



केन्द्रीