**Meaning**

- Balance of Payment is an accounting-statement that provides a systematic record of all the economic transactions, between Residents of a country and the rest of the world, in a given period of time.

Balance of Trade or Trade Balance

-Balance of Trade (BOT) is the difference between the value of exports and value of imports of goods of a country in a given period of time.

Balance on Invisibles - Net
Invisibles is the difference between the value of exports and value of imports of invisibles of a country in a given period of time

Balance of payment**Components****Current account**

- Current account include**
- I. Visible items- These include all types of physical goods which are exported and imported
 - II. Invisible items- Invisible items of trade refer to all types of services like shipping, banking, insurance etc.
 - III. Unilateral transfer - Unilateral transfers include gifts, personal remittances and other one way transactions.
- It includes investment income in the form of interest, rent and profits.

Balance of payment**Components****Capital account**

- Capital account of BOP records all those transactions, between the residents of a country and the rest of the world, which cause a change in the assets or liabilities of the residents of the country or its government.

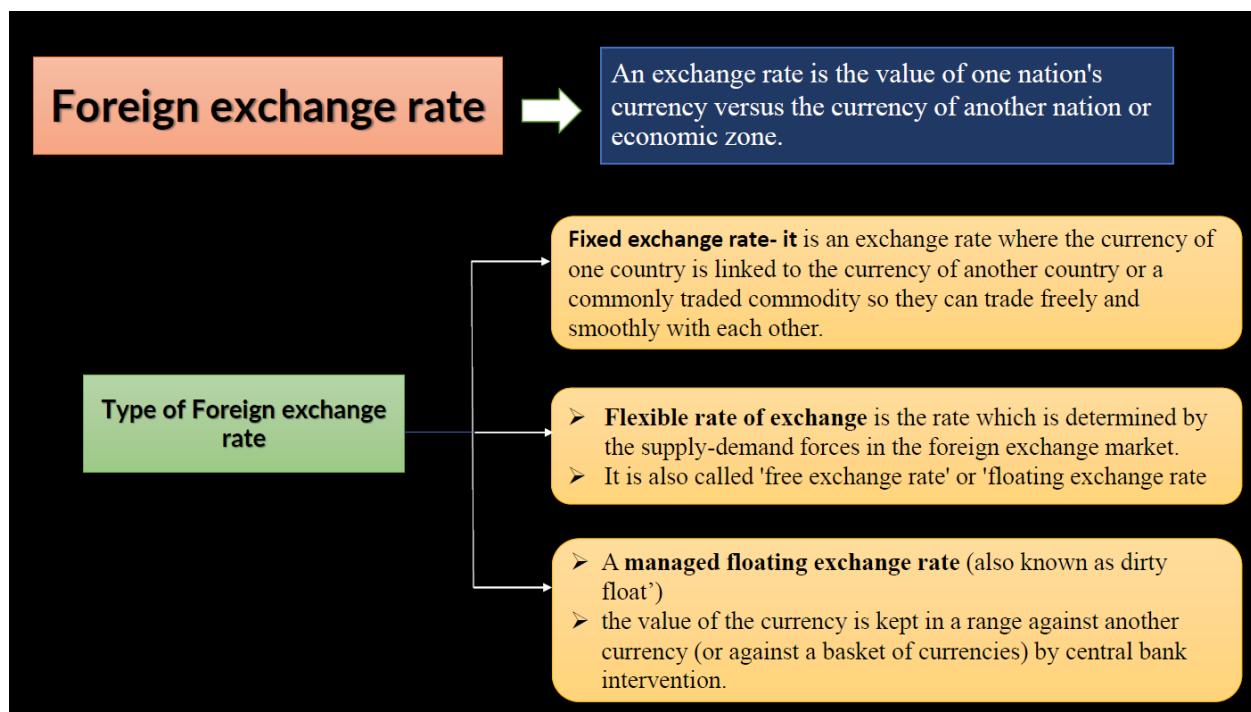
- Borrowings and lending's to and from abroad
- Investments to and from abroad
- Portfolio Investment:
- Change in Foreign Exchange Reserves

Autonomous Transaction

- Transactions are made due to some reason other than to bridge the gap in the balance of payments.
- They are independent of the state of BoP reason for earn profit.
- Above the line' items in the BoP

Accommodating transactions

- Transactions that are undertaken to cover deficit or surplus (BOP) autonomous transactions, i.e. such transactions are determined by net consequences of autonomous transactions.
- Below the line' items



Chapter -4 Determination of income and Employment

Overview

- Aggregate demand
- Consumption Function
- Marginal propensity to Consume
- Saving
- Marginal propensity to Saving
- Average propensity to Consume
- Average propensity to Save
- Determination of income in two sector model
- Aggregate supply

Aggregate demand

- Aggregate demand is "The total demand for final goods and services in the economy that all sectors of the economy are planning to buy at a given level of income during a period of time."
- Aggregate demand = Aggregate Expenditure

Components of Aggregate demand

Open Economy

$$AD = C + I + G + (X - M)$$

Close Economy

$$AD = C + I$$

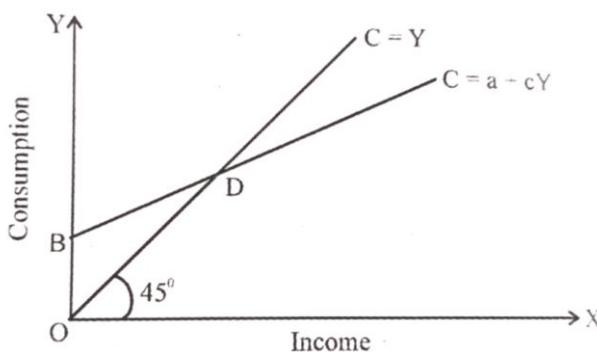
Consumption Function

- Functional relationship between consumption and income.

$$C = \bar{C} + c \cdot Y$$

- C = Consumption expenditure by households
- \bar{C} = Autonomous consumption
- $c \cdot Y$ = Induced consumption





Income	Consumption
0	40
100	120
200	200
300	280
400	360
500	440
600	520

Average Propensity to Consume (APC)

- Average Propensity to Consume (APC) is the ratio of total consumption to total income.
- It is the consumption per unit of income

$$APC = \frac{C}{Y}$$

Important observation

- $APC = 1$
- $APC < 1$
- APS fall with increase in income
- APC never be zero

Marginal Propensity to Consume (MPC)

- Marginal propensity to consume (MPC): it is the change in consumption per unit change in income. It is denoted by c and is equal to

$$MPC = \frac{\Delta C}{\Delta Y} = C$$

Important observation

- MPC value lies between 0 to 1
- MPC fall with increase in income

Average Propensity to Save (APS)

- Average propensity to save (APS): It is the ratio of total consumption to total save.
- it is the savings per unit of income

$$APS = \frac{S}{Y}$$

Important observation

- APs never be 1 or more than 1
- APS increase with increase in income.
- APS can be zero.
- APS can be negative or less than 1.



Marginal propensity to Save (MPS)

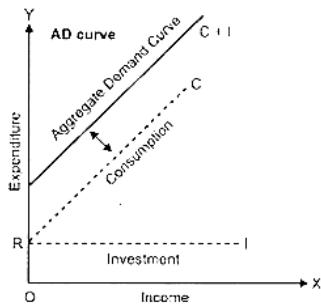
- it is the change in savings per unit change in income. It is denoted by s and is equal to $1 - c$.
- It implies that $s + c = 1$.
- $MPS = \frac{\Delta S}{\Delta Y} = S$

Important observation

- $APC = 1$
- $APC < 1$
- APS fall with increase in income
- APC never be zero

Determination of income in Two-Sector Model

- In this simple economy, there are **two elements** of national income
 - Consumption (C)
 - Investment (I)
$$AD = C + I$$

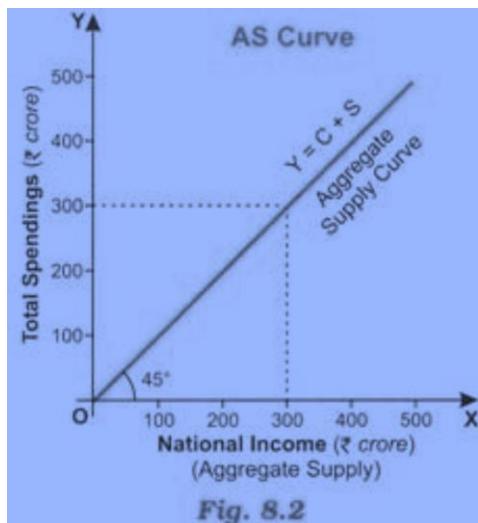


Income	Consumption	Investments	A.D
0	40	40	80
100	120	40	160
200	200	40	240
300	280	40	320
400	360	40	400
500	440	40	480
600	520	40	560

Aggregate Supply

- Aggregate supply is a **monetary value** of all **final goods and services** firm are willing to supply in an economy over a specific period.
- **$AS = C + S$**
- Aggregate Supply is equal to **national income**
- **$AS = Y$**

Income	Consumption	Saving	AS
0	40	-40	0
100	120	-20	100
200	200	0	200
300	280	20	300
400	360	40	400
500	440	60	500
600	520	80	600

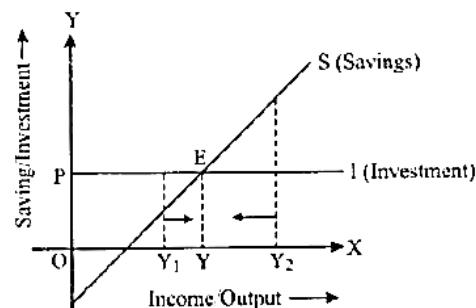
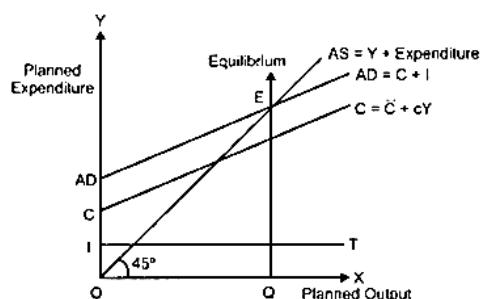


Macroeconomic Equilibrium

1. Aggregate Demand – Aggregate Supply Approach (AD-AS)
2. Saving – investment approach (S-I)

$$AD = AS$$

$$S=I.$$



Equilibrium of Employment

- According to J.M. Keynesian employment equilibrium
 - (i) Full Employment Equilibrium
 - (ii) Under-Employment equilibrium
 - (iii) Over Employment equilibrium

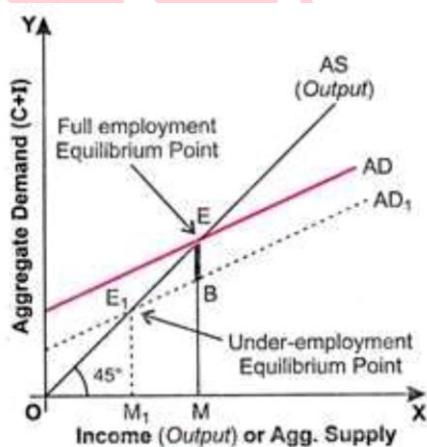


Fig 8.15

Investment Multiplier

- An increase in the investment in economy due to increase in consumption.
- The increase in the aggregate income of the economy due to an increase in the investments.
- Multiplier can be represented by the following formula
- $K = \frac{\Delta Y}{\Delta I}$ or $K = \frac{1}{1-MPC}$

Multiplier and MPC

- There is a direct relationship between MPC and the value of multiplier.
- Higher the MPC, value of multiplier is also high, and vice-versa.

Value of Multiplier

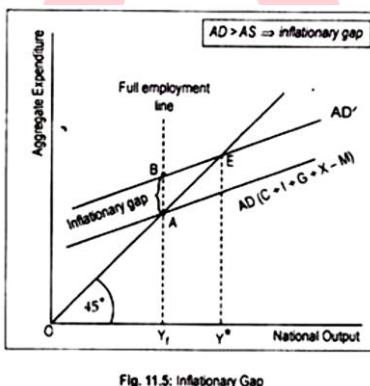
- The maximum value of multiplier is infinity when the value of MPC is 1.
- The minimum value of multiplier is one when the value of MPC = 0.

Excess Demand

It occurs when aggregate demand is greater than aggregate supply, resulting in full employment.

Reasons for excess demand:

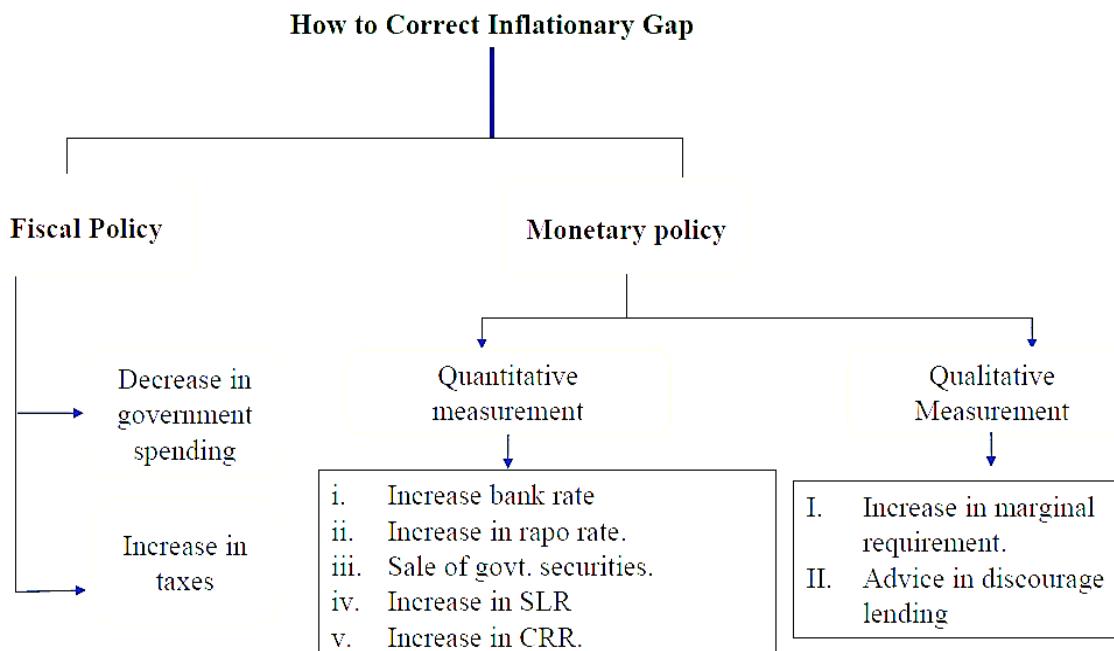
- I. Increased propensity to consume.
- II. Increase in private investment demand
- III. Higher public (government) expenditure.
- IV. Increase in demand for exports.
- V. Increase in supply of money
- VI. Increase in disposable income.



Impact of Excess demand

- General Price Level
- Output
- Employment

How to Correct Inflationary Gap



Deficient Demand

- When AD is less than AS at full employment. To put it another way, $AD < AS$ is at full employment.

Reasons for Deficient demand

- Decreasing propensity to consume.
- Decreasing in private investment demand
- Reduced public (government) expenditure.
- Decreasing in demand for exports.
- Decreasing in supply of money
- Decreasing in disposable income.

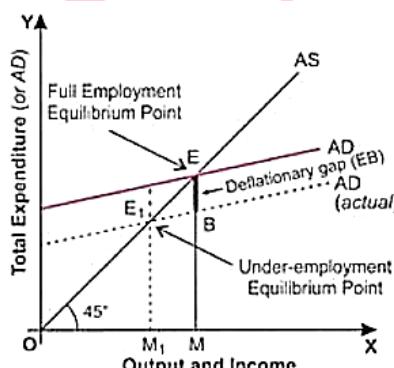
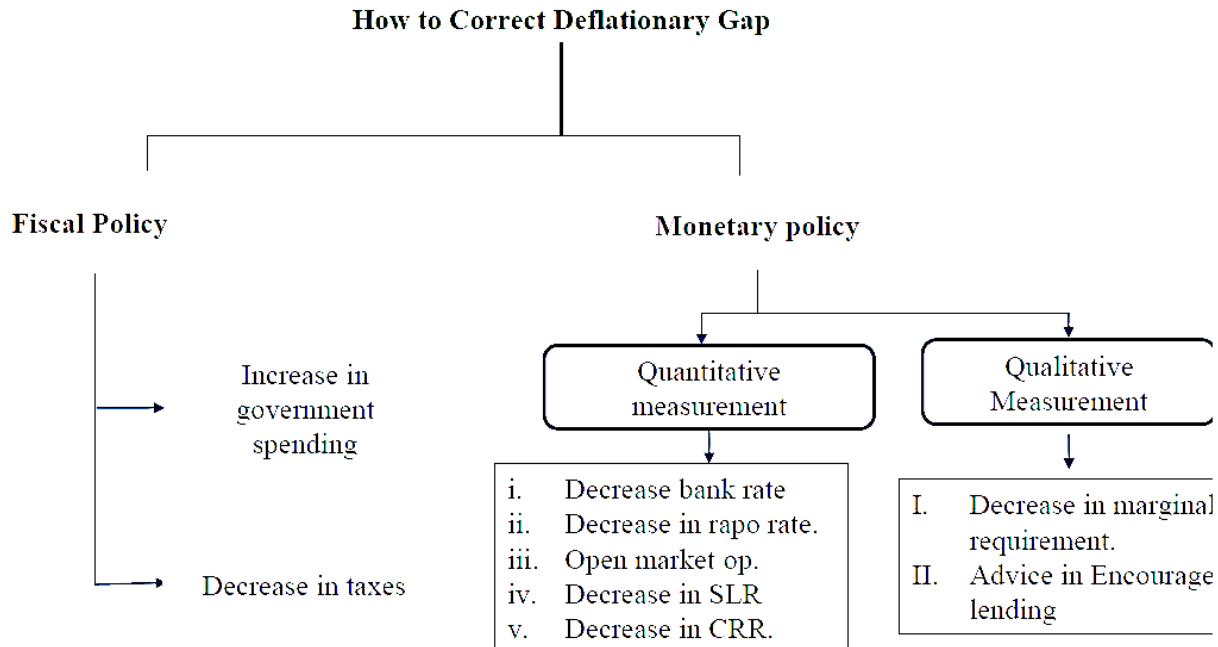


Fig 8.17



Playlist of Economics

1. One shot

<https://youtube.com/playlist?list=PL3s-GF0G43lRlGMGU3lzgWB1qJV7lwcl8>

2. Previous Year Questions

<https://youtube.com/playlist?list=PL3s-GF0G43lSadGRSYrhOCHyfigu52t4p>

<https://youtube.com/playlist?list=PL3s-GF0G43lSgSJnd6n-tWr-hlfzqlqzX>

3. All chapter

<https://youtube.com/playlist?list=PL3s-GF0G43lT-dps07osstMTet9aRqHue>

4. Sample paper

<https://youtube.com/playlist?list=PL3s-GF0G43lSx8is8jGqds10YleFmF1a>

5. Revision

<https://youtube.com/playlist?list=PL3s-GF0G43lSCLEYzWs5UHW1bm1jxjRyP>

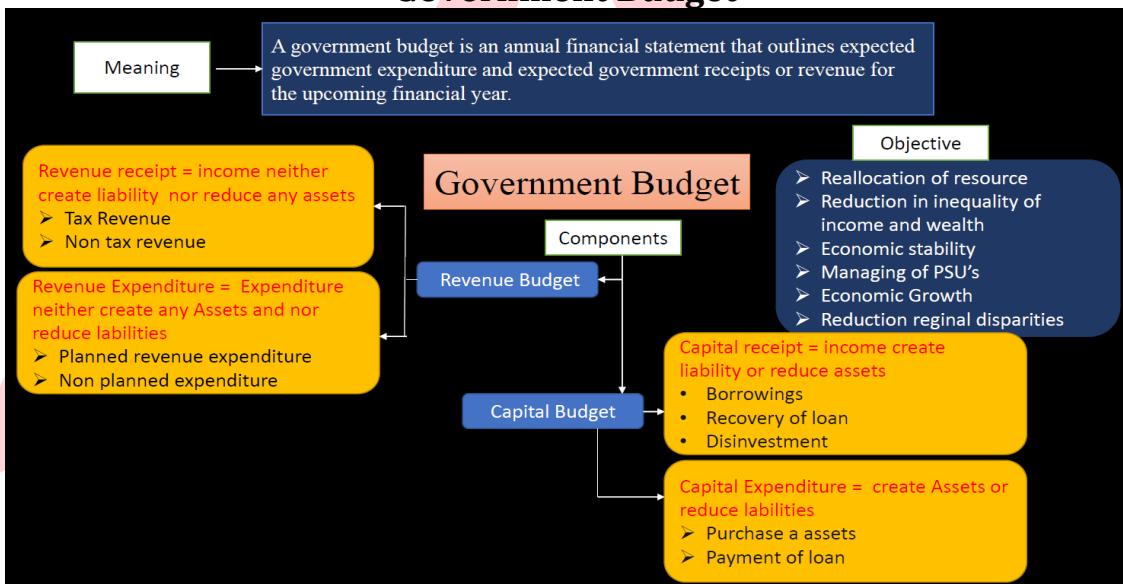
6. Most important Question

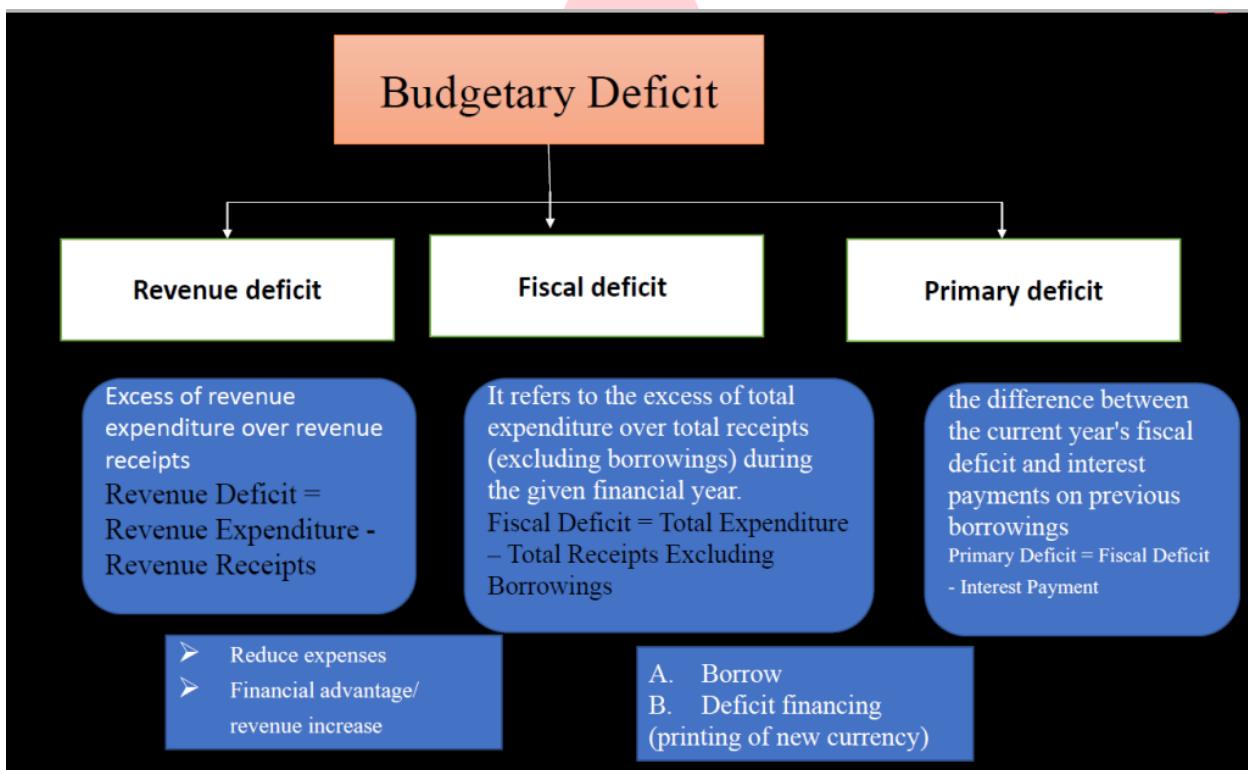
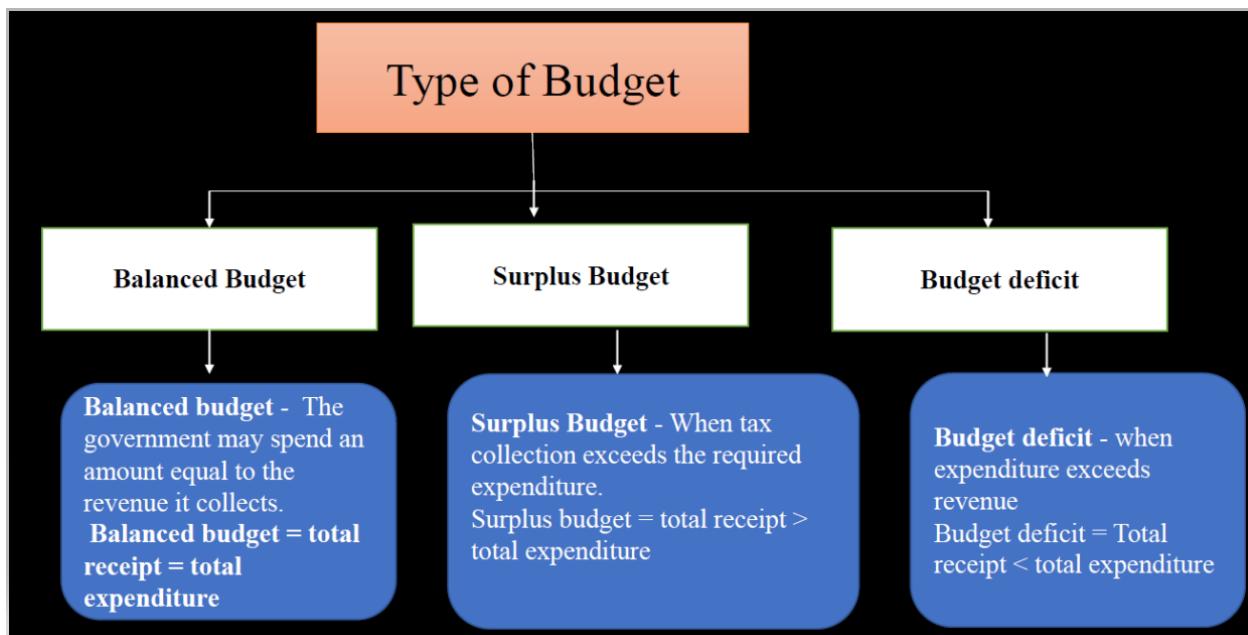
<https://youtube.com/playlist?list=PL3s-GF0G43lRfUoevYowMwcBeeZJUD9OZ>

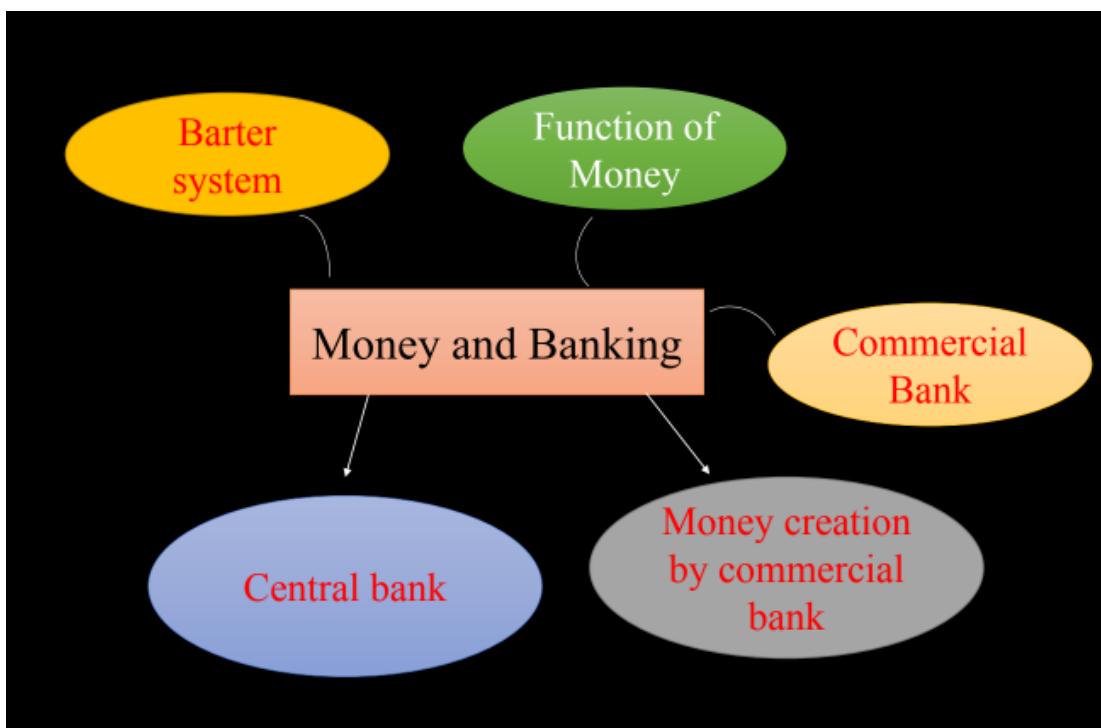
7. Most Expected Question

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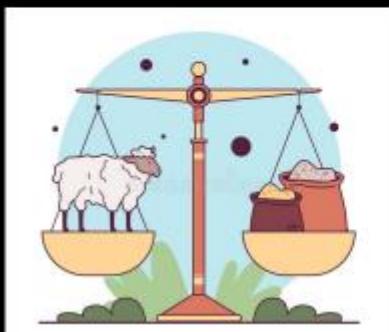
Government Budget





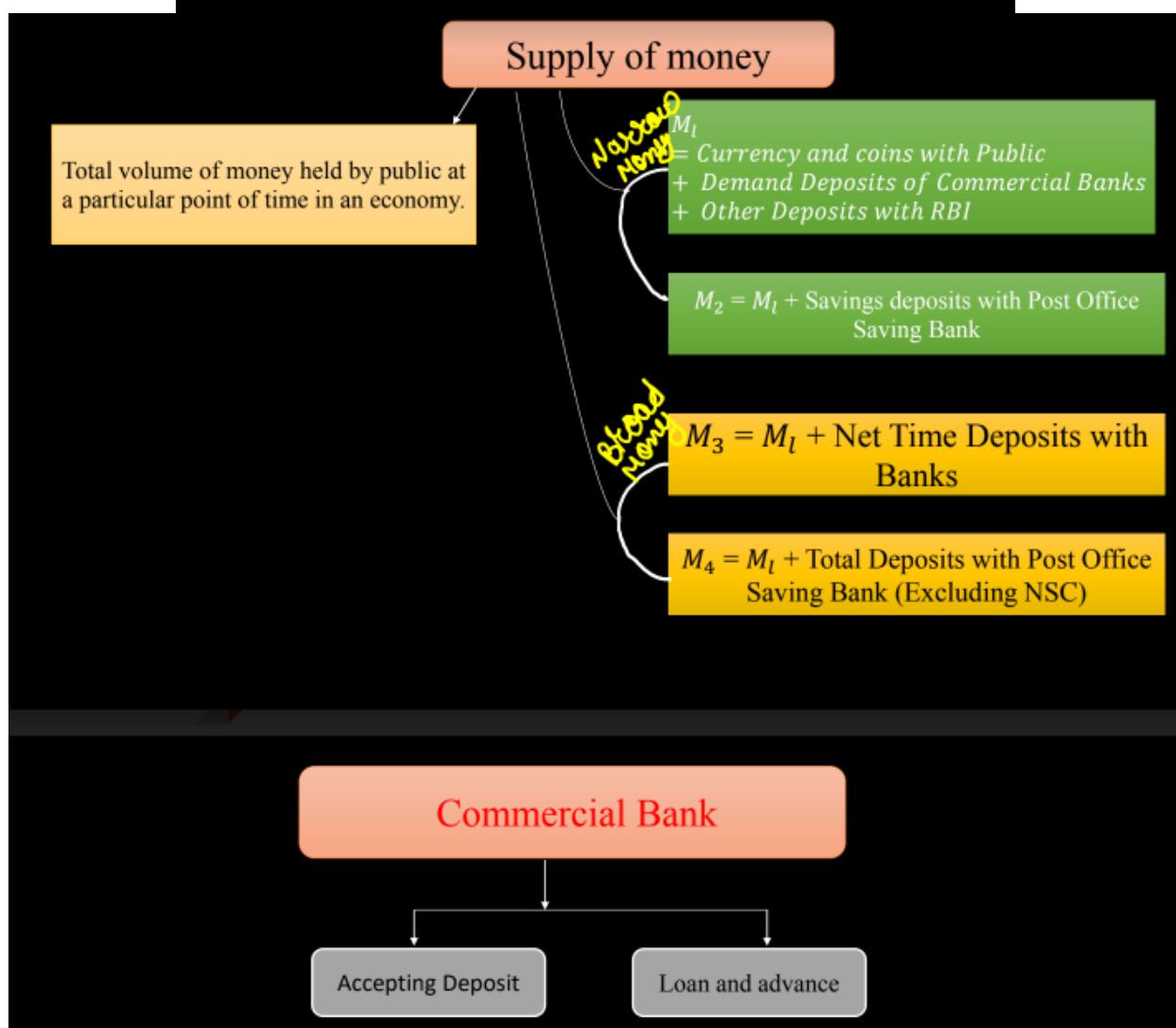
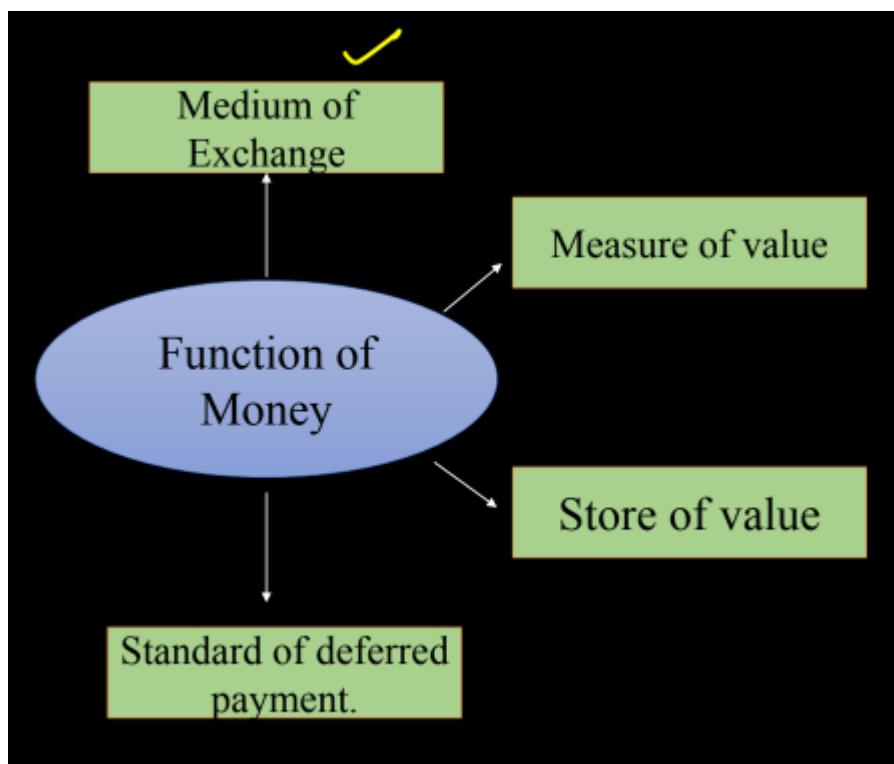


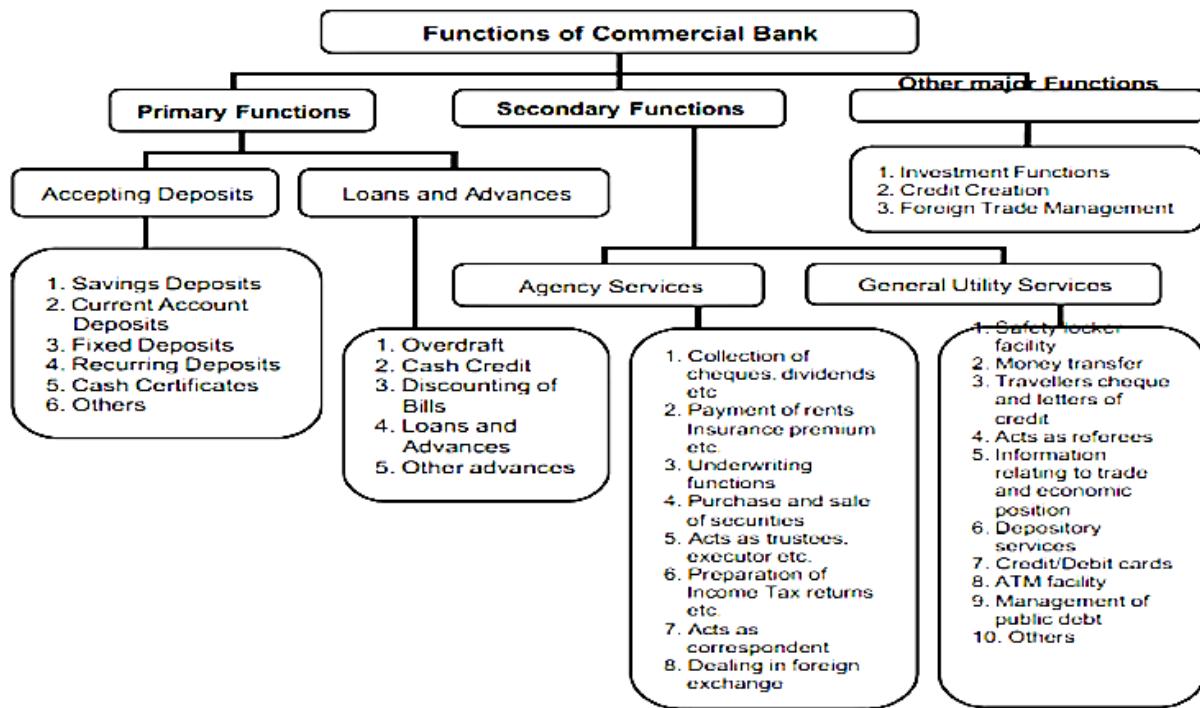
Barter system



Limitations of Barter Exchange

1. Lack of Double Coincidence of Wants:
2. Lack of Common Measure of Value:
3. Lack of Standard of Deferred Payment
4. Lack of Store of Value

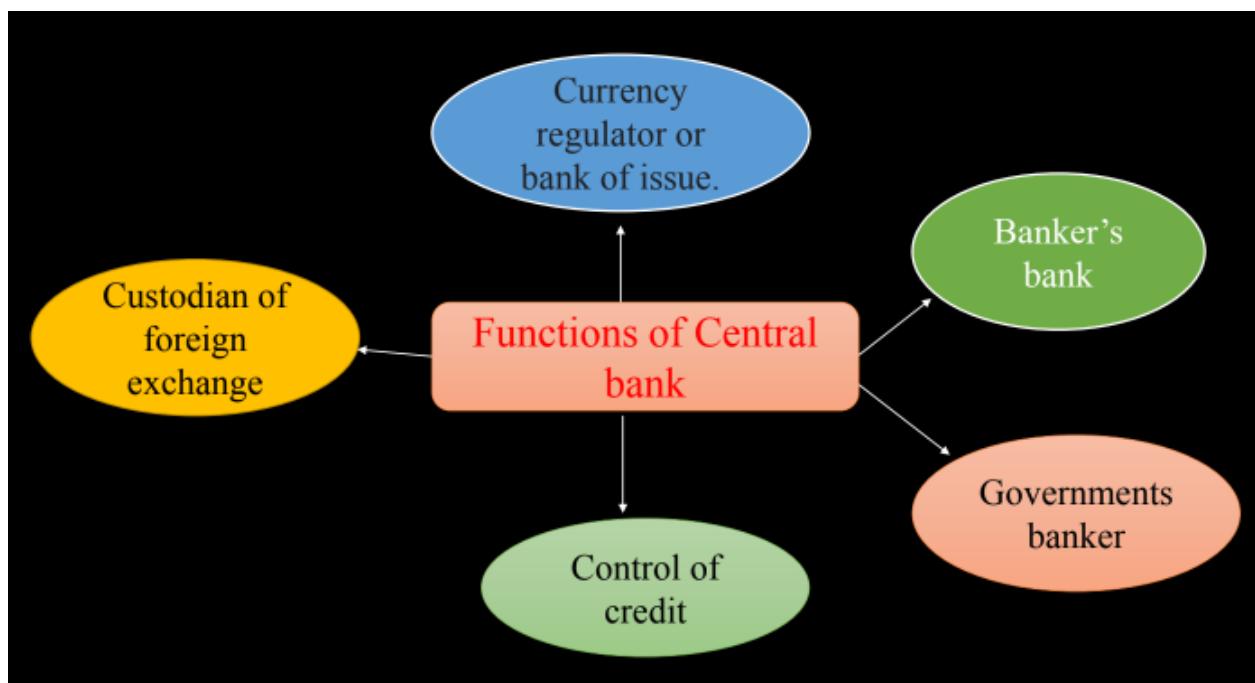




Money creation by commercial bank

- (i) The entire commercial banking system is one unit and is termed as 'Banks'.
- (ii) All receipts and payments in the economy are routed through the Banks

Credit creation by commercial banks = $1 / \text{Reserve ratio} \times \text{Initial deposit}$



ELEMENTS OF MONETARY POLICY

Quantitative Measures	Qualitative Measures
<ul style="list-style-type: none"> • Bank rate • Open market operations • Cash reserve ratio (CRR) • Statutory liquidity ratio (SLR) 	<ul style="list-style-type: none"> • Rationing of credit • Moral Suasion • Direct Action • Regulation in consumer credit • Marginal standing facility (MSF)

Chapter -2 National income

BASIC CONCEPTS OF MACROECONOMICS

- a. **Final product** -Final goods are those items which do not require further processing like television, milk, ready to eat foods, machinery, equipment etc. and which is used by household and firm.

Type of Final Product

1. Consumer Goods- Goods that are ready for consumption or purchase by household.
2. Industrial Goods - Capital goods / Industrial goods are those goods which are used manufacturers for future production.

(A) **Intermediate product** - Intermediate goods are those products that are used in the production process to make finish goods, and resale with a year of purchase.

(B) **stock and flow** - A **stock** is a quantity that is measured at a given point in time like -4 o'clock, Monday, January 1, 2014. Exp. Bank deposits, capital, wealth, population.

Flow is a quantity that is measured in terms of time periods, such as hours, days, weeks, months, years, etc. Exp. Capital formation, income, interest on capital, depreciation.

Stock concept	Flow concept
A variable that is measured at a particular point in time	A variable which is measurable over a period of time
Stock does not have a time dimension attached with it	Flow has a time dimension attached with it
It is static in nature	It is dynamic in nature
Bank deposits, capital, wealth, population	Capital formation, income, interest on capital, depreciation

(C) **Gross investment** - Total addition of capital goods to the existing stock of capital during the given year is called Gross Investment.

(D) **Net investment** = Gross investment – Depreciation

(E) **Depreciation** - Depreciation refers to a Decrease in the value of fixed assets due to normal wear and tear, passage of time or expected obsolescence.

- Also known as:
 - i. Current replacement cost;
 - ii. Replacement cost of fixed capital
 - iii. Capital consumption allowance.
 - iv. Consumption of fixed capital

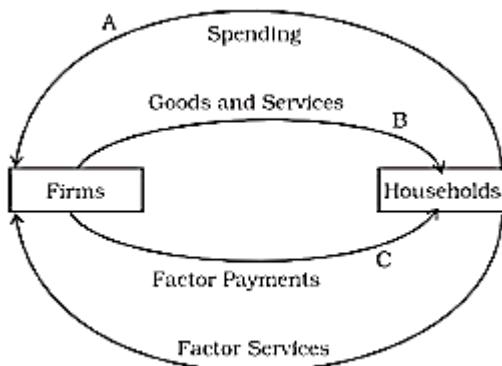
Depreciation of assets is mainly due to 3 reasons

- Normal wear and tear
- Passage of time
- Expected obsolescence

• Aggregates related to National Income

- I. GDP_{MP} = cost of goods and services quantity of goods and services $P(Q) + P(S)$
- II. GDP_{FC} = GDP_{MP} - indirect taxes + subsidies
- III. NDP_{MP} = GDP_{MP} - Depreciation
- IV. NDP_{FC} = GDP_{FC} - Depreciation
- V. GNP_{MP} = GDP_{MP} + NFIA
- VI. GNP_{FC} = GDP_{FC} + NFIA
- VII. NNP_{MP} = NDP_{MP} + NFIA
- VIII. NNP_{FC} = NDP_{FC} + NFIA

Circular Flow of Income



- Factors supply resources such as land, labour, capital, entrepreneurs, etc., in return for which the firm pays them in the form of rent, rent, wages, interest and profit.
- The income that Household get, they buy final goods and services from firms to satisfy their needs.
- Thus, the expenditure of the producers becomes the income of the people and the expenditure of the people becomes the income of the producers.

Phases of Circular Flow of Income

- Generation Phase: In this phase, firms produce goods and services with the help of factor services.
- Distribution Phase: This phase involves the flow of factor income (rent, wages, interest and profit) from firms to the households.
- Disposition Phase: In this phase, the income received by factors of production, is spent on the goods and services produced by firms

Domestic territory

Domestic territory means the political frontiers of a country. It includes

- I. Ships and aircrafts owned and operated by normal residents between two or more countries.
- II. Fishing vessels, oil and natural gas rigs and floating platforms operated by the residents of a country in the international waters where they have exclusive rights of operation.
- III. Embassies, consulates and military establishments of a country located abroad

Domestic Territory does not include

- Embassies, consulates and military establishments of a foreign country. For example, Japanese Embassy in India is a part of domestic territory of Japan.
- International organisations like UNO, WHO, etc. located within the geographical boundaries of a country.

Normal resident

Normal resident of a country refers to an individual or an institution who ordinarily resides in the country and whose center of economic interest also lies in that country.

1. The resident lives or is located within the Domestic Territory; and
2. The resident carries out basic economic activities of earnings, spending and accumulation from that location.

Not included under the category of Normal residents

1. Foreign tourists and visitors who visit a country for recreation, holidays, medical treatment, study, sports, conferences, etc.
2. Foreign staff of Embassies, officials, diplomats and members of the armed forces of a foreign country, located in the given country.
3. International organisations like UNO, WHO, etc.

4. Employees of international organisations
5. Crew members of foreign vessels, commercial travelers and seasonal workers, provided their stay is less than one year.
6. Border workers who live near the international border and cross the border on a regular basis to work in the other country

- **Method of Calculating National Income**-Value added Method shows the contribution (value added) of each producing unit in the production process.
- **Steps of Value-Added Method:**
 - Step 1: Identify and classify production units
 - Step 2: Estimate GDP at Market Price
 - Step 3: Calculate Domestic Income (NDP_{FC}) = $GDP_{MP} - Net\ indirect\ tax -- Depreciation$
 - Step 4: National Income/ NNP_{FC} = $NDP_{FC} + Net\ factor\ income\ from\ abroad$
- Value of Goods Added = Value of Output - Intermediate Consumption
- The value added by each producing enterprise is also known as Gross Value Added.
- Intermediate goods – Any goods used in production process and resale purpose.
- Value of output = Sales or Value of Output = Sales + Change in Stock

Precautions of Value-Added Method

- Intermediate goods should not be included in national income
- Excludes sale and purchase of used goods
- Production of services for self-consumption (domestic services) is not included.
- Production of goods for self-consumption will be included in the national income because they contribute to the current production.
- The imputed value of the houses occupied by the owner should be included.
- Changes in inventory will be included.

Income Method

- Step 1: Identify and classify production units:
- Step 2: Estimate the factor income paid by each sector:
 - (i) compensation of employees;
 - (ii) rent and royalty;
 - (iii) interest;
 - (iv) profit; And
 - (v) Mixed income.
- Step 3: Calculate Household Income (NDP_{Fc}):

$$NDP_{Fc} = Employees\ Remuneration + Rent\ &\ Royalty + Interest + Profit + Mixed\ Income.$$
- Step 4: Estimate Net Factor Income from Abroad (NFIA) to arrive at National Income:

$$NNP_{Fc} = NDP_{Fc} + Net\ factor\ income\ from\ abroad$$

Components of factors income

- **Compensation of employee**
 - Salary and wages in cash
 - Salary and wages in Kind
 - Employer's contribution to social security plan
- **Rent or Royalty Income**
- **Interest Income**

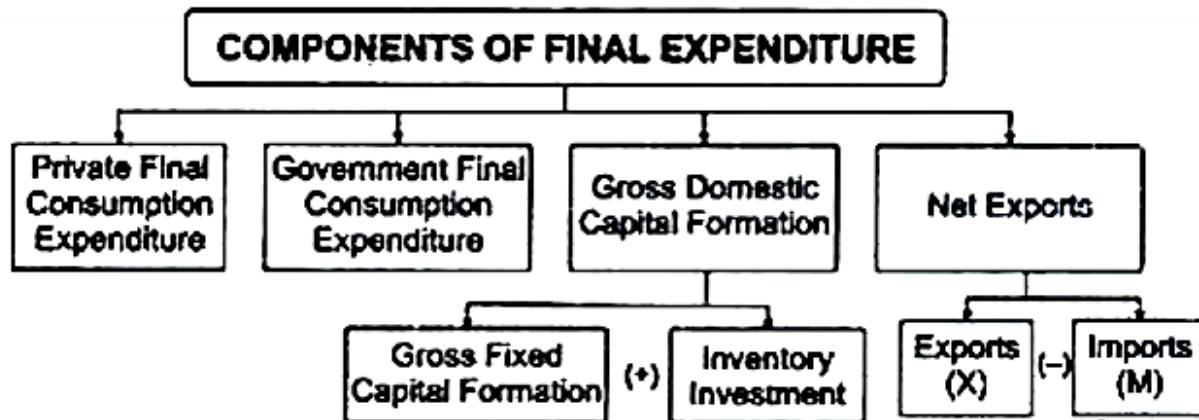
- Profit = Corporation Tax + Dividend + Retained Income
- Mixed income - This includes imputed factor income (rent, wages, profit and capital).

Precautions of Income Method

- (i) Only factor incomes which are earned by rendering productive services are included in national income
- (ii) Any type of transfer income like old-age pension, unemployment allowance, etc. are excluded in national income
- (iii) Sale and purchase of second-hand goods are excluded in national income
- (iv) Imputed rent of owner-occupied House and value of production for self-consumption is included in national income.
- (v) value of self-consumed services (Domestic) is not Included in national income.
- (vi) Income from illegal activities is excluded from National income.
- (vii) Direct taxes and corporate tax, which is paid by the joint stock company from its profit, are included.
- (viii) wealth tax and gift tax are excluded.
- (ix) indirect taxes like sales tax, excise duties, which increase market prices, are not included.

Expenditure Method

- Expenditure is made by all sectors of an economy: households, government, firms and the foreign sector.



Expenditure Method

- The steps involved in the computation of national income by expenditure method are:
- Step 1:** Identify the final spending economic units:

Sector	Expenditure
i. Domestic sector	(PFCE)
ii. Government sector	(GFCE)
iii. Production Sector	(GDCF)
iv. Rest of the world region.	Net Exports (X-M)

$$\text{Step 2. } = GDP_{mp} = PFCE + GFCE + GDCF + (X-M)$$

$$\text{Step 3 } = NDP_{FC} = GDP_{MP} - \text{Depreciation} - \text{Net indirect taxes.}$$

$$\text{Step 4 } = \text{National income} = (NNP_{FC}) = NDP_{FC} + NFIA$$

Precautions for expenditure method

- All intermediate goods and services are excluded
- Government expenditure on all transfer payments is excluded
- Expenditure on purchase of used/ second hand goods is excluded
- Only financial transaction like Expenditure on purchase of old shares/bonds or new shares/bonds is excluded
- Imputed expenditure should be included.

Real and Nominal GDP

- **Real GDP** – value of final goods and services produced in a given year expressed in terms of the prices in a base year.

$$\text{Real GDP} = \frac{\text{Nominal gdp}}{\text{Index of current price}} \times \text{Index of based year (100)}$$

- **Nominal GDP** - Value of all the goods and services produced by an economy at current market prices.

$$\text{Nominal GDP} = \frac{\text{Real GDP} \times \text{Price Index}}{100}$$

- GDP Deflator - GDP deflator, also known as the implicit price deflator, is **used to measure inflation**. It is used to determine the levels of prices of the new domestically produced final goods and services in a country in a year.

$$\text{GDP deflator} = \frac{\text{Nominal gdp}}{\text{Real gdp}} \times 100$$

GDP AND WELFARE

1. **Distribution of GDP – how uniform is it-** GDP may be concentrated in the hands of very few individuals or firms.
2. **Non-monetary exchanges**
3. **Externalities** - Benefits (or harms) a firm or an individual causes to another for which they are not paid (or penalised),

LOW LEVEL OF ECONOMIC DEVELOPMENT UNDER COLONIAL RULE

- They transformed the country into a supplier of raw materials and consumer of finished industrial products from Britain.
- Some individual attempts were made by experts like Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai. But, all these estimates produced conflicting and inconsistent results
- Estimates of **Dr. Rao** on national and per capita incomes were considered very significant.
- Country's growth of aggregate real output during the first half of the twentieth century was less than 2% and only 0.5% growth in per capita output per year.

Main Reasons for Stagnation in Agricultural Sector

1. **Land Settlement System:** The most important reason for stagnation in agricultural sector was the introduction 'Zamindari System' by the colonial government. The zamindars and the government did nothing to improve the condition agriculture.
2. **Commercialization of agriculture** means production of crops for sale in the market rather than for self consumption.
3. Low levels of technology, lack of irrigation facilities and negligible use of fertilizers resulted in low level of productivity.
4. India's agriculture was facing of investment in terracing, flood-control and drainage.

INDUSTRIAL SECTOR

1. De-industrialisation-Decline of Handicraft Industry:

- To get raw materials from India at cheap rates to be used by upcoming modern industries in Britain;
- To sell finished products of British industries in Indian market at higher prices.
- The main reason for decline of India's renowned handicraft industry was the introduction of 'Discriminatory Tariff Policy' by the colonial government.

2. Lack of Capital Goods Industries

Modern Industries operating during Independence

- Due to initiative of the private sector, modern industries started to come up during the second half of the 19th century.
- The industries established in this period were mainly confined to cotton textile and jute mills and their progress remained very slow.
- The cotton textile mills were mainly dominated by Indians and were located in the western parts of the country, namely, Maharashtra and Gujarat.
- The jute mills dominated by the foreigners were mainly concentrated in Bengal. The major breakthrough was setting up of Tata Iron and Steel Company (TISCO) in the year 1907 in Jamshedpur (Bihar).
- A few other industries in the fields of sugar, cement, paper, etc. Second World War.

Foreign trade.

1. Exporter of Primary Product and Importer of Finished Goods:

India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute, etc. and an importer of finished consumer goods like cotton, silk and woolen clothes and capital goods like light machinery, produce in British industries

- **Monopoly Control of British Rule** - More than 1/2 of India's foreign trade was restricted to Britain while the rest was allowed with few other countries like China, Ceylon (Sri Lanka) and Persia (Iran).
- The opening of the Suez Canal in 1869 served as a direct route for the ships operating between India and Britain.

3. Drain of Indian wealth during British rule:

- i. To make payments for expenses incurred by an office set up by the colonial government in Britain.
- ii. To meet expenses on war fought by the British government.
- iii. To import invisible items.

Trade through the Suez Canal

- Suez Canal is an artificial waterway running from north to south across the Isthmus of Suez in north-eastern Egypt.
- The opening of Suez Canal in 1869 reduced the cost of transportation and made access to the Indian market easier.
- The canal provided a direct trade route for ships operating between Britain and India and avoided the need to sail around Africa.
- Strategically and economically, it is one of the most important waterways in the world.





DEMOGRAPHIC CONDITION

➤ Demographic conditions during the British Rule exhibited all features of a stagnant and backward Indian economy

1. **Official Census:** The first official census was conducted in the year 1881.
2. **1921:** Year of the Great Divide: Before 1921, India was in the first stage of demographic transition.

DEMOGRAPHIC CONDITION DURING COLONIAL GOVERNMENT

1. High Birth Rate and Death Rate
2. Extremely Literacy rate- only 17 %
3. Poor Health facilities
4. High Infant Mortality Rate -218 infant death per 1000 infant
5. Low Life Expectancy – only 32 year
6. Widespread Poverty

OCCUPATIONAL STRUCTURE

1. **Predominance of Primary Occupational :** The agricultural sector accounted for the largest share of workforce with approximately 75%.
2. **Regional Variation: striking aspect was the growing regional variation.**
 - The states of Tamil Nadu, Andhra Pradesh, Kerala, Karnataka, Maharashtra and West Bengal decline in dependence of workforce on the agricultural sector with a commensurate increase in the manufacturing and service sector.

- However during the same time, there had been an increase in the share of workforce in agriculture in states such as Orissa, Rajasthan and Punjab.

INFRASTRUCTURE

- 1. Roads:** The roads that were built, primarily served the interests of mobilising the army and shifting raw materials.
- Railways:** The most important contribution of the British rule was to introduce railways in India in 1850. The railways affected the structure of the Indian economy in two important ways:
 - (i) Railways enabled people to undertake long distance travel. It broke geographical and cultural barriers and promoted national integration.
 - (ii) It enhanced commercialization of Indian agriculture, which adversely affected the comparative self sufficiency of the village economies in India.
- Air and Water Transport:** British Government took measures for developing the water and air transport. However, their development was far from satisfactory.
- Communication:** Posts telegraphs were the most popular means of communication.
 - The introduction of the expensive system of electric telegraph in India served the purpose of maintaining law and order.

POSITIVE CONTRIBUTION OF BRITISH RULE

- Self-sufficiency in food grain production: Commercialization of agriculture initiated by British Government resulted in self-sufficiency in food grain production.
- Better means of transportation: Development of roads and railways provided cheap and rapid transport system and opened up new opportunities of economic and social growth.
- Check on Famines: Roads and railways worked as a great check on the occurrence and impact of famines as food supplies could be transported to the affected areas in case of droughts.
- Shift to Monetary Economy: British rule helped Indian economy to shift from barter system of exchange (exchange of goods for goods) to monetary system of exchange.
- Effective administrative setup: The British Government had an efficient administration system, which served as a ready reckoner for Indian

Indian Economy 1950-90

Economic System

1. Capitalist Economy:

- Means of production are owned, controlled and operated by the private sector. Production is done mainly for earning profits. So, the central problems (what, how and for whom to produce) are solved through the market forces of demand and supply.

What to Produce: Under this system, only those goods are produced that can be sold profitably either in the domestic or in the foreign market.

How to Produce: Goods are produced using cheaper techniques of production. In case of cheap labour, labour-intensive methods of production are used and in case of costly labour, capital-intensive methods of production are used.

- **For whom to Produce:** In a capitalist society, goods produced are distributed among people not on the basis of their needs but on the basis of their income or purchasing power. This means that a sick person will be able to get medicine only when he can afford to buy it, or, even if there is urgency.

2. **Socialist Economy:** A socialist economy is the one in which the means of production are owned, and operated by the government. Under socialist economy, the three central problems controlled and are solved in the following manner:

What to Produce: In a socialist society, the government decides what to produce in accordance with needs of the society.

How to Produce: The government decides how the goods are to be produced.

For whom to Produce: Distribution under socialism is supposed to be based on what people need and not on what they can afford to purchase. A socialist nation provides free health care to the citizens, who need it.

3. **Mixed Economy:** A mixed economic system refers to a system in which the public sector and the private sector are allotted their respective roles for solving the central problems of the economy.

- In mixed economy, the government and the market together solve the central problems: what to produce, how to produce and for whom to produce.
- The private sector provides whatever goods and services, it can produce well, and the government provides essential goods and services, which the market fails to do

ECONOMIC PLANNING

- For the development of Indian economy, it was necessary for the Government to 'plan' for the economy, known as Economic Planning.
- **Economic planning** - making major economic decisions (what, how and for whom to produce) by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economy whole.
- To make economic planning effective, the Government of India set up Planning Commission 1950, with the Prime Minister as the Chairman.
- The Planning Commission fixed the planning period at five years

GOALS OF FIVE-YEAR PLANS

- The first five-year plan was launched for a period starting from 1st 1951 and ending on 31st March, 1956.
- These basic Goals are:
 - (i) Growth
 - (ii) Modernisation
 - (iii) Self-reliance
 - (iv) Equity

Growth

- Growth refers to increase in the country's capacity to produce the output of goods and services within the country.
- Growth implies:
 - Either a larger stock of productive capital Or
 - a larger size of supporting services like transport and banking Or
 - an increase in the efficiency of productive capital and services.
- A good indicator of economic growth, in the language of economics, is steady increase in the Gross Domestic Product (GDP).

Modernisation

- **Adoption of New Technology:** Modernisation aims to increase the production of goods and services through use of new technology.
- **Change in social Book:** Modernisation also requires change in social outlook, such as gender or providing equal rights to women.

Self-reliance

- Self-reliance under Indian conditions means overcoming the need of external assistance. In other words, it means to have development through domestic resources.

The policy of self-reliance was considered a necessity because of two reasons:



- **To reduce foreign dependence:** As India was recently freed from foreign control, it is necessary to reduce our dependence on foreign countries, especially for food. So, stress should be given to attain self-reliance.
- **To avoid Foreign Interference:** It was feared that dependence on imported food foreign technology and foreign capital may increase foreign interference in the policies of our country.

Equity

- it is important to ensure that benefits of economic prosperity are availed by all sections (rich as well as poor) of the economy.
- Every Indian should be able to meet his or her basic needs (food, house, education and health care) and inequality in the distribution of wealth should be reduced.
- In short, Equity aims to raise the standard of living of all people and promote social justice.

Features (or Problems) of Agriculture

1. Low Productivity:
2. Disguised Unemployment:
3. High dependency on Rainfall:
4. Subsistence Farming:
5. Outdated Technology:
6. Conflicts Between Tenant and Landlords:

Land Reforms

- Change in the ownership of landholdings.
- **Abolition of Intermediaries** -The abolition of intermediaries brought 200 lakh tenants into direct contact with the government.
- **Land Ceiling** - Land Ceiling refers to fixing the specified limit of land, which could be owned by an individual. Beyond the specified limit, all lands belonging to a particular person would be taken over by the Government and will be allotted to the landless cultivators and small farmers.

Abolition of Intermediaries

- the goal of equity was not fully served by abolition of intermediaries
 - (i) In some areas, the former zamindars continued to own large areas of land by making use of some loopholes in the legislation;
 - (ii) In some cases, tenants were evicted and zamindars claimed to be self-cultivators;
 - (iii) Even after getting the ownership of land, the poorest of the agricultural Labourers did not benefit from land reforms.

Land Ceiling

- the land ceiling legislation was challenged by the big landlords. They delayed its implementation.
- This delay time was used by them to get the land registered in the name of close relatives, thereby the legislation.

Land reform

- Land reform are successful in Kerala and West Bengal because governments of these states were committed to the policy of land reforms.

- Unfortunately, other states did not have the same level of commitment and vast st inequality in landholdings continued.

Origin of Green Revolution

- In the kharif season (1966), India adopted High Yielding Varieties Programme for the first time.
- The programme was successful due to:
 - High Yielding Varieties (HYV) of seeds;
 - Adequate irrigation facilities;
 - Application of fertilizers, pesticides, insecticides, etc.
- This new strategy is also popularly known as modern agricultural technology Green Revolution.

Economy experienced the success of Green Revolution in 2 phases:

- The first phase (Mid 60s to Mid-70s), the use of HYV seeds was restricted to more affluent states (like Punjab, Andhra Pradesh, Tamil Nadu, etc.). Further, the use of HYV seeds primarily benefited the wheat growing regions only.
- In the second phase (Mid 70s to Mid-80s), the HYV technology spread to a larger number of states and benefited more variety of crops.

Important Effects of Green Revolution

- India to achieve self-sufficiency in food grains
- Attaining Marketable Surplus - Marketable surplus refers to that part of agricultural produce which is sold in the market by the farmers after meeting their own consumption requirement.
- Buffer Stock of Food Grains
- Benefit to low-income groups:

Critical Appraisal agricultural Development (1950-1990)

- There had been substantial increase in the agricultural productivity. As a result of Green revolution,
- India became self-sufficient in food production. Land Reforms resulted in abolition of zamindari system.
- The Proportion of GDP between 1950 and 1990 contributed by agriculture declined significantly, but not the population depending on it.
- Around 65% of the country's population continued to be employed in agriculture, even till 1990. Agricultural output could have been grown with much less people working in the sector,

Classification of Industries IN IPR 1956

Classification of Industries as per IPR, 1956

Schedule A

(Comprises of Industries exclusively owned by state)

Schedule B

(Comprises of 12 Industries which would be progressively state-owned)

Schedule C

(Comprises of remaining Industries which were to be in the private sector)

Industrial Licensing

1. An industrial license is item permission from the government, to an industrial unit to manufacture goods.

issue licenses for

- new industries;
- Expansion of existing ones; and
- Diversification of products.

