of production that gives its skill sets to establish and promote an enterprise.
Regional Disparity: The geographic, social, economic and cultural difference between various regions of the society.
Urbanisation: The process of growth in the urban areas in a country.
Industrialisation: The process of growth of industry in a country or area.

Mnemonics

Concept: Characteristics of Public Enterprises
Mnemonics: **P**ure **S**affron **A**re **F**resh
P: Public ownership
S: Socio-economic objective
A: Accountability towards public
F: Financing from government funding.

Concept: Role of Public Sector in Industrialisation
Mnemonics: **C**hicken **C**urry **C**ontributes to **D**aily **D**ose of **E**ating **H**ealthy
C: Contribution in National Income
C: Contribution in employment generation
C: Contribution in export
D: Development of small-scale sector
D: Development of backward area
E: Expansion of technological base
H: Help in achievement of self-sufficiency.

Concept: Role of Small Sector in Indian Economy
Mnemonics: **P**ublic **P**rivate **P**artnership **N**eeds **P**olicy **L**eisure in **I**ndia
P: Provide economic equality
P: Production of artistic goods
P: Protection from clan-struggle
N: Need less technology
P: Protection from bad effects of urbanisation and industrialisation
L: Less dependency on imports
I: Important place in country's exports.

Topic-5 Foreign Trade of India : Features and Policies

Concepts Covered • *Role, Importance and Problems in India's Foreign Trade,* • *Import Substitution; Export Promotion,* • *Foreign Trade Policy (2009 - 14)*

Revision Notes

- In In the first seven plans, trade was characterised by what is commonly called an inward looking trade strategy. Technically, this policy is called Import Substitution Policy.
- **Role and Importance of Foreign Trade:** **(i)** Advantage of advance technology, **(ii)** Increases consumption capacities, **(iii)** Benefits to participating countries, **(iv)** Increases production capacity, **(v)** Serves as a transmission belt for capital, **(vi)** Creates fair competition.
- **Features of India's Foreign Trade:** **(i)** Increase in the value and volume of trade, **(ii)** Increasing share in the gross national product, **(iii)** Increasing share in the world trade, **(iv)** Changes in the composition of exports, **(v)** Changes in the composition of **import**, **(vi)** Export-Import ratio, **(vii)** Changes in the direction of foreign trade, **(viii)** Adverse **balance of trade**.
- **Problems of India's Foreign Trade:** **(i)** Adverse balance of trade, **(ii)** Rapid increase in imports, **(iii)** Comparatively lower growth in exports, **(iv)** Increase in **domestic demand**, **(v)** Rising prices, **(vi)** Increasing **foreign debt**.

Foreign Trade Policy in India

- **Import substitution in India:** It is a process to produce the alternate or close substitute of imported goods in the country itself.
- **Need for Import Substitution:** **(i)** Scarcity of foreign exchange, **(ii)** Un-favourable balance of trade, **(iii)** Devaluation of rupee, **(iv)** Scarcity of foreign aid, **(v)** Shortage of essential commodities, **(vi)** Need for industrial development, **(vii)** Increase in self-sufficiency.
- **Export Promotion:** It is a process in which incentives are provided to old exporter and new entrepreneurs to increase the exportable surplus.

Amazing Fact

In February 2022, India's exports stood at $57.03 billion, which was an increase of 25.41%.

- **Export Promotion Policies (Pre-Reform Period):** **(i)** Establishment of various organisations, **(ii)** Export-Import bank, **(iii)** **Export** processing zones, **(iv)** Special economic zone, **(v)** Export promotion industrial park, **(vi)** Export promotion capital goods, **(vii)** Adoption of Liberalised Licensing System.
- **Foreign Trade Policy (2009-14):** **(i)** DEPB extended till Dec. 2010, **(ii)** Relaxation in export promotion of capital goods, **(iii)** Tax refund scheme for Jewellery sector, **(iv)** Single window scheme, **(v)** Re-export of unused leather, **(vi)** Export units allowed to sell 90 percent of goods in domestic market, **(vii)** Provision of dollar credits, **(viii)** Addition of new markets and, **(ix)** Zero duty under technology upgrade scheme.

Key Words

Import: The goods and services that are bought from the foreign country.

Export: The goods and services sold to a foreign country.

Balance of Trade: The account that shows the difference between imports and exports.

Domestic demand: Demand of goods and services in the domestic market.

Foreign Debt: The loan taken from the foreign nationals.

Mnemonics

Concept: Role and Importance of Foreign Trade
Mnemonics: **A**arav **I**s **B**eginning to **I**ncrease **S**ocial **C**o-operation
A: Advantage of advance technology
I: Increases consumption capacities
B: Benefits to participating countries
I: Increases production capacity
S: Serves as a transmission belt for capital
C: Creates fair competition

Concept: Need for Import Substitution
Mnemonics: **S**uraj **U**ntied the **D**og **S**o they can **S**ee it **N**ib on **I**tems.
S: Scarcity of foreign exchange
U: Un-favourable balance of trade
D: Devaluation of rupee
S: Scarcity of foreign aid
S: Shortage of essential commodities
N: Need for industrial development
I: Increase in self-sufficiency.

Mnemonics

Concept: Features of India's Foreign Trade
Mnemonics: **I**ndian **I**IT **I**s **C**areer **C**entric **E**ngineering **C**ourse in all **A**rea
I: Increase in the value and volume of trade
I: Increasing share in the gross national product
I: Increasing share in the world trade
C: Changes in the composition of exports
C: Changes in the composition of import
E: Export-Import ratio
C: Changes in the direction of foreign trade
A: Adverse balance of trade

Topic-6 Economic Reforms in India

Concepts Covered • *The New Economic Policy of Liberalisation, Privatisation and Globalisation,* • *Demonetisation* • *GST*

Revision Notes

- In New Economic Policy (NEP) refers to the efforts made through different policy decisions and changes that were made to create competitive environment and increase in productivity and efficiency.
- **Need for Economic Reforms:**

  Problems facing Economy: (i) Unsatisfactory performance of public sector, **(ii)** High rate of **inflation**, **(iii)** Increasing debt burden, **(iv)** Problem of balance of payment.

  Immediate crisis: (i) Gulf crisis, **(ii)** Inadequate Foreign Exchange Reserves.
- **Main components of New Economic Policy: (i)** New industrial policy, **(ii)** New trade policy, **(iii)** New fiscal policy, **(iv)** New monetary policy, **(v)** New investment policy, **(vi)** Globalisation of finance.
- **Main Phases of New Economic Policy: (i)** Liberalisation, **(ii)** Privatisation, and **(iii)** Globalisation.
- **Meaning of Liberalisation:** Liberalisation means removing all unnecessary controls and restrictions like permits, licenses, protectionist duties, etc., imposed by the government.
- **Measures adopted for Liberalisation:**

  (i) Soft Liberalisation Policy (1985-1991): The era of liberalisation started with the period of Rajiv Gandhi, the then Prime Minister, in 1985. In this period of modernization, a large number of incentives and exemptions were granted.

(ii) Extensive Liberalisation Policy [After 1991 period]: **(a)** Liberalised licensing policy, **(b)** Expansion of industries, **(c)** Concession from Monopolies, **(d)** Extending investment limits for small industries, **(e)** Free import of machinery and raw materials, **(f)** Freedom to import technology, **(g)** Freedom to financial institution, **(h)** Reduction in tax rates.

- **Meaning of Privatisation:** Transfer of ownership from government to private sector of organisations which are presently run and controlled by government.
- **Measures of Privatisation:**

  (i) Ownership Measures: **(i)** Total **Denationalisation**, **(ii)** Joint venture.

  (ii) Organisational Measures: **(i)** Holding company, **(ii)** Leasing, **(iii)** Disinvestment.
- **Factors encouraging Privatisation in India:** **(i)** New economic reforms programmes, **(ii)** Increasing **debt burden** on government, **(iii)** Presence of foreign companies, **(iv)** To make Indian companies more competitive, **(v)** Broad base for increasing production.
- **Steps of Indian Economy towards Privatisation:** **(i)** Contraction of public sector, **(ii)** Participation of private sector, **(iii)** Abolition of industrial licensing, **(iv)** Improvement by MOU, **(v)** Re-organisation of public sector, **(vi)** Disinvestment of equity of public sector, **(vii)** Establishment of National Renewable Fund, **(viii)** Removal of investment control on big houses, **(ix)** Policy related to sick units, **(x)** Sale of shares of public sector undertaking.
- **Arguments in Favour of Privatisation:** **(i)** Reduction in Budgetary Deficit, **(ii)** Less political intervention, **(iii)** Improvement in economic efficiency and technical efficiency, **(iv)** Increased accountability, **(v)** Globalisation of economy, **(vi)** Sources of new job, **(vii)** Increase in industrial growth, **(viii)** Increase in foreign investment, **(ix)** In line with international trade, **(x)** Encouragement to new inventions.
- **Arguments Against Privatisation:** **(i)** Concentration of economic power, **(ii)** Substitution of monopoly power, **(iii)** Lop-sided development of industries, **(iv)** Industrial sickness, **(v)** Entry of multinationals, **(vi)** No safety for the weaker sections, **(vii)** Social institutions, **(viii)** Corruption.
- **Globalisation:** Globalisation means integrating the economy of the country with the world economy.
- **Factors fostering Globalisation in India:** **(i)** Technical changes, **(ii)** Competition, **(iii)** Liberalisation policies, **(iv)** Emergence of United States as a super power, **(v)** Experiences of developing countries, **(vi)** Other factors.
- **Effects of Globalisation:**

  (i) Favourable Effects: **(a)** Increasing share of exports in world trade, **(b)** Favourable effect on Export-Import Ratio, **(c)** Application of high technology, **(d)** Stable and strong exchange rate.

  (ii) Adverse Effects: **(a)** Decrease in revenue of Indian industries, **(b)** Increasing share in capital and management by foreign entrepreneurs, **(c)** Increasing regional disparities, **(d)** Export of profit.
- **Suggestions Regarding Globalisation:** **(i)** Improvement in Competitiveness of Indian producers, **(ii)** Alliance with MNCs, **(iii)** Self-sufficiency in technology, **(iv)** Facing international protectionism, and **(v)** Modernisation of agriculture and small sector.
- **Outsourcing:** Outsourcing means obtaining goods and services by contract from an outside source.
- **World Trade Organisation:** From January 1, 1995, WTO has been working. It has replaced the GATT. The objective of WTO was free trade in order to help in the growth and development of all member countries. The WTO acts as a permanent watch dog of international trade.
- **Achievements of LPG Policies:** **(i)** Rise in GDP growth, **(ii)** Rise in foreign exchange reserves, **(iii)** Control of inflation, **(iv)** Rise in flow of foreign capital, **(v)** Rise in competitiveness of industrial sector, **(vi)** Rise in integration with the world economy.
- **Demonetisation:** It is the process of stripping a currency unit from its status as legal tender in the country.

  Demonetisation results in change in national currency.

  The present currency in circulation is pulled off and new currency is circulated.
- **Types of Demonetisation**

  (i) Total Demonetisation

  (ii) Partial Demonetisation
- **Purposes sought by Demonetisation**

  (i) Stripping corruption

  (ii) Combating inflation

  (iii) Curbing counterfeit currency

  (iv) Combating tax evasion

  (v) Increasing performance of economy

- **History of Demonetisation in India:**
  - **(i)** On 12/01 /1946 - all notes of denominations of ₹ 500 and ₹ 1,000 were demonetised with a time limit of 10 days to exchange demonetised notes. Its purpose was to catch tax evaders.
  - **(ii)** On 16/01/1978 - all notes of denominations of ₹ 1,000, ₹ 5,000 and ₹ 10,000 were demonetised with a time limit of 3 days to exchange demonetised notes. Its purpose was to catch corrupt leaders and officials in predecessor governments.
  - **(iii)** On 08/11/2016 - all notes of denominations of ₹ 500 and ₹ 1,000 were demonetised with a time limit of 50 days to exchange demonetised notes from banks and some essential service stores.
- **Demonetisation of 2016**
  - **(i)** On 8 November, 2016, the Government of India announced the demonetisation of all ₹ 500 and ₹ 1,000 bank notes of the Mahatma Gandhi Series.
  - **(ii)** ₹ 500 (new series) and ₹ 2,000 notes were introduced.
  - **(iii)** 50 days' time limit given for exchange of demonetised notes.
  - **(iv)** Limits were put on exchange per day and withdrawal per day (and week) during this time.
  - **(v)** Mixed reaction by public but strongly criticized by opposition.
- **Effects of 2016 Demonetisation**
  - **(i)** Pushed India towards cashless economy
  - **(ii)** Raised tax payments
  - **(iii)** Brought an end to black money
  - **(iv)** Curbed terrorist funding
  - **(v)** Curbed effect on growth and revenues of MSMEs
- **Goods and Service Tax (GST)**
- **Objectives of GST**
  - **(i)** To eliminate the cascading impact of taxes on production and distribution cost of goods and services
  - **(ii)** Streamlining indirect tax regime
  - **(iii)** Growth of revenue in States and Union Territories
  - **(iv)** Reduction in transaction costs and unnecessary wastages
  - **(v)** Elimination of the multiplicity of taxation
  - **(vi)** One Point Single Tax
  - **(vii)** Reduction in average tax burdens
  - **(viii)** Reduction in the corruption
- **Types of GST laws**
  - **(i)** At the centre level - Central GST (CGST)
  - **(ii)** At the state level - State GST (SGST)
- **Benefits of GST**
  - **(i)** GST provides comprehensive and wider coverage of input credit set off. You can use service tax credit for the payment of tax on sale of goods, etc.
  - **(ii)** Many indirect taxes in state and central level have been included by GST. You need to pay a single GST instead of all.
  - **(iii)** Uniformity of tax rates across the states.
  - **(iv)** Ensure better compliance due to aggregate tax rate reduction.
  - **(v)** By reducing the tax burden, the competitiveness of Indian products in international market has increased and thereby development of the nation.
  - **(vi)** Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

Key Words

Inflation: The rise in the prices of goods and services.
Denationalisation: Converting government or public sector enterprises to private enterprises.
Debt Burden: The burden of repayment of loans taken by the government.

Mnemonics

Concept: Need for Economic Reform
Mnemonics: **U**nder **H**igh **I**ntensive **P**ressure, the **G**overnment **I**s.
U: Unsatisfactory performance of public sector
H: High rate of inflation
I: Increasing debt burden
P: Problem of balance of payment.
G: Gulf Crisis
I: Inadequate Foreign Exchange Reserve

Concept: Arguments in favour of Privatisation
Mnemonics: **R**adha **L**oves **I**ndian **I**ce-cream **G**reatly and **S**he **I**s **I**n **I**ndian **E**ast Coast
R: Reduction in Budgetary Deficit
L: Less political intervention
I: Improvement in economic efficiency and technical efficiency
I: Increased accountability
G: Globalisation of economy
S: Sources of new job
I: Increase in industrial growth
I: Increase in foreign investment
I: In line with international trade
E: Encouragement to new inventions.

Concept: Arguments against Privatisation
Mnemonics: **C**orrupt **S**ociety **L**acks **I**n **E**very **N**oteworthy **S**ocial **C**ode
C: Concentration of economic power
S: Substitution of monopoly power
L: Lop-sided development of industries
I: Industrial sickness
E: Entry of multinationals
N: No safety for the weaker sections
S: Social institutions
C: Corruption

Concept: Achievements of LPG reforms
Mnemonics: **R**ohit **R**aj **C**omes **R**arely **R**unning to the **R**oom
R: Rise in GDP growth
R: Rise in foreign exchange reserves
C: Control of inflation
R: Rise in flow of foreign capital
R: Rise in competitiveness of industrial sector
R: Rise in integration with the world economy.

UNIT – VII: CURRENT CHALLENGES FACING INDIAN ECONOMY

CHAPTER-9

CURRENT CHALLENGES FACING INDIAN ECONOMY

Topic-1 Rural Development

Concepts Covered • *Meaning of Rural development,* • *Key Issues in Rural Development,* • *Rural Credit: Sources and problems,* • *Diversification,* • *Organic Farming*

Revision Notes

- India is primarily a country of villages. Our most of the poor people live in villages. In our almost all the five year plans focal point has been rural development. Even though, we could not develop our villages. If we are really interested in rural development, we will have to develop villages.

Amazing Facts

Concept: Rural Development

Facts: The wheat export of India Jumped to $2.2 Billion in 2021-22 as against $567 million.

- **Rural Development:** Process of improving living standard in terms of quality of life and economic well-being of low income group people living in rural areas and making these development efforts permanent.
- **Key Issues in Rural Development:** **(i)** Development of human resources, **(ii)** Land reforms, **(iii)** Development of basic infrastructure, **(iv)** Poverty alleviation, **(v)** Development of productive resources.

- **Rural Credit:** That need of agriculture credit which are required for the completion of agriculture work is known as agricultural credit/finance.
- **Classification of Agricultural Credit:**
  Short-Term Credit: It is required for a period of 6 to 12 months for buying seeds, tools, manure, fertilizers, etc.
  Medium-Term Credit: It is required for about one to five years for digging wells, buying machinery, etc.
  Long-Term Credit: It is required for the period of 5 to 20 years for the purchase of tractors, land, costly equipment, tube wells, etc.
- **Sources of Agricultural Credit: (i)** Non-Institutional Credit and **(ii)** Institutional Credit.
  (i) Non-Institutional Sources: (a) Money lender, **(b)** Sahukars, **(c)** Commission agents, **(d)** Zamindars, **(e)** Relatives and friends, etc.
  (ii) Institutional Sources: (a) Government, **(b)** Co-operative credit societies, **(c)** Commercial banks, **(d)** Regional Rural Banks, **(e)** NABARD, **(f)** Micro Finance Programmes and **(g)** Kisan Credit Card.
- **Problems of Agricultural Credit: (i)** Lack of financial institutions, **(ii)** Lack of co-ordination, **(iii)** Loss of time and money, **(iv)** Problem of agriculture **warehousing**, **(v)** High rate of interest, **(vi)** Non-availability of credit at proper time, **(vii)** Differences in working system.
- **Agricultural Marketing:** "Agriculture Marketing includes all those activities which are related with the agricultural produce to deliver from farmers to ultimate consumers."
- **Defects of Agricultural Marketing in India: (i)** Forced sale, **(ii)** Lack of transportation, **(iii)** Lack of institutional finance, **(iv)** Lack of organisation, **(v)** Inadequate and unscientific storage system, **(vi)** Lack of grading, **(vii)** Lack of market information, **(viii)** Predominance of intermediaries, **(ix)** Fraudulent practices, **(x)** Lack of financial facilities.
- **Government Measures to Improve the System of Agricultural Marketing: (i)** Establishment of regulated markets, **(ii)** Facilities for storage, **(iii)** Construction of village storage, **(iv)** Facilities of grading and standardisation, **(v)** Improvement in weight and measurement measures, **(vi)** Better transport arrangements, **(vii)** Price stabilisation, **(viii)** Establishment of special boards, **(ix)** Organisation of co-operative marketing societies, **(x)** State trading in food-grains, **(xi)** Scientific storage in rural areas, **(xii)** Establishment of TRIFED.
- **Diversification of Agricultural Activities:** Diversification of agricultural activities mean basically to grow multiple crops and extension of activities subsidiary to agriculture. It has two aspects:
  (i) Change in cropping pattern
  (ii) Diversification of agricultural activities
- **Need of Diversification: (i)** To reduce the risk of agriculture, **(ii)** To meet challenges of poverty and other odd situations, **(iii)** To reduce the burden of population on agriculture.
- **Diversification of Agriculture Activities in India: (i)** Animal husbandry, **(ii)** Fisheries, **(iii)** Poultry, **(iv)** Horticulture, **(v)** Use of I.T.
- **Organic Farming:** Organic farming is a system of farming that enhances and maintains ecological balance.
- **Advantages of Organic Farming: (i)** Inexpensive Process, **(ii)** Generates Income, **(iii)** Healthier and Tastier food, **(iv)** Solves problem of unemployment, **(v)** Environment friendly.

Key Words

Co-operative Marketing: A measure to ensure a fair price to farmers. Member farmers sell their surplus to the co-operative society which substitutes collective bargaining in place of individual bargaining. It links rural credit farming marketing processes to the best advantage of the farmers.

Self Help Groups (SHGs): A group formed by some people to promote thrift in small proportions by a minimum contribution from each member. From the pooled money, credit is given to the needy members to be repayable in small instalments at reasonable interest rates.

Warehouse: A storage facility for storing tangible goods.

Animal Husbandry: The process of nurturing and rearing animals to earn from selling their produce.

Horticulture: The growing of fruits, flowers, plantation crops, spices, vegetables, tuber crops, flowers, medicinal and aromatic plants.

Mnemonics

Concept: Key Issues in Rural development
Mnemonics: Delhi Land Development Policy Department
D: Development of human resources
L: Land reforms
D: Development of basic infrastructure
P: Poverty alleviation
D: Development of productive resources

Concept: Problems of Rural Credit
Mnemonics: Lucy **L**ent **L**aser **P**oint **H**andset to **N**ew **D**elhi municipality
L: Lack of financial institutions
L: Lack of co-ordination
L: Loss of time and money
P: Problem of agriculture warehousing
H: High rate of interest
N: Non-availability of credit at proper time
D: Differences in working system

Topic-2 Human Capital Formation

Concepts Covered *• Meaning of Human Capital Formation, • Importance of Human Capital Formation, • Sources of Human Capital Formation, • Problems with Human Capital Formation in India, • Education.*

Revision Notes

- **Human Capital Formation:** It refers to the process of acquiring and increasing the number of persons who have the skill, education and experience which are critical for the economic and political development of a country.
- **Difference between Human Capital and Physical Capital Formation:** In physical capital, the entrepreneur possesses knowledge to calculate the expected rate of return on a range of investment and then rationally decides which investment should be made. In human capital, an individual is influenced by the peers, educators and society regarding human capital investment.
- **Importance of Human Capital Formation in Economic Development:** **(i)** Optimum utilisation of resources, **(ii)** Helpful in production of National Wealth, **(iii)** Co-ordination, **(iv)** Speed up the rate of economic growth, and **(v)** Changes in the outlook of the labour force.
- **Sources of Human Capital:** (i) Investment on **health** and **nutrition**, **(ii)** Investment on education and training, **(iii)** Housing development, **(iv)** **Migration**, and **(v)** Expenditure on information.
- **Human Development Index (HDI):** Human Development index is broadly an arrangement of social aggregates, average of longevity, knowledge and access to resources.
- India's position is 130th out of 189 countries of the world. It is from the HDI prepared by UNDP in 2018. The value of HDI is 0.638.
- **Problems of Human Capital Formation:** **(i)** Problem of estimation of total stock of human capital, **(ii)** Problem of estimation of growth rate of human capital formation, **(iii)** Neglect of on-the-job training programme, **(iv)** Lack of initiative, **(v)** Regional disparities, **(vi)** Lack of foreign exchange funds, and **(vii)** **Brain drain**.
- **Education:** An essential element of human resource development.

Amazing Fact

The NEP 2020 was formed with the help of 2 lakh suggestions from 2.5 lakh gram panchayats, 6600 Blocks, 6000 Blocks, 6000 ULBs, 676 Districts.

- **What is Education:** It refers to the process of teaching, training and learning especially in schools or colleges, to improve knowledge and develop skill.
- **Development of Education in India**
  - **(i)** Elementary Education: Efforts made by Government: **(a)** Sarva Shiksha Abhiyan (SSA), **(b)** Mid-day Meals Plan, **(c)** Kasturba Gandhi Balika Vidyalaya Scheme.
  - **(ii)** Secondary Education: **(a)** Navodaya Vidyalaya, **(b)** Kendriya Vidyalaya, **(c)** National Council of Educational Research and Training, **(d)** Vocationalisation of Secondary Education.
  - **(iii)** University and Higher Education: **(a)** IGNOU, **(b)** Academic Staff College.
  - **(iv)** Technical, Medical and Agriculture Education.
  - **(v)** Rural Education
  - **(vi)** Adult and Continuing Education

- **Defects of Education System:** **(i)** Wide Spread Illiteracy, **(ii)** Low rural access level, **(iii)** Low enrolment ratio, **(iv)** Dropouts, **(v)** Privatisation, **(vi)** Unbalanced Development, **(vii)** Disparities in Educational Development, **(viii)** Defective Examination System.
- **Measures to Reform Educational System:** **(i)** Extension of Primary Education, **(ii)** Control over higher education, **(iii)** Encouragement to female education, **(iv)** Encouragements to education system, **(v)** Employment oriented education, **(vi)** Increase in government expenditure on education, **(vii)** Control over political interference.
- **Human Capital and Economic Growth:** Economic growth means the increase in real national income of a country. Higher rate of economic growth is possible only through human capital. In fact, there are two main sources of human capital**:** **(i)** Education, and **(ii)** Health.
  These two sources play an important role in the economic growth.
- **Human Capital and Human Development:** The two terms human capital and human development seems similar but there is a big difference between the two. Human capital increases knowledge, skills and capacities of the people of the country. Human development, on the other side, considers education and health as integral to human well-being. In the human development, human beings are considered as ends themselves.

Key Words

Health: The condition of physical, mental and social well being of a person.

Nutrition: The combination of all the nutrients for a proper diet.

Migration: The movement of workforce from one place to another.

Brain Drain: A large scale emigration of a large group of individuals with technical skill of knowledge.

Mnemonics

Concept: Importance of Human Capital Formation in Economic Development:
Mnemonics: **O**ver **H**elpful **C**ompany **S**trikes **C**o-dependence.
O: Optimum utilisation of resources
H: Helpful in production of national wealth
C: Co-ordination
S: Speed up the rate of economic growth
C: Change in the outlook of the labour force

Concept: Sources of Human Capital:
Mnemonics: **I**srael and **I**ndia **H**ave **M**ade **E**nergy drones
I: Investment on health and nutrition
I: Investment on education and training
H: Housing development
M: Migration
E: Expenditure on information

Concept: Problems of Human Capital Formation:
Mnemonics: **P**eople **P**refer **N**othing **L**ike **R**are **L**ost **B**ig treasure
P: Problem of estimation of total stock of human capital
P: Problem of estimation of growth rate of human capital formation
N: Neglect of on-the-job training programme
L: Lack of initiative
R: Regional disparities
L: Lack of foreign exchange funds
B: Brain drain

Topic-3 Employment

Concepts Covered • *Employment,* • *The sector-wise employment,* • *Unemployment in India: Causes and measures to overcome,* • *Types of Workers.*

Revision Notes

- **Employment:** Employment is an indicator of that situation in which worker is engaged in some productive activity for earning his living.

Amazing Fact

Concept: Employment
Facts: MGNREGA was launched in 2006 and the first state to implement it was Uttar Pradesh

- **Labour Supply:** It refers to the amount of labour that are willing to offer work corresponding to a particular wage rate.