Industrial Licensing

2. It was easier to obtain a license if the industrial unit was established in an economically backward area. In addition, such units were given certain concessions, such as tax benefits and electricity at a lower tariff.
3. License was needed even if an existing industry wants to expand output or diversify production. License to expand production was given only if the government was convinced that there is a need for larger quantity of goods in the economy.

Small-Scale Industry (SSI)

- In 1955, the Village and Small-scale Industries Committee (Karve Committee) recognised the possibility of using small-scale industries to promote rural development.
- A 'small-scale industry' is defined with reference to the maximum investment allowed on the assets of a unit.

Important Points about Small-scale Industries

1. Employment Generation:
2. Need for Protection from Big Firms:
3. Reservation of Products:

TRADE Policy: Import substitution

- The first seven plans, trade was characterized by an inward-looking Trade Strategy. Technically, this strategy is called 'Import Substitution'.
- Import Substitution refers to a policy of replacement or substitution of imports by domestic production.
- The basic aim of the policy was to protect domestic industries from foreign competition.

The policy of Import Substitution can serve 2 definite objectives:

- (i) Savings of precious foreign exchange; and
- (ii) Achieving self-reliance.

Protection from Imports through 'Tariffs' and 'Quotas'



1. Tariffs: Tariffs refer to taxes levied on imported goods. The basic aim for imposing heavy duty on imported goods was to make them more expensive and discourage heavy use.
2. Quotas: Quotas refer to fixing the maximum limit on the imports of a commodity by a domestic producer.

Reason for Import Substitution

1. The policy of protection (in the don) is based on the notion that industries of developing countries, like India, are- in a position to compete against the goods produced by more developed economic compete in the due course of time.
2. Restriction on imports was necessary as there was a risk of drain of foreign exchange reserves on the import of luxury goods.

CRITICAL APPRAISAL OF INDUSTRIAL DEVELOPMENT (1950-1990)

1. The proportion of GDP contributed by the industrial sector increased in the period from 11.8% in 1950-51 to 24 in 1990-91. This rise in the industry's share of GDP is an important indicator of development. The 6% annual growth rate of the industrial sector during the period is also admirable.
2. Indian industry was no longer restricted to cotton textiles and jute. It also included engineering goods and a wide range of consumer goods. The industrial sector became well diversified by 1990, largely due to the public sector.
3. promotion of small-scale industries gave opportunities to people with small capital to get into business. New investment opportunities helped in generating more employment. It promoted growth with equity.
4. Protection from foreign competition (through Import Substitution) enabled the development of indigenous industries in the areas of electronics and automobile sectors, which otherwise could not have developed. However, this protection had two drawbacks.
 - (i) Inward Looking Trade Strategy: Our policies were 'inward oriented' and so we failed to develop a strong export sector
 - (ii) Lack of Competition: Due to restrictions on imports, some domestic producers made no sincere efforts to improve the quality of their goods and it forced the Indian consumers to purchase, whatever is produced by them.
 - (iii) The domestic industry failed to achieve international standards of product quality.
5. Licensing Policy helped the government to monitor and control the industrial production. However, excessive regulation by the government created two difficulties
 - (i) Misuse: It was misused by industrial houses. Some big industrialists would get a license, not for starting a new firm, but to prevent firms.
 - (ii) Time Consuming: The cumbersome and complex procedure from starting new very time consuming. A lot of time was spent by industrialists trying to obtaining license.
6. Public sector made a remarkable contribution in a strong industrial base, developing infrastructure and promoting development of backward areas.
However, the public sector continued to monopolies (that too ineffectively) in certain non-essential areas, which could be well handled by the private sector.
For example, telecommunication, hotel industry production of goods (like Modern Bread).

ECONOMIC REFORMS 1991

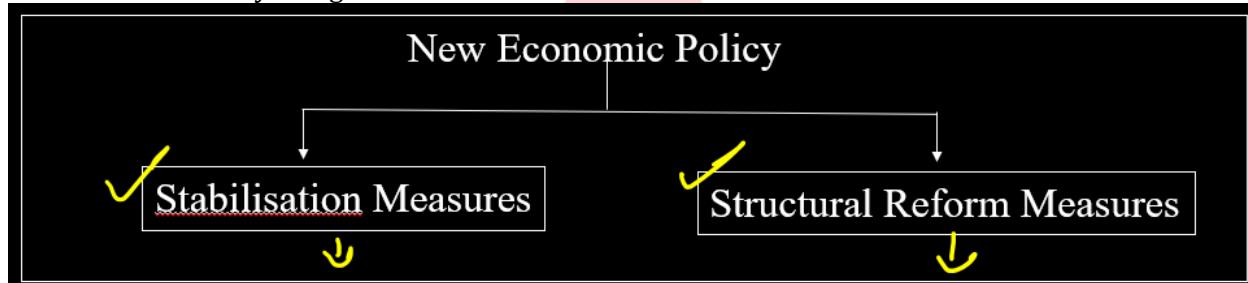
REASONS FOR ECONOMIC REFORMS

1. Poor Performance of Public Sector
2. Deficit in Balance of Payments (BOP)
3. Inflationary Pressures
4. Fall in foreign exchange reserves
5. Huge burden of debts
6. Inefficient Management

- Indian Government approached the International Bank for Reconstruction and Development (IBRD), popularly known as World Bank and the International Monetary Fund (IMF) and received \$7 billion as loan.

THE NEW ECONOMIC POLICY

- Announced in July 1991.
- The main aim of the policy was to create a more competitive environment in the economy and remove the barriers to entry and growth of firms.



Liberalisation

- Liberalisation means removal of entry and growth restrictions on the private sector.
- Liberalisation involves deregulation and reduction of government controls and greater autonomy (freedom) of private investment, to make economy more competitive.

The purpose of liberalisation was

- To unlock the economic potential of the country by encouraging private sector and multinational corporations to invest and expand; and
- To introduce much more competition into the economy and creating incentives for increasing efficiency of operations.
- The economic reforms taken by the Government under liberalisation include the following: sector
 - (i) Industrial Sector Reforms
 - (ii) Financial Sector Reforms
 - (iii) Tax Reforms
 - (iv) Foreign Exchange Reforms
 - (v) Trade and Investment Policy Reforms

Industrial Sector Reforms

1. Reduction in Industrial Licensing: The new policy abolished industrial licensing for all the projects, except for a short list of industries (like liquor, defence industrial explosives, etc.).
2. **Decrease role of Public Sector:** One of the key features was the substantive reduction in the role of the public sector in the future industrial development of the 17 to following 3 industries:

- (i) Defence equipment's;
 - (ii) Atomic energy generation; and
 - (iii) Railway Transport.
3. De-reservation under small-scale industries: Many goods produced by small scale industries have now been de-reserved.
4. Monopolies and Restrictive Trade Practices (MRTP) Act:

Financial Sector Reforms

Financial sector includes financial institutions like commercial banks, investment bar exchange operations and foreign exchange market. The financial sector in India controlled by the Central Bank - Reserve Bank of India (RBI)

The reforms introduced under financial sector are

1. **Change in Role of RBI:** The role of RBI was reduced from regulator to facilitator of financial sector. As a result, financial sector was allowed to take decisions, consulting the RBI.
2. **Increase in limit of Foreign investment:** The limit of foreign investment in banks was raised to around 74%. Foreign Institutional Investor (FII) such as merchant bankers, mutual funds and pension funds were now allowed to vest in Indian financial markets.
3. **Ease in Expansion Process:** Banks were given freedom to set up new branches (after fulfillment of certain conditions) without the approval of the RBI.

The major Tax Reforms made are

1. Reduction in Taxes
2. Reforms in Indirect Taxes
3. Simplification of Process.

Goods and Service Tax Act

The Goods and Service Tax Act was passed in the Parliament on 29th March, 2017 simplify and introduce a unified indirect tax system in India. The Act came into effect on 1/2017.

This is expected to generate additional revenue for the government, reduce tax evasion and create 'one nation, one tax and one market'.

Foreign Exchange Reforms

1. Devaluation of Rupee
2. Market Determination of Exchange Rate

Trade and Investment Policy Reforms

- The protection before 1991 reduced the efficiency and competitiveness of domestic industries and led to their slow growth. So, the reforms in the trade and investment policy were initiated:
- To increase the international competitiveness of industrial production.
- Foreign investments and technology into the economy.
- Efficiency of local industries and adoption of modern technologies.

The important trade and investment policy reforms include:

1. Removal of Quantitative restrictions on Imports and Exports
2. Removal of Export Duties
3. Reduction in Import Duties
4. Relaxation in Import Licensing System

Privatisation

Privatisation means transfer of ownership, management and control of public sector enterprises the entrepreneurs in the private sector.

1. Transfer of ownership and management of p sector companies from the government to the Private Sector;
2. Privatisation of the public sector undertakings (PSU) by selling off part of the equity of PSUS to the public. This process is known as disinvestment.

Globalisation

Globalisation means integrating the national economy with the world economy through removal of barriers on international trade and capital movements.

In Favour of Globalisation

- Greater access to global markets
- Advanced technology;
- Better future prospects for large industries of developing countries to become important players in the international arena.

Against Globalisation

- Benefits of globalisation accrue more to developed countries as they are able to expand their markets in other countries.
- Globalisation compromises the welfare and identity of people belonging to poor countries.
- Market-driven globalisation increases the economic disparities among nations and peg

Outsourcing

Outsourcing refers to contracting out some of its activities to a third party which performed by the organisation. For example, many companies have started service to outside agencies on a contractual basis.

- Outsourcing is one of the important outcomes of the globalization process.
- It has intensified in recent times because of the growth of fast modes of communication, particularly the growth of Information Technology (IT).
- With the help of modern telecommunication links, the text, voice and visual data in respect of these services is digitised and transmitted in real time over continents boundaries.
- India has become a favourable destination of outsourcing for most of the MNC's because of low wage rates and availability of skilled manpower.
- Some of the services outsourced to India include:
 - (i) Voice-based Centers); processes (known as BPO or Call
 - (ii) Record keeping
 - (iii) Accountancy;
 - (iv) Banking services;
 - (v) Music Recording;
 - (vi) Film editing;
 - (vii) Book transcription;
 - (viii) Clinical advice,

HUMAN CAPITAL FORMATION (HCF)

- It is the process of acquiring and increasing the number of person education and experience. who have the skills, education and experience.
- Human capital formation is associated with creative and productive resources.

Physical Capital and Human Capital

S. No.	Physical Capital	Human Capital
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1.	Physical capital is tangible and can be easily sold in the market.	Human capital is intangible and cannot be sold in the market.
2.	It depreciates with the passage of time.	Depreciation in human capital can be reduced by making continuous investments in education and health.
3.	It is more mobile between countries.	Human capital (like skills of a person) cannot be separated from the owner.
4.	Physical capital (like machinery) can be separated from its owner.	Human capital (like skills of a person) cannot be separated from the owner.
5.	Physical capital is the outcome of conscious decision of owner and is mainly an economic and technical process.	Formation of human capital is partly a social process and partly a conscious decision of the possessor of the human capital.
6.	It can be built through imports.	Human capital formation is to be done through conscious policy formulations.

SOURCES OF HUMAN CAPITAL FORMATION

- Expenditure on Education: Education contributes to economic growth because:
 - Education confers higher earning capacity on people;
 - It gives better social standing and pride;
 - It enables one to make better choices in life;
 - It provides knowledge to understand the changes taking place in society;
 - It also stimulates innovations;
 - It facilitates adaptation of new technologies.
 - Expenditure on Health: Health expenditure is a source of human capital formation directly increases the supply of healthy labour force.
- The other health expenditures include:
- Preventive Medicine known as vaccination;
 - Curative medicine, i.e. medical intervention during illness; Adequate food and proper nourishment to people, along with adequate health and sanitation facilities leads to qualitative improvement in human capital.
 - Social Medicine, i.e. spread of health literacy;
- On the job training
 - Expenditure on migration
 - Expenditure on information

Development indicators in Education and Health sector

Select Indicators of Development in Education and Health Sectors

Particulars		1951	1981	1991	2001	2016-17
Real Per Capita Income (in Rs)		7.651	12.174	15.748	23.095	77,659
Crude Death Rate (Per 1,000 Population)		25.1	12.5	9.8	8.1	6.3
Infant Mortality Rate		146	110	80	63	33
Life Expectancy at Birth (in Years)	Male	37.2	54.1	59.7	63.9	67
	Female	36.2	54.7	60.9	66.9	70
Literacy Rate (%)		16.67	43.57	52.21	65.20	76

Source: Economic Survey for various years, Ministry of Finance National Statistical Office & Ministry of Statistics and Programme Implementation; Government of India.

Report by Deutsche Bank and World Bank

- (i) Report by Deutsche Bank: The Deutsche Bank (a German bank), in its report on "Global Growth Centres", identified that India will emerge as one among four major growth centres in the world by the year 2020.
- (ii) Report by World Bank: The recent report of world bank "India and the Knowledge Economy - Leveraging Strengths and Opportunities", states that India should make a transition (changeover) to the knowledge economy.

IMPORTANCE OR ROLE OF HUMAN CAPITAL FORMATION

- Effective use of Physical Capital
- Higher Productivity and Production
- Stimulates Innovations and creates ability to absorb new Technologies
- Modernization of Attitudes
- Increases Life Expectancy
- Improves Quality of Life
- Control of Population Growth

PROBLEMS OF HUMAN CAPITAL FORMATION

- Insufficient Resources
- Serious Inefficiencies
- Brain Drain
- High Growth of Population
- Several Imbalances
- Lack of Proper Manpower Planning
- Weak Science and Technology

Human capital and Human Development

HUMAN CAPITAL	HUMAN DEVELOPMENT
<ul style="list-style-type: none"> • Human capital is referred to as the measure of the capabilities of labour which includes skills, working capacity, education, health and intelligence. • The concept of human capital focuses on the point that not all resources are equal, but with proper training and investment that gap can be fulfilled. • Human capital is a comparatively narrow concept. • It considers that health and education are the best means to improve the productivity of the labour force • In case of human capital, health and education are not useful as long as they do not result in improved productivity. 	<ul style="list-style-type: none"> • Human development is referred to as the process of expansion of the capabilities of humans in terms of abilities, rights. • The purpose of human development is to provide an appropriate environment for the people to enjoy a healthy, creative and long life. • Human development is a comparatively broader concept. • It considers that health and education help in the overall development of the individual. • Human development considers that human welfare is increased by having good health and proper education even if they do not result in any improvements in productivity.

Human capita formation in india : Great prospects

- In Education, the ministries of education at the union and state level and departments of education and various organisations like National Council of Educational Research and Training (NCERT), University Grants Commission (UGC) and All India Council of Technical Education (AICTE) regulate the education sector.
- In Health, the ministries of health at the union and state level, departments of health and various organisations like Indian Council for Medical Research (ICMR) regulate the health sector.

EDUCATIONAL SECTOR IN INDIA

- As a percentage of total government expenditure: It indicates the importance of education in the scheme of things before the government. During 1952-2014, it increased from 7.92 to 15.7.
- As a percentage of Gross spent on development of education in the country. During 1952-2014, it increased from 0.64 to 4.13 percent.

Important about Government Expenditure

- Expenditure on Tertiary Education is important:
- Difference in Educational Opportunities across States:
- Inadequate Expenditure on Education
- Provision of Free and Compulsory Education

EDUCATIONAL ACHIEVEMENTS IN INDIA

Educational Attainment in India

Sl.No.	Particulars	1990	2000	2011	2017-18
1.	Adult Literacy Rate (per cent of people aged 15+)				
	1.1 Male	61.9	68.4	79	82
	1.2 Female	37.9	45.4	59	66
2.	Primary completion rate (per cent of relevant age group)				
	2.1 Male	78	85	92	93
	2.2 Female	61	69	94	96
3.	Youth literacy rate (per cent of people aged 15+ to 24)				
	3.1 Male	76.6	79.7	90	93
	3.2 Female	54.2	64.8	82	90

FUTURE PROSPECTS IN EDUCATIONAL SECTOR,

- Education for All: Still a Distant Dream
- Gender Equity: Better than Before
- Higher Education: a Few Takers

Indian Economy before Colonial rule

- Prosperous Economy: India was an independent, self-reliant and prosperous economy.
- Agrarian Economy: Agriculture was the main source of livelihood for most people and it engaged about two-third of the total population.
- Well Known Handicraft Industries: cotton and silk textiles, metal and precious stone works.