  Participation Rate

$$= \frac{\text{Total Work Force}}{\text{Total Size of Population}} \times 100$$

Amazing Fact

Concept: Employment

Facts: India's Gig Economy is becoming one of the largest employment generation sector

- **Types of Labour:**
  (i) Self-Employed Labour: An arrangement in which a worker uses his own resources to make a living is known as self-employed. He owns and operates an enterprise to earn his livelihood.
  (ii) Hired-Workers: Those people who are hired by others on paid wages or salaries as a reward for their services are called hired workers. Hired workers can be of two types:
  (a) Casual Workers: Those people who are not hired by their employers on a regular or permanent basis and do not get social security benefits are called casual workers.
  (b) Regular Workers: This type of workers are hired on permanent basis by the employer.
- **Size of work force in India:**

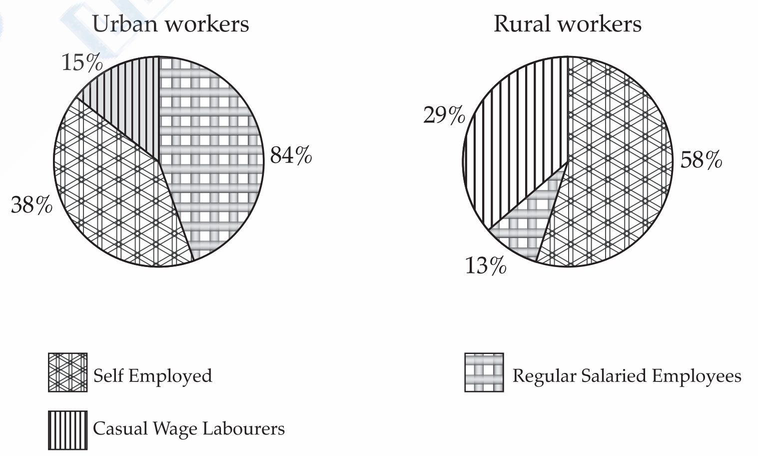
Worker-Population Ratio in India, 2011-2012

Sex	*Worker-Population Ratio (2011-2012)*		
	Total	*Rural*	*Urban*
Men	52.1	51.7	53.0
Women	16.5	17.5	14.2
Total	**34.7**	**35.0**	**33.9**

Distribution of Workforce by Industry, 2011-2012

Industrial Category	*Place of Residence*		*Sex*		*Total*
	Rural	*Urban*	*Men*	*Women*	
Primary Sector	59.8	6.6	40.7	57.1	44.6
Secondary Sector	20.4	34.3	26.5	17.7	24.4
Tertiary/Service Sector	19.8	59.1	32.8	25.2	31.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Distribution of Employment by Region



- **Participation Rate:** Aggregate participation rate in India is approx. 39%. In Urban areas, this rate is 36 percent while in rural areas, it is approximately 40 percent.
- **Trends in Employment Pattern (Sector-wise and Status-wise), 1972-2018 (in %)**

Item	1972-73	1983	1993-94	2011-2012	2017-2018
Sector					
Primary	74.3	68.6	64	48.9	44.6
Secondary	10.9	11.5	16	24.3	24.4
Services	14.8	16.9	20	26.8	31.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100**
Status					
Self-employed	61.4	57.3	54.6	52.0	52.2
Regular Salaried Employees	15.4	13.8	13.6	18.0	22.8
Casual Wage Labourers	23.2	28.9	31.8	30.0	25.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100**

- **Jobless Growth:** If economic growth is driven by better technology but it fails to improve the rate of participation in economy, such a growth is called 'Jobless Growth'.

Workers in Formal/Informal Sector, 2009-2012

Sector	Male (million)	Female (million)
Formal	24	6
Informal	310	133
Total	**334**	**139**

- **What is Unemployment:** Unemployment means a situation in which a person willing to work and able to work does not get employment at the prevailing wage rate.
- **Nature of unemployment in India:** In rural areas, open and disguised unemployment and in urban areas' industrial, educated and technological unemployment are common.
- **Adverse Effects of Unemployment:**
  (i) **Economic Mal-effects:** **(a)** Waste of human power, **(b)** Decrease in Economic Disparity, and **(c)** Industrial Conflict, **(d)** Increase in poverty, and **(e)** Adverse effect on capital formation.
  (ii) **Social and Political effects:** **(a)** Creation of Social Problems, **(b)** Exploitation of labour, and **(c)** High inequality, and **(d)** Political instability.
- **Causes of Unemployment in India:**
  (i) **General Causes:** **(a)** Rapid increase in population, **(b)** Slow pace of development, and **(c)** Inadequate economic planning.
  (ii) **Specific Causes:** **(a)** Seasonal Nature of Agriculture, **(b)** Increase in Pressure of population, **(c)** Shortage of Capital, **(d)** Social Status, and **(e)** Shortage of Secondary Education.
- **Measures to Eradicate Unemployment in India:**

  General Measures:

  (i) Control of population, **(ii)** Increase in investment rate, **(iii)** Manpower planning, **(iv)** Employment oriented planning, **(v)** Social reforms, **(vi)** Development of entrepreneurs qualities.

  Specific Measures:

  (i) **Rural Unemployment:** **(a)** Encouragement to rural industrialisation, **(b)** Institution changes in agriculture, **(c)** Employment oriented planning in villages, **(d)** Encouragement to multiple cropping in agriculture.
  (ii) **Urban Unemployment:** **(a)** Fuller utilisation of production capacity, **(b)** Encouragement to small industries, **(c)** Practical form of Education.
- **Government Measures to solve unemployment—**
  (i) **General:** **(a)** Population control, **(b)** Reforms in education policy, **(c)** Diversification of farm activities, **(d)** Development of village and small industries.

(ii) Special Measures: Employment generation programmes, e.g., Mahatma Gandhi National Rural Employment Guarantee Act, 2005.

Key Words

Wage rate: The rate at which the workers are paid.

Primary Sector: The agricultural and allied activities.

Secondary Sector: Also called the manufacturing sector.

Mnemonics

Concept: Adverse Economic Effects of Unemployment:
Mnemonics: Water Disparity Is Increasing Annually
W: Waste of human power
D: Decrease in economic disparity
I: Industrial conflict
I: Increase in poverty
A: Adverse effect on capital formation

Concept: Social and Political effects of unemployment:
Mnemonics: Cat Eats High Protein
C: Creation of social problems
E: Exploitation of labour
H: High inequality
P: Political instability

Example 1

Henry is able to get work only for three hours in a day. Rest of the day, he is looking for work. Is he unemployed? Why? What kind of job could persons like Henry do?

Solution:

Step I: Yes, Henry is an unemployed worker. He works for three hours a day but a major portion of the day he is looking for work and is unemployed. This implies that he is an underemployed worker.

Step II: The situation of underemployment refers to a situation in which a person gets work for lesser time than the time he actually can and wants to work.

Step III: According to the National Sample Survey statistics, a person who is employed for less than 28 hours in a week is called underemployed. Henry could do jobs like delivering couriers, bank tellers, etc.

Topic-4 Sustainable Economic Development

Concepts Covered • *Environment;* • *Sustainable Development;* • *Policies to protect the environment;* • *Land Degradation.*

Revision Notes

- **Environment:** It means, at a particular place, surrounding or conditions in which our organism lives and operate.
- **Physical Environment:** This is also known as non-biological environment. It includes land, water, climate, mountains minerals and all other sources which nature provides to us as a free gift.
- **Biological Environment:** It is also called living environment. It includes human, animals, birds, plants and all micro organisms.

Amazing Fact

The Sustainable Development Goals was set up by the UNGA in 2015 and the targets in it are set to be achieved by 2030.

- Function and Role of Environment:
- It supplies resources.

  It sustains life.

  It assimilates waste and

  It enhances quality of life.

- Causes of Environment: Degradation
- Population growth, **Poverty**, Agricultural development, Industrialisation, Transport development, **Urbanisation**, Foreign indebtedness, Market failure.

Amazing Fact

The points of Sustainable Development Goals increased from 66 in 2019 to 66 in 2020-21

Kerala has the highest score followed by Himachal pradesh, Tamil Nadu, Andhra Pradesh and Goa.

- **Effects of Economic Development on Environment or Resources: (i)** **Global warming**, **(ii)** Depletion of **Ozone layer**, **(iii)** Environmental crisis, **(iv)**Rise in opportunity cost of negative environmental impacts, (v) Supply-Demand reversal of environment resources, **(vi)** **Air Pollution**, **(vii)** **Water Pollution**, **(viii)** Solid and hazardous waste, **(ix)** **Deforestation**, and **(x)** Land degradation.
- **Sustainable Development:**

  Development that means the need of the present generation without compromising the ability of future generation to meet their own needs is called sustainable development.
- **Objective of Sustainable Development:**

  (i) To increase economic growth, **(ii)** To meet basic needs, **(iii)** To improve quality of life, **(iv)** To maximise the net benefits of future generations.
- **Strategies to achieve Sustainable Development:**

  (i) Use of Non-conventional sources of energy, **(ii)** LPG & Gobar gas in rural areas, **(iii)** CNG in urban areas, **(iv)** Wind power, Solar power through photovoltaic cells, **(v)** Mini hydel plants, **(vi)** Bio-composting, **(vii)** Bio-pest control.

Mnemonics

(i) **Causes of Environmental Degradation:**

Peter **P**an **A**te **I**ndian **T**art **U**nder **F**rozen **M**ango

P: Population growth
P: Poverty
A: Agricultural development
I: Industrialisation
T: Transport development
U: Urbanisation
F: Foreign indebtedness
M: Market failure

(ii) **Effects of Economic Development on Environment**

Global **D**eforestation **E**xtracts **R**adiation from **S**un

G: Global warming
D: Depletion of ozone layer
E: Environmental crisis
R: Rise in opportunity cost of negative environmental impacts
S: Supply-Demand reversal of environment resources

Key Words

Poverty: The situation of not being able to have a livelihood to sustain the basic needs.
Urbanisation: The process in which cities are expanded.
Global Warming: The increase in the surface temperature due to the action of greenhouse gases.
Ozone Layer: The layer in the atmosphere that protects the earth from UV radiation.
Air Pollution: The contamination of air from the waste generated from industries and vehicles.
Water Pollution: The contamination of water from the waste generated.
Deforestation: The excessive cutting down of trees.

UNIT – VIII: DEVELOPMENT EXPERIENCE OF INDIA

CHAPTER-10
COMPARATIVE DEVELOPMENT EXPERIENCES OF INDIA WITH ITS NEIGHBOURS

Revision Notes

- **Introduction:** India is geographically, the largest country in South Asia and seventh largest country in the world. It is second populous country after China in the world. An average growth rate of population was 2.2% per annum during the past decade but now it is 1.08 %. Its total area is 32.9 lakh sq. kms and total present population is 135 crores.
  On the other hand, Pakistan extends from the Arabian Sea 1600 kms northward. It is a neighbouring state of India. Total area of Pakistan is 8.03 lakh sq. kms. Its population is 1/7th of India. Average growth rate of population is 2.4 % per annum.