Rural development

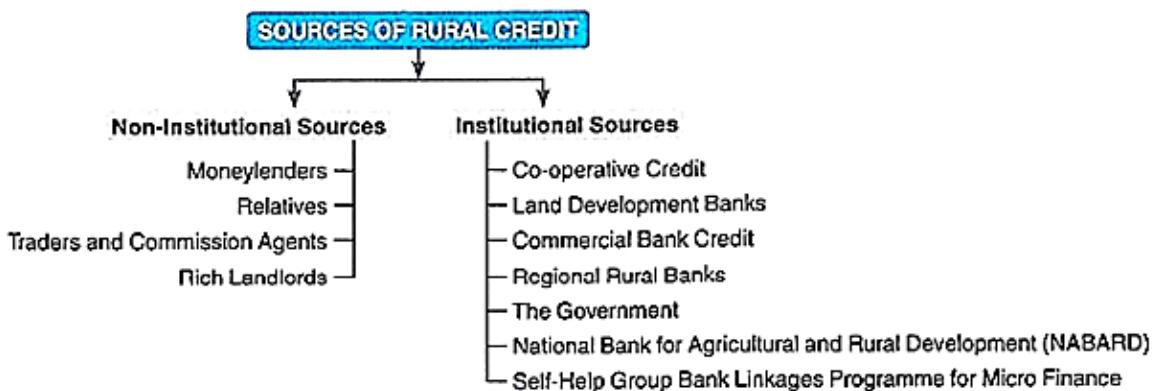
- Rural development is a comprehensive term.
- Development of areas that are lagging behind in the overall development of the village economy.
- Development of human resources including – literacy, more specifically, female literacy, education and skill development – health, addressing both sanitation and public health
- Land reforms Development of the productive resources of each locality

- Infrastructure development like electricity, irrigation, credit, marketing, transport facilities etc.
- Special measures for alleviation of poverty

CREDIT AND MARKETING IN RURAL AREAS

- Time gestation between crop sowing and realization of income after production is quite long,
- Farmers borrow from various sources to meet their initial investment on seeds, fertilisers, implements and other family expenses of marriage, death, religious ceremonies etc.
- moneylenders and traders exploited small and marginal farmers and landless labourers by lending to them on high interest rates and by manipulating the accounts to keep them in a debt-trap.
- India adopted social banking and multiagency approach to adequately meet the needs of rural credit in 1969.

SOURCES OF RURAL CREDIT



National Bank for Agriculture and Rural Development (NABARD) - 1982

- It is the Apex Bank which coordinates the functioning of different financial institutions, working for expansion of rural credit.
- Its objective is to promote health and strength of credit institutions (namely, cooperatives, commercial banks and regional rural banks). Besides providing finance to credit institutions, NABARD also provides financial assistance to the non-farm sector, to promote integrated rural development and prosperity of backward rural areas.

Rural Banking — a Critical Appraisal:

- Insufficiency
- Inadequate Coverage of Institutional
- Inadequate Amount of Sanction
- Less Attention to Poor or Marginal Farmers
- Growing Overdue

AGRICULTURAL MARKET SYSTEM

Agricultural marketing is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.

Problems Faced by Farmers

- Manipulations by Big Traders:
- Lack of Market Information
- Lack of Storage Facilities

Measures initiated to improve the marketing

- The first step was regulation of markets to create orderly and transparent marketing conditions
- Second component is provision of physical infrastructure facilities like roads, railways, warehouses, godowns, cold storages and processing units.
- Cooperative marketing, in realising fair prices for farmers' products, is the third aspect of government initiative.
- The fourth element is the policy instruments like
 - Assurance of minimum support prices (MSP) for agricultural products
 - Maintenance of buffer stocks of wheat and rice by Food Corporation of India and
 - Distribution of food grains and sugar through PDS.

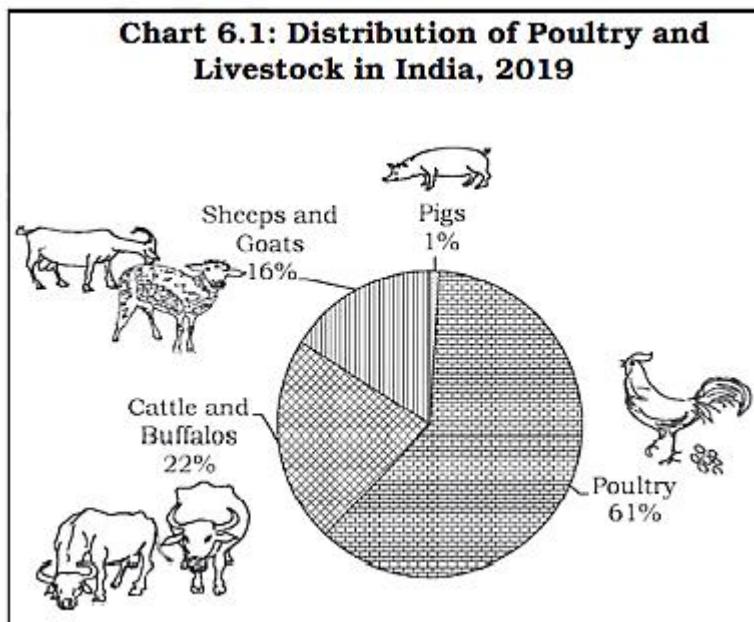
Emerging alternative market Channel

- Origin of Farmer market
 - I. Hadaspar Mandi in Pune;
 - II. Apni Mandi in Punjab, Haryana and Rajasthan;
 - III. Rythu Bazars in Andhra Pradesh; and
 - IV. Uzhavar Sandies (farmers market in Tamil Nadu)
- Alien with national and Multinational companies

Diversification includes two aspects –

- one relates to change in cropping pattern and
- the other relates to a shift of workforce from agriculture to other allied activities (livestock, poultry, fisheries etc.) and non-agriculture sector.

Animal Husbandry:



- Livestock production provides increased stability in income, food security, transport, fuel and nutrition for the family without disrupting other food-producing activities
- Today, livestock sector alone provides alternate livelihood options to over 70 million small and marginal farmers including landless labourers
- India had about 303 million cattle, including 110 million buffaloes in 2019.

Fisheries:

1. Fisheries: The fishing community regards the water body as 'mother' or 'provider'
2. fish production from inland sources contributes about 65 per cent to the total value of fish production and the balance 35 per cent comes from the marine sector (sea and oceans).
3. Today total fish production accounts for 0.9 per cent of the total GDP. In India, West Bengal, Andhra Pradesh, Kerala, Gujarat, Maharashtra and Tamil Nadu are major fish producing states.

Horticulture

- Horticulture sector contributes nearly one-third of the value of agriculture output and six per cent of Gross Domestic Product of India.
- India has emerged as a world leader in producing a variety of fruits like mangoes, bananas, coconuts, cashew nuts and a number of spices and is the second largest producer of fruits and vegetables.

Other Alternate Livelihood Options

- IT can play a critical role in achieving sustainable development and food security in the twenty-first century. Governments can predict areas of food insecurity and vulnerability using appropriate information and software tools so that action can be taken to prevent or reduce the likelihood of an emergency.

SUSTAINABLE DEVELOPMENT AND ORGANIC FARMING

organic agriculture is a whole system of farming that restores, maintains and enhances the ecological balance.

Benefits of Organic Farming

- Cheaper
- generates income through exports
- more nutritional value
- organic farming requires more labour input

Limitation of Organic Farming

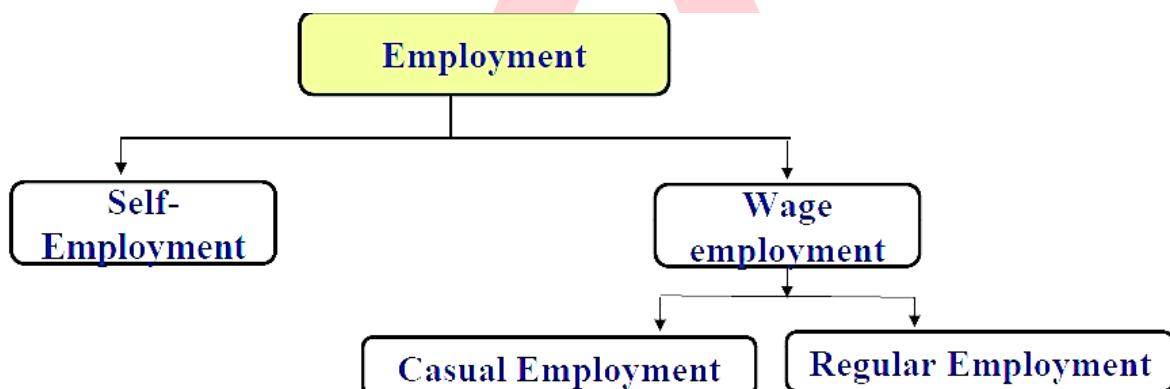
- Inadequate infrastructure
- problem of marketing
- yields from organic farming are less than modern agricultural farming
- more blemishes and a shorter shelf life than sprayed produce.
- production of off-season crops is quite limited

Employment

Employment

- It is the relationship between an employer and employee.
- Employment is an activity that enables a person to earn a means of living

Type of Employment



worker

- All those persons who are involved in economic activities are called workers, whether they are working at any level higher or lower.

Who is included in the labor

- Relation between employer and employee.
- It also includes self-employed persons like shopkeepers, cobblers etc.
- It also includes people who are temporarily absent from work.
- It also includes those who help key workers.

Labour force

Labor Force: Persons who were either 'working' (or employed) or 'in search of work or available for work' (or unemployed) constituted the labor force.

How to calculate labour force

To get the labor force, subtract the following from the total population:

- Unfit people such as elderly or disabled persons;

- People who are unwilling to work;
- People who are not available for work.

Labour force participation rate

- Work force participation rate
- The labor force participation rate is a measure of an economy's active workforce.
- The ratio of labor force to total population is called labor force participation rate.
- It is used to analyze the employment status of a country.

**Worker-Population Ratio in India,
2017-2018**

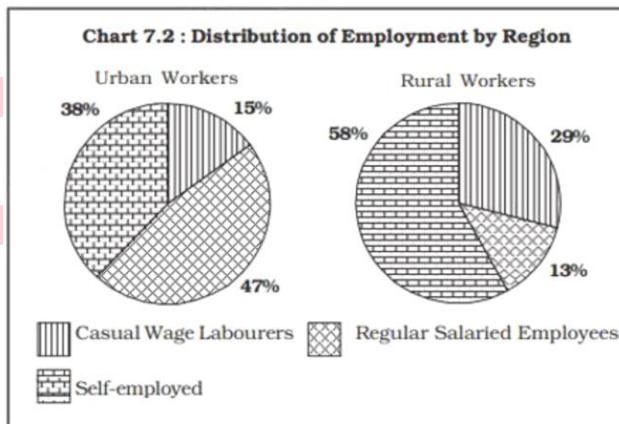
Sex	Worker-Population Ratio		
	Total	Rural	Urban
Men	52.1	51.7	53.0
Women	16.5	17.5	14.2
Total	34.7	35.0	33.9

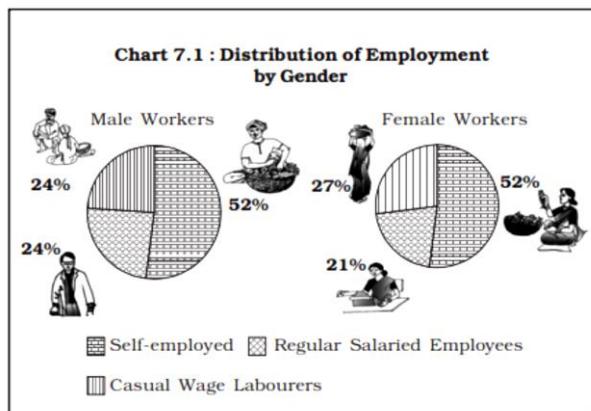
$$LFPR = \frac{\text{Total Labour Force}}{\text{Total population}}$$

Work force

- The number of persons actually employed at a particular point of time is known as workforce.
- It includes all those persons who are actually engaged in productive activities.
- unemployed people = labor force -work force

Distribution of employment

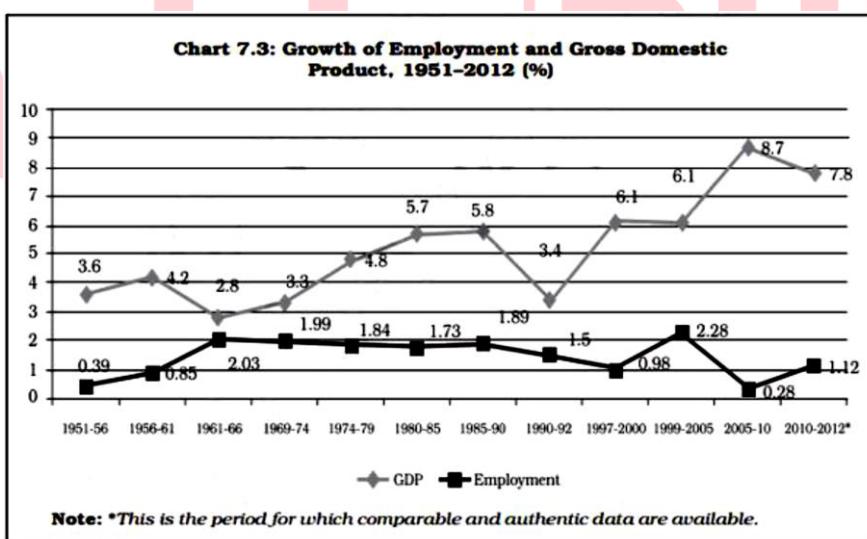




Distribution of Workforce by Industry, 2017-18

Industrial Category	Place of Residence		Sex		Total
	Rural	Urban	Men	Female	
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

Growth of Employment and GDP



Distribution of Workforce

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	100.0
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	100.0

Formal Sectors

- All public sector establishments and private sector establishments employing 10 or more employees are considered as organized sector.
- Those working in these establishments are called organized sector employees.

Informal sector

- Informal sector includes crores of farmers, agricultural workers, small business owners and their employees and all self-employed persons who do not have hired labour.

Problem of informal sector

- The income of informal sector workers is not regular and
- Worker not get any kind of protection and regulation from the government.
- Workers are fired without compensation.
- The workers of this sector usually live in slums and slums.

International Labor Organization, the Indian government has initiated the modernization of informal sector enterprises and provision of social security measures to informal sector workers.

Informalization in workforce

- 2011-12 there were about 473 million workers in India.
- There were about 30 million workers in the formal sector.
- only six per cent ($30/473 \times 100$) workers in the formal sector.
- The rest 94 per cent are in the informal sector.
- In 2011-12 about 20 per cent of formal sector and 30 per cent of informal sector workers are women.

Unemployment

National statistical office (NSSO) defines unemployment as a situation in which all those who, owing to lack of work, are not working but either seek work through employment exchanges, intermediaries, friends or relatives or by making applications to prospective employers or express their willingness or availability for work under the prevailing condition of work and remunerations.

Sources of data on Unemployment

1. Reports of Census of India
2. National Statistical Office's Reports of Employment and Unemployment Situation, Annual Reports of Periodic Labour Force Survey, and
3. Directorate General of Employment and Training data of Registration with Employment Exchanges.

Type of unemployment

- i. Open unemployment

- ii. Disguised unemployment
- iii. Seasonal Unemployment

Government and Employment generation

- Government efforts can be divided into two categories
 - I. Direct and
 - II. Indirect efforts.

Employment Generation Programmes

1. National Food for Work Programme
2. Training of Rural Youth for Self-employment
3. National Rural Employment Programme
4. Rural Landless Employment Guarantee Programme
5. Jawahar Rozgar Yojana
6. Rural Employment Generation Programme
7. Prime Minister's Rozgar Yojana for Educated Unemployed Youth
8. Swarna Jayanti Shahari Rozgar Yojana
9. Swarnjayanti Gram Swarozgar Yojana
10. Sampoorna Grameen Rozgar Yojana

Environment and Sustainable Development

Environment —Definition

- Total planetary inheritance and the totality of all resources.
- A study of the environment then calls for a study of the inter-relationship between these biotic and abiotic components of the environment.
- Biotic elements -all living elements—the birds, animals and plants, forests, fisheries etc.
- Abiotic elements include air, water, land, Rocks and sunlight etc.