Amazing Fact

India's sex ratio for the first time reached 1020 on 24th November 2021

China is located in Eastern Asia and it is the third largest country in the world in terms of total area. It has highest population in the world with an annual population growth rate of nearly 0.66% per annum.

- **Developmental Path:** India, Pakistan and China have many common points in their plans for development. While India and Pakistan became independent nations in 1947 and the communist China came into existence in 1949, after a revolution, all these countries started their planning along similar lines. India announced its First Five Year Plan for 1951–56, Pakistan announced its Medium Term Development Plan in 1956. China announced its First Five Year Plan in 1953. Since 2013, Pakistan was working on the basis of 11th Five Year Development Plan, whereas, China is working on 13th Five Year Plan (2016–21). Until March 2017, India has been following Five Year plan based development model.
- **Demographic Indicators:** India is a populous country just like China. These two countries together comprise one-third of the population of the world. As far as Pakistan is concerned, its population is much less around 10% when it is compared with China or India. The density of population in China is the lowest as compared to Pakistan and India. China has a low fertility rate but Pakistan has a high rate. Both these countries have high urbanisation rate. In India, this trend is slower (34%) as compared with Pakistan (36.7%) and China (60%).

Some Demographic Indicators, 2017-18

Country	Estimated Population (in million) (2020)	Annual Growth of Population in (2022)	Density (per sq. km)	Sex Ratio (2018)	Urbanisation (2018)	Fertility Rate (2022)
India	**1380**	**0.99%**	**464**	**924**	**34**	**2.2**
China	**1449**	**0.39%**	**153**	**949**	**60**	**1.7**
Pakistan	**220**	**2%**	**287**	**943**	**36.7**	**3.4**

Source: World matter and World Development Indicators

Some selected Indicators of Human Development, 2020

Items	India	China	Pakistan
Human Development Index (Value)	0.645	0.761	0.557
Rank (based on HDI)	131	85	154
Life expectancy at birth (years)	69.7	76.9	67.3
Mean years of schooling (% aged is and above)	6.5	8.1	5.2

Items	India	China	Pakistan
GDP per capita (PPP US$)	6,999.6	16,829,9	4,898,4
People Below Poverty Line (at $3.10 a day PPP) (%) 2017)	37	32	44
Infant Mortality Rate (Per 1000 live births)	28.3	6.8	55.7
Maternal Mortality Rate (per 1 lakh births) as per 2017	145	29	140
Population using improved sanitation (%)	59.5	84.8	59.9
Population with sustainable access to improved water source (%)	94	96	91
Percentage of under nourished children	15	9	20

Source: Human Development Report 2020 and World Development Indicators.

- **Gross Domestic Product:** Economic development of a country can be judged through GDP growth rate. GDP growth rate explains the growing rate of valuable output of the country. GDP (PPP) in US Dollars was 7762.9 in India against 5567.1 in Pakistan. It means per capita income and GDP both were higher in India in comparison to Pakistan. Pakistan's GDP is roughly 12% of India's GDP and India's GDP is approx. 40% of China's GDP. China has impressive growth rates in recent decade. China's growth rates have crossed 8 % per annum in recent years.
- **Indicators of Human Development:** The **Human Development Index** is an important indicator. As far as human development indicators are concerned, China is ahead of India and Pakistan. Many indicators like the GDP per capita or proportion of population below poverty line or health indicators such as mortality rates, access to sanitation, literacy, life expectancy or **malnourishment,** China is above the other two countries. Pakistan is ahead of India in reducing proportion of people below the poverty line. Its performance in access to water is better than that of India. So far as the proportion of people below the **poverty line** is concerned, situation in China is half as bad as in India and Pakistan.
- **Annual Growth of GDP (%) 1980–2018**

Countries	1980–90	2017–2018
India	5.7	8.1
China	10.3	6.6
Pakistan	6.3	3.29

Source: Key Indicators of Asia and Pacific 2016, Asian Development Bank, Philippines; World Development Indicators 2018

- **Sectoral Share of Employment and GDP (%) in 2018–2019**

Sector	Contribution to GDP			Distribution of Workforce		
	India	China	Pakistan	India	China	Pakistan
Agriculture	16	7	24	43	26	41
Industry	30	41	19	25	28	24
Services	54	52	57	32	46	35
Total	100	100	100	100	100	100

Source: Human Development Indicators 2018; Key Indicators of Asia and Pacific 2019

- **Development Strategies: An Appraisal:** The development strategies of a country serve the purpose of a model to other countries. Other countries learn a lesson from the experience of a country and try to formulate their development programmes on that basis. It is necessary to understand the reasons behind the success or failure of a plan. Only then a neighbouring country should adopt a particular plan of action. A development strategy has various phases. These should be compared and contrasted for better assessment of the entire strategy. Structural reforms in China were introduced in 1978 due to slow pace of growth and lack of modernisation. It was found that the establishment of infrastructure in the areas of education and health, land reforms, long existence of decentralised planning and existence of small enterprises had helped positively in improving the social and income indicators in the post reform period. Scholars argue that in Pakistan the reform process led to worsening of all the economic indicators. However, during last few years, Pakistan has recovered its **economic growth** and has been sustaining.

Key Words

Economic Growth: An increase in the output and real income.
Human Development Index: A measure of quality of life constructed.
Malnourishment: The shortage in the daily nutrients need.
Poverty Line: The minimum amount of money required to sustain the basic needs of life.