Functions of the Environment

- **The environment performs four vital functions.**
 - (i) It supplies resources: resources include both renewable and non-renewable resources.
 - (ii) It assimilates waste.
 - (iii) It sustains life by providing genetic and bio diversity
 - (iv) It also provides aesthetic services like scenery etc.

Stress on the Environment

- The rising population of the developing countries.
- The affluent consumption and production standards of the developed world.
- Many resources have become extinct.
- The wastes generated are beyond the absorptive capacity of the environment.

India's Environment

- India has abundant natural resources in terms of rich quality of soil, hundreds of rivers and tributaries, lush green forests, plenty of mineral deposits beneath the land surface, vast stretch of the Indian Ocean, ranges of mountains, etc.

- The Indo-Gangetic plains —spread from the Arabian Sea to the Bay of Bengal —are one of the most fertile, intensively cultivated and densely populated regions in the world.

State of India's Environment

India's Environment poses a dichotomy

- **Threat of poverty-**
 - Induced environmental degradation
- **Threat of pollution**
 - Air pollution,
 - Water contamination,
 - Soil erosion,
 - Deforestation and
 - Wildlife extinction

Challenges to India's environment

- (i) Land degradation
- (ii) Biodiversity loss.
- (iii) Air pollution with special reference to vehicular pollution in urban cities.
- (iv) Management of fresh water.
- (v) Solid waste management.

Land degradation

- **Factors responsible for land degradation are**
 - (i) Loss of vegetation occurring due to deforestation
 - (ii) Unsustainable fuel wood and fodder extraction
 - (iii) Shifting cultivation
 - (iv) Encroachment into forest lands
 - (v) Forest fires and over grazing
 - (vi) Non-adoption of adequate soil conservation measures
 - (vii) Improper crop rotation
 - (viii) Indiscriminate use of agro-chemicals such as fertilizers pesticides.
 - (ix) Improper planning and management of irrigation systems.
 - (x) Poverty of the agriculture-dependent people

Biodiversity loss

- The per capita forest land in the country is only 0.06 hectare against the requirement of 0.47 hectare to meet basic needs, resulting in an excess felling of about 15 million cubic metres forests over the permissible limit.

Soil Erosion

- Soil is being eroded at a rate of 5.3 billion tonnes a year for the entire excess of the recharge capacity

India includes in ten most industrial nations of the world but this status has brought with it unwanted and unanticipated consequences such as unplanned urbanization, pollution and the risk of accidents.

Central Pollution Control Board

- The CPCB (Central Pollution Control Board) has identified seventeen categories of industries (large and medium scale) as significantly polluting.
- The various measures adopted by the Ministry of Environment and the central and state pollution control boards.

Sustainable Development

- UNCED : 'Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs'
- In 2015, the UN formulated 17 Sustainable Development Goals (SDGs) intended to be achieved by the year 2030.

Strategies for Sustainable Development

- Use of Non-conventional Sources of Energy
 - Wind power and solar rays
 - LPG, Gobar Gas in Rural Areas:
 - CNG in Urban Areas:
 - Mini-hydel Plants:
 - Traditional Knowledge and Practices:
 - Bio composting:
 - Biopest Control:

Playlist of Economics

1. One shot

<https://youtube.com/playlist?list=PL3s-GF0G43IRIGMGU3lwgWB1qJV7lwcl8>

2. Previous Year Questions

<https://youtube.com/playlist?list=PLcWTRrQtsSdyYMUsinjFHvwkN5TFAVa2Q>

3. Sample paper

https://youtube.com/playlist?list=PLcWTRrQtsSdydkz1_bnX44OGo4tK6kQE

4. Most important Question

https://youtube.com/playlist?list=PLcWTRrQtsSdysqr5ra8XtTjC_u5T5HJDe

7. Most Expected Question

Comparative Development Experiences of India and its Neighbors

Developmental Path—A Snapshot View

- India, Pakistan and China have many similarities in their developmental strategies.

Independence

- India and Pakistan became nations in 1947
- People's Republic of China was established in 1949.

First Five-Year Plan

- India 1951–56
- Pakistan 1956
- China 1953.

Developmental Path—A Snapshot View

- India and Pakistan adopted similar strategies creating a large public sector and raising public expenditure on social development.
- Till 1980s, all the three countries had similar growth rates and per capita incomes.

Development of China

- One party Rule** -After the establishment of People's Republic of China under one party rule, all critical sectors of the economy, enterprises and lands owned and operated by individuals were brought under government control.

Great Leap Forward (GLF)

- Initiated-1958
- Aim- industrializing the country on a massive scale.
- communes were started In rural areas,
- In 1958, there were 26,000 communes covering almost all the farm population.
- A severe drought caused havoc in China killing about 30 million people

Great Proletarian Cultural Revolution

- In 1965, Mao introduced the Great Proletarian Cultural Revolution (1966–76)
- Students and professionals were sent to work and learn from the countryside.

Industrial reforms

- Industrial reforms introduced in 1978 for fast growth.
- In the initial phase, reforms were initiated in **agriculture, foreign trade and investment sectors.**

Agriculture

- Commune lands were divided into small plots, which were allocated (for use not ownership) to individual households.
- They were allowed to keep all income from the land after paying stipulated taxes.

Industry Reforms

- Private sector firms were allowed to produce goods.
- At this stage, State Owned Enterprises—SOEs), were made to face competition.
- The reform process also involved dual pricing
- Production increased, the proportion of goods or inputs transacted in the market also increased.
- Attract foreign investors, special economic zones were set up

Development of Pakistan

- Combined tariff protection policy.
- Rise in the production of food grains by introduction of **Green Revolution**.
- increase in **public investment** in infrastructure in select areas
- Nationalisation** of capital goods industries -1970s
- when the major thrust areas were **denationalization and encouragement** of private sector.
- Financial support -western nations and **remittances** from continuously increasing outflow of emigrants to the Middle-east.
- Government also offered **incentives to the private sector**.
- In 1988, reforms were initiated in the country

Demographic indicators

- Population
- Annual Growth of Population
- Density
- Sex ratio
- Fertility Rate
- Urbanisation

Select Demographic Indicators, 2017-18

Country	Estimated Population (in million)	Annual Growth of Population	Density (per sq. km)	Sex Ratio	Fertility Rate	Urbanisation
India	1352	1.03	455	924	2.2	34
China	1393	0.46	148	949	1.7	59
Pakistan	212	2.05	275	943	3.6	37

Source: World Development Indicators 2019. www.worldbank.org

Gross Domestic Product and Sectors

- China has the second largest GDP (PPP) of \$22.5 trillion in the world, whereas,
- India's GDP (PPP) is \$9.03 trillion.
- Pakistan's GDP is \$ 0.94 trillion, roughly about 11 per cent of India's GDP.
- India's GDP is about 41 per cent of China's GDP.

Annual Growth of Gross Domestic Product (%), 1980-2017

Country	1980-90	2015-2017
India	5.7	7.3
China	10.3	6.8
Pakistan	6.3	5.3

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

Sector	Contribution to GVA			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 Report 2019 : Key Indicators of Asia and Pacific 2019.

Indicators of Human Development

Item	India	China	Pakistan
Human Development Index (Value)	0.645	0.761	0.557
Rank (based on HDI)	130	87	154
Life Expectancy at Birth (years)	69.7	76.9	67.3
Mean years of Schooling (% aged 15 and above)	6.5	8.1	5.2
Gross National Income per capita (PPP US\$)	6,681	16,057	5,005
Percentage of People living Below Poverty Line (National)	21.9*	1.7**	24.3*
Infant Mortality Rate (per 1000 live births)	29.9	7.4	57.2
Maternal Mortality Rate (per 1 lakh births)	133	29	140
Population using at least basic Sanitation (%)	60	75	60
Population using at least basic drinking Water Source (%)	93	96	91
Percentage of Undernourished Children	37.9	8.1	37.6

Development Strategies —An Appraisal

Achievements and failures in pre-and post-reform periods

- **Economic reforms**

- Reforms were initiated in China in 1978,
- Pakistan in 1988 and
- India in 1991.

China Development Strategies

Failures in pre reform periods

- Maoist vision of economic development based on decentralization, self sufficiency and shunning of foreign technology, goods and capital had failed.
- Despite extensive land reforms, collectivization, the Great Leap Forward and other initiatives,
- The per capita grain output in 1978 was the same as it was in the mid-1950s.

Achievements pre reform periods

- Each reform measure was first implemented at a smaller level and then extended on a massive scale.
- Through the commune system, there was more equitable distribution of food grains.

China Development Strategies

- Massive extension of basic health services in rural areas.
- Establishment of infrastructure in the areas of education and health, land reforms, long existence of decentralised planning .

Pakistan Development Strategies

- Scholars argue that in Pakistan the reform process led to worsening of all the economic indicators.
- Compared to 1980s, the growth rate of GDP and its sectoral constituents have not yet improved.
- The proportion of poor in 1960s was more than 40 per cent which declined to 25 per cent in 1980s and started rising again in the recent decades.

Pakistan Development Strategies

- **Reasons for the slowdown of growth and re-emergence of poverty in Pakistan's economy**
- Agricultural growth and food supply situation were based not on an institutionalized process of technical change but on good harvest.
- foreign exchange earnings came from remittances from Pakistani workers in the Middle-east and the exports of highly volatile agricultural products.



- Growing dependence on foreign loans on the one hand and increasing difficulty in paying back the loans





Name : _____
 Date of Exam. : _____
 Time Allowed: 3 Hrs.
 Max. Marks : 80
 Study Centre : _____

General Instructions:

- This questions paper contains two sections: Section A – Macro Economics Saection B – Indian Economic Development
- This paper contains 20 Multiple Choice Questions type questions of 1 mark each.
- This paper contains 4 Short Answer Questions type questions of 3 marks each to be answered in 60 to 80 words.
- This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.
- This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words.

Section - A

- Credit creation by commercial banks is determined by
 - Cash Reserve Ratio (CRR)
 - Statutory Liquidity Ratio (SLR)
 - Initial deposits
 - All of these
- Choose the correct statement from given below.
 - Balance of trade records the exports and imports of invisible items.
 - A surplus in BoT can rectify the deficit in BoP.
 - Accommodating items are only recorded in capital account of BoP.
 - Import of machinery will be recorded in capital account of BoP.
- Statement I According to the theory of Keynesian Economics, the value of the Average Propensity to Consume (APC) can never be zero.

Statement II The Keynesian Aggregate Supply is perfectly elastic before the level of full employment is attained. (1)

In the light of the given statements, choose the correct alternative from the following

- Statement I is true and Statement II is false
 - Statement I is false and Statement II is true
 - Both statements are true
 - Both statements are false
- Identify the correctly matched pair in Column A (Government Institutions) and Column B (Date of Establishment) from the following:

Column 1	Column 2
A. NABARD	(i) 1950
B. RBI	(ii) 1955
C. National Development Council	(iii) 1952
D. IDBI	(iv) 1980



- (a) (a) – (i)
- (b) (b) – (ii)
- (c) (c) – (iii)
- (d) (d) – (iv)

5. Identify the correctly matched pair of the items in column A to those in column B:

Column A	Column B
A. Money flow	(i) Depreciation
B. Real flow	(ii) Factor services
C. Trade flow	(iii) Consumption expenditure
D. Capital flow	(iv) Inventory

Alternative

- (a) (a) – (i)
- (b) (b) – (ii)
- (c) (c) – (iii)
- (d) (d) – (iv)

6. Read the following statements carefully:

Statement 1: The consumption curve is an upward sloping straight line curve due to the direct relationship between income and consumption and the assumption of constant Marginal Propensity to Consume.

Statement 2: Aggregate Demand curve and Consumption curve are parallel to each other.

In the light of the given statements, choose the correct alternative from the following:

- (a) Statement 1 is true and statement 2 is false.
- (b) Statement 1 is false and statement 2 is true.
- (c) Both statements 1 and 2 are true.
- (d) Both statements 1 and 2 are false

7. Statement I Expected obsolescence is included in depreciation.

Statement II Fall in the market value of assets during the period of economic downturn is an example of depreciation.

In the light of the given statements, choose the correct alternative from the following

- (a) Statement I is true and Statement II is false
- (b) Statement I is false and Statement II is true
- (c) Both statements are true
- (d) Both statements are false

8. In an economy, the saving functions are given as $S = -100 + 0.2 Y$. The equilibrium level of income will be

- (a) 1,000
- (b) 500
- (c) 700
- (d) 600

9. Which of the following is correct?

- (a) APC = Y
- (b) MPC = 1-MPS
- (c) APC+APS = 1
- (d) All of these

10. Which of the following gives a correct definition of the term 'near money'?

- (a) Asset which has 100% liquidity.
- (b) Asset which has no store of value function.
- (c) Asset which is a medium of exchange.

(d) Asset which fulfils the store of value function and can be converted into a medium of exchange at a short notice.

11. Find NVA at Market price

Items	₹ in Lakh
Depreciation	6
Raw material	12
Sales	50
Net change in stock	-4
Taxes on product	2

12. Answer - FUNCTIONS OF FOREIGN EXCHANGE MARKET: The foreign exchange operations are mainly classified into three major functions which are crucial in any foreign exchange. They are as follows 1. Transfer Function 2. Credit Function 3. Hedging Function

1. Transfer Function: The main function of foreign exchange is to transfer money between countries. The foreign bill of exchange is the instrument normally used. The instrument most in use in foreign payments is the Telegraphic Transfer (T. T). There are many other modes like open account, letter of credit, cash in advance etc.

Credit Function: The international trade depends to a great extent on credit facilities. Exporters may get pre-shipment and post-shipment credit. Credit facilities are also available for importers. As foreign bills of exchange are the instrument used for exchange. The importer gets usually 90 days or three months' time to pay the money for goods. This 90 day is enough for importer to take possession of goods, sell them and secure the amount to pay off the bill.

3. Hedging Function: The other important function of the foreign exchange market is to provide hedging facilities. When exchange rates are fixed and controls are imposed then there is no risk involved in foreign exchange dealings. Hedging refers to covering of export/ import risks.

Or

- (i) Interest on loan received from Nepal- Recorded in current account because it shows the non-factor income received from foreign countries.
- (ii) Import of mobile phones from China – Recorded in current account of BOP because visible good and services import and export, unilateral transfer between domestic and rest of the world is recorded in current account.

13. As per the following news published in The Wire on 18th May, 2021

"The biggest toll of the COVID-19 second wave is in terms of a demand shock-loss of mobility, discretionary spending and employment, besides inventory accumulation, while the aggregate supply is less impacted".

In light of the above statement, explain the economic implications of an increase in government expenditure when the economy is in a state of depression.

14. Answer - Commercial banks play an important role of 'money creator' in the economy. They have the capacity to generate credit through demand deposits. These demand deposits make credit more than the initial deposits. The process of money creation can be explained by taking an example;

Suppose a depositor deposits Rs.20,000 in his savings account of a bank XYZ, which will become the demand deposits of the bank. Based on the assumption that not all customers will turn up at the same day to withdraw their deposits, banks maintain a minimum cash reserve of 10% of the demand deposits, Rs.20,000. It lends the

remaining amount of Rs.18000 in the form of credit to other customers. This further creates deposits for the bank XYZ. With the cash reserve of Rs.2000, the credit creation is worth Rs.20,000. So, the credit multiplier is given by:

NUMERICAL EXAMPLE;

1. We will make some assumption;
 - (i) All banks are one unit.
 - (ii) All the transactions are made through banks.
2. Initial deposits are Rs.20,000 and the legal reserve requirement proposed by the central bank is 10%. Then,

$$\text{Credit creation} = \text{Initial deposits} \times 1/\text{LRR}$$

$$= 20,000 \times \frac{1}{10} \times 100$$

$$= \text{Rs.}2,00,000$$

$$\text{As we know that, Money multiplier} = \frac{1}{\text{LRR}},$$

$$\text{Money multiplier} = 0.11$$

which is MM=10 Times

So, the money multiplier is 10 times the initial deposits.

15 Answer - The deposits made under the plan are going to affect national income of the country in the following way:

- Opening more bank accounts means more bank deposits.
- More deposits mean increase in the lending capacity of the commercial banks.
- More lending by banks means more investment in the country.
- More investment means more national income.

16. From the following data, calculate the value of compensation of employees (COE):

Items	Amount in crore
Old age pension	2,000
Wages and salary in cash	60,000
Rent free accommodation	30,000
Employer's contribution to PF	7,500
Payment of LIC by employees	2,500
Contribution to pf by employees	35,000

Calculate companion of employees

COE = wages and salary in cash + Rent free accommodation + Employer contribution

$$\text{COE} = 60000 + 30000 + 7500$$

$$\text{COE} = 97500 \text{ Cr}$$

(17) Distinguish between stock and flow variables.

Stock concept	Flow concept
A variable that is measured at a particular point in time	A variable which is measurable over a period of time
Stock does not have a time dimension attached with it	Flow has a time dimension attached with it



It is static in nature	It is dynamic in nature
Bank deposits, capital, wealth, population	Capital formation, income, interest on capital, depreciation

Section - B

18. First Industrial Policy was declared in 1956. [1]

- (a) The statement is true.
- (b) The statement is false as First Industrial Policy was declared in 1947.
- (c) The statement is false as First Industrial Policy was declared in 1959.
- (d) None of the above

19. Read the following statements 1 and 2 and choose the correct alternatives:[1]

Statement 1: GST is game-changing reform for the Indian Economy.

Statement 2: GST has removed the cascading effect of taxes

- (a) Both statements are true.
- (b) Both statements are false.
- (c) Only statement 1 is true.
- (d) Only statement 2 is true.

20. Read the following statements – Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): All before demonetisation has occurred in the context of hyperinflation, wars, political upheavals or other extreme circumstances. Reason (R): Discontinuing the big notes boosted the economy.

Alternatives:

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

21. Read the following statements – Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A) : The first ten five-year plans gave importance to self-reliance. Reason (R) : Plan should have some clearly specified goals.

Alternatives:

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

22. What does Green Revolution imply?

- (a) Decrease in production of food grains
- (b) Increase in production of food grains
- (c) Increase in green cover
- (d) Decrease in green cover

23. Read the following statements -Assertion (A) and Reason(R), Choose one of the correct alternatives given below:

Assertion (A): The goal of equity was fully served by abolition of intermediaries.

Reason (R): The growth of the country can lead to income inequality and with more modernization unemployment will increase leading to people living under poverty line.

Alternatives:

- (a) Both Assertion (A) and Reason (R) is true and Reason (R) is the correct explanation of Assertion (A)
- (b) Both Assertion (A) and Reason (R) is true, but Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true, but Reason (R) is false.
- (d) Assertion (A) is false, but Reason (R) is true

24. The kind of unemployment in which workers seems to be working but its contribution to production is negligible is called:

- (a) Seasonal unemployment
- (b) Disguised unemployment
- (c) Industrial unemployment
- (d) Educated unemployment

25. The production process engaged in transforming one good to another is known as:

- (a) Primary sector
- (b) Secondary sector
- (c) Tertiary sector
- (d) None

26. Name the active factor in production.

- (a) Land
- (b) Physical Capital
- (c) Human Capital
- (d) None of the above

27. What is an economic plan?

- (a) A plan is how the nation's resources can be used having some general goals and achieving specific objectives within a specified period.
- (b) A plan is a blueprint for infrastructure development.
- (c) A plan is the government budget.
- (d) A plan is the allocation of resources.

28. How is human development a broader term as compared to human capital[3]

- Human development is a broader term as compared to human capital because human capital is a means to an end whereas human development is an end in itself.
- Human capital considers education and health as a means to make a human being a good productive person. Human capital is a means to an end where means implies skills that are used in the process of production and end denotes the consequent increase in the productivity.
- The higher levels of output can be achieved through extensive application of human capital. On the other hand human development is an end in itself which refers to the holistic development of the individuals.
- The development can be possible only by acquiring good education and attaining good health. Therefore education and health are the two main features of human development.
- Human development occurs when majority of people in the economy are educated and healthy. Thus, the end signifies the development of an individual via education and health. Therefore, we can conclude that human development is a broader term as compared to human capital.

OR

'Sustainable development is a paradigm shift in development thinking'. Comment. [3]

- Answer - Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs' The strategies for sustainable development imply the use of non-conventional sources of energy to minimize the adverse environmental impacts. Use of Non-conventional Sources of Energy like
- LPG, Gobar Gas in Rural Areas
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29. Why are children not included in working population? [3]

Answer - Working population means workable people and adults. Children are unable to perform productive activities.

- Use of children in work is equivalent to denying them childhood. Children's right to playing and schooling should be respected.
- It is doubly criminal to turn them into dull adults and old persons.
- In every civilised society, children's rightful place is school and playground.
- Hence, children are not included in working population for the purpose of employment.

30. "Foreign exchange crisis was the basis of economic policies of liberalisation, privatisation and globalisation." Justify. [4]

Answer - During the fiscal year 1990–91, foreign exchange reserves fell to a lower level of ` 2400 crores. Which was just enough for the payments of three weeks imports. [2] The crisis was so serious that Chandra Shekhar government had to mortgage gold reserves with other countries to pay off interest and foreign debts. [1] Therefore, it forced India to adopt a new set of measures to accumulate foreign exchanges reserve by way of liberalisation, privatisation and globalisation.

OR

Why should plans have goals?

Answer - Every plan should have specified goals which it seeks to pursue. Goals are the ultimate targets; the achievement of which ensures the success of plans.

A plan specifies the means and ways to allocate scarce resources in an optimum manner to achieve these goals. Without specific goals, a plan would be directionless and resources would not be utilised in a proper manner without wastage.

Therefore, every plan should have specific goals which it strives to achieve to assure efficiency and success.

31. Why did India adopt New Economic Policy in 1991

Answer - REASONS FOR ECONOMIC REFORMS

1. Poor Performance of Public Sector
2. Deficit in Balance of Payments (BOP)
3. Inflationary Pressures
4. Fall in foreign exchange reserves
5. Huge burden of debts
6. Inefficient Management

32. "During colonial period, India was a semi-feudal economy." Justify. [4]

It is true that during colonial period, India was semifeudal economy because:

- (i) At the time of independence, there were two aspects of the Indian economy. The Britishers introduced a new type of land tenure system in India which gave birth to two classes- Zamindars or landlords and landless tenants or cultivators.

- (ii) The landlords were very cruel to the cultivators. They used to charge very high rate of rent and land revenue. That is why feudal relations (landlord tenant relations) appeared in this system.
- (iii) In the middle of 19th century, capital investment was made in many new sectors like cotton textile, jute, sugar, tea, rubber and coffee plantation, etc. This created two classes—capitalists and labourers. So, at the time of independence, features of both (feudal and capitalist) appeared in this system

OR

State the trend in the contribution of different sectors in India's total employment. [4]

Answer – The trend in the employment of various sectors in employment can be summarised from the above data as:

Year	Primary sector	Secondary sector	Tertiary sector
1950–51	73	10	17
1970–71	73	11	16
1990–91	67	12	21
2001–02	61	17	22
2006–07	50.2	20.4	29.4
2011–12	48.9	24.3	26.8
2015–16	46.2	21.8	32.0

Primary sector: The employment in the primary sector has been on a constant decline from 73% in 1950–51 to 46.2% in 2015–16.

Secondary sector: The employment in the secondary sector has increased from 10% in 1950–51 to 21.8% in 2015–16.

Tertiary sector: The employment in the tertiary sector has increased from 17% in 1950–51 to 32% in 2015–16.

33. Looking at the trend given in the table what can we say about the women workforce participation in rural and urban areas? Comment on why such a trend is there prevalent in the country.

Year	Category	Persons	Male	Female
1971	Total	34.2	52.7	14.2
	Rural	35.3	53.8	15.9
	Urban	29.6	48.9	7.2
1981	Total	36.7	52.6	19.7
	Rural	38.8	53.8	23.1
	Urban	30.0	49.1	8.3
1991	Total	37.5	51.6	22.3
	Rural	40.2	52.5	27.2
	Urban	30.4	49.0	9.7
2001	Total	39.2	51.9	25.6
	Rural	41.9	52.3	30.9
	Urban	32.2	50.3	11.5

The percentage of female workforce in the rural areas is nearly 30.9% while it is only 11.5% in the urban areas in the 2001 census.

This depicts that as compared to the urban women, more rural women account for higher share in the female workforce. While on the one hand, the rural women are less educated, unskilled and low productive, on the other hand, urban women being more skilled and productive have higher probability to get



employment. Ironically, the urban female accounts for lesser share in the female workforce as compared to their rural counterparts.

The following are the reasons for low share of urban females in the total female workforce:

- (i) As in the agricultural and allied activities, high degree of skills and specialisations are not required. So, rural women engage themselves to support their family on farms.
- (ii) As poverty in the rural areas is more widespread than in the urban areas, so, the rural women engage themselves in low productive jobs just to support the livelihood of their families.
- (iii) As the urban families usually earn comparatively higher income than the rural families and further poverty in the urban areas is not as widespread as that of in the rural areas So, there is lesser need for female members to get themselves employed.
- (iv) The decision to take up jobs by the female members depends on the family rather than herself.
- (v) Although female literacy in India is improving, yet it has to get much better before urban female accounts for higher share in the total female workforce

34. Read the extract given below and answer the questions that follows: Indebtedness means an obligation to pay money to another party. In rural India the poor farmers and wage labours etc. when are unable to repay a loan and accumulate it, gives rise to the problem of rural indebtedness. Rural indebtedness is an indicator of the weak financial infrastructure of our country, which includes inability of our economic system to reach to the needy farmers, landless people in the villages and the agricultural wage labourers. The farmers borrow loan for either agricultural operations or some other uses like supporting the family in the lean season or to buy equipment. Due to lower income or wasteful expenditures when the farmers are unable to pay the loans, they are unable to pay off their debts and thus accumulate the debt as well as pending interest on the amount. The weaker 'financial inclusion' in India has given the local money lenders an opportunity to exploit such farmers from generations to generations. Royal Commission on Agriculture, 1928 The royal commission on Agriculture in India, 1928 was created in British India to examine and report on the conditions of the farmers. It expressed: "The Indian peasant is born in debt, lives in debt and bequeaths the indebtedness to his successors."

(a) After reading the above article write down the causes of rural in indebtedness in India? [3]

(a) Causes of rural indebtedness in India:

- (i) Poverty: In fact, annual income of the farmers is very low. So, they always live below poverty line. They have to borrow money for many purposes.
 - (ii) Unproductive expenditure: Most of the farmers borrow to celebrate social customs like marriages, religious festivals, etc. Births and deaths also lead to unproductive expenditure.
 - (iii) Loan to make improvement on land: The farmers mostly borrow to make improvement on land. It is a positive thinking, but it needs to be done by saving and not by borrowing.
- (a) Why has the regional rural banks not being able to cure rural indebtedness in India? [3]

The functioning of the Rural Regional Banks (RRBs) have been criticised on the following grounds:

According to the Narasimham Committee, RRBs have low earning capacity. They have not been able to earn much profits in view of their policy of providing low-cost loans. According to RBI, recovery position of the loans is not satisfactory. There are a large number of defaulters. Their cost of operation has been high because of increase in the salary scales of the employees of these banks in line with the salary structure of the employees of the Commercial bank. In most cases, these banks have followed the same method of operation and procedures as followed by Commercial Banks. Therefore, these procedures have not found favour with rural masses

Solutions

S1. Ans. (d)

S2. Ans. (c)

S3. Ans. (a)

S4. Ans. (b)

S5. Ans. (b)

S6. Ans. (c)

S7. Ans. (a)

S8. Ans. (b)

S9. Ans. (d)

S10. Ans. (d)

S11. Ans.

Sol. Calculate Gross value added at MP

$GVAMP = \text{sales} + \text{change in stock} - \text{Intermediate consumption}$

$$GVAMP = 50 + (-4) - 12$$

$$GVAMP = 36 \text{ Lakh}$$

Calculate NVA at MP

$NVAMP = GVAMP - \text{Depreciation}$

$$NVAMP = 36 - 6$$

NVAMP = 30 lakh

S12. Ans.

Sol. FUNCTIONS OF FOREIGN EXCHANGE MARKET: The foreign exchange operations are mainly classified into three major functions which are crucial in any foreign exchange. They are as follows 1. Transfer Function 2. Credit Function 3. Hedging Function

1. Transfer Function: The main function of foreign exchange is to transfer money between countries. The foreign bill of exchange is the instrument normally used. The instrument most in use in foreign payments is the Telegraphic Transfer (T. T). There are many other modes like open account, letter of credit, cash in advance etc.

Credit Function: The international trade depends to a great extent on credit facilities. Exporters may get pre-shipment and post-shipment credit. Credit facilities are also available for importers. As foreign bills of exchange are the instrument used for exchange. The importer gets usually 90 days or three months' time to pay the money for goods. This 90 day is enough for importer to take possession of goods, sell them and secure the amount to pay off the bill.

3. Hedging Function: The other important function of the foreign exchange market is to provide hedging facilities. When exchange rates are fixed and controls are imposed then there is no risk involved in foreign exchange dealings. Hedging refers to covering of export/ import risks.

Or

- (iii) Interest on loan received from Nepal- Recorded in current account because it shows the non-factor income received from foreign countries.
- (iv) Import of mobile phones from China – Recorded in current account of BOP because visible good and services import and export, unilateral transfer between domestic and rest of the world is recorded in current account.

S13 Ans.

Sol. As per the following news published in The Wire on 18th May, 2021

"The biggest toll of the COVID-19 second wave is in terms of a demand shock-loss of mobility, discretionary spending and employment, besides inventory accumulation, while the aggregate supply is less impacted".

In light of the above statement, explain the economic implications of an increase in government expenditure when the economy is in a state of depression.

S14. Ans.



Sol. Commercial banks play an important role of 'money creator' in the economy. They have the capacity to generate credit through demand deposits. These demand deposits make credit more than the initial deposits. The process of money creation can be explained by taking an example;

Suppose a depositor deposits Rs.20,000 in his savings account of a bank XYZ, which will become the demand deposits of the bank. Based on the assumption that not all customers will turn up at the same day to withdraw their deposits, banks maintain a minimum cash reserve of 10% of the demand deposits, Rs.20,000. It lends the remaining amount of Rs.18000 in the form of credit to other customers. This further creates deposits for the bank XYZ. With the cash reserve of Rs.2000, the credit creation is worth Rs.20,000. So, the credit multiplier is given by:

$$\text{Credit multiplier} = 10\% = 10$$

The money supply in the economy will increase by the amount (times) of credit multiplier.

NUMERICAL EXAMPLE;

1. We will make some assumption;

- (i) All banks are one unit.
- (ii) All the transactions are made through banks.

2. Initial deposits are Rs.20,000 and the legal reserve requirement proposed by the central bank is 10%.

Then,

$$\begin{aligned}\text{Credit creation} &= \text{Initial deposits} \times 1/\text{LRR} \\ &= 20,000 \times \frac{1}{10} \times 100 \\ &= \text{Rs.2,00,000}\end{aligned}$$

As we know that, Money multiplier = $\frac{1}{LRR}$,

$$\text{Money multiplier} = 0.11$$

which is MM=10 Times

So, the money multiplier is 10 times the initial deposits.

S15. Ans.

Sol. The deposits made under the plan are going to affect national income of the country in the following way:

- Opening more bank accounts means more bank deposits.
- More deposits mean increase in the lending capacity of the commercial banks.
- More lending by banks means more investment in the country.
- More investment means more national income.

S16. Ans.

Sol. From the following data, calculate the value of compensation of employees (COE):

Items	Amount in crore
Old age pension	2,000
Wages and salary in cash	60,000
Rent free accommodation	30,000
Employer's contribution to PF	7,500
Payment of LIC by employees	2,500

Contribution to pf by employees	35,000
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Calculate companion of employees

COE = wages and salary in cash + Rent free accommodation + Employer contribution

COE = 60000 +30000 +7500

COE = 97500 Cr

S17. Ans.

Sol. Distinguish between stock and flow variables.

Stock concept	Flow concept
A variable that is measured at a particular point in time	A variable which is measurable over a period of time
Stock does not have a time dimension attached with it	Flow has a time dimension attached with it
It is static in nature	It is dynamic in nature
Bank deposits, capital, wealth, population	Capital formation, income, interest on capital, depreciation

Section - B

S18. Ans. (b)

S19. Ans. (a)

S20. Ans. (a)

S21. Ans. (a)

S22. Ans. (b)

S23. Ans. (d)

S24. Ans. (b)

S25. Ans. (b)

S26. Ans. (c)

S27. Ans. (a)

S28. Ans.

Sol.



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S31. Ans.

Sol.

7. **Poor Performance of Public Sector**
8. **Deficit in Balance of Payments (BOP)**
9. **Inflationary Pressures**
10. **Fall in foreign exchange reserves**
11. **Huge burden of debts**
12. **Inefficient Management**

S32. Ans.

Sol. It is true that during colonial period, India was semifeudal economy because:

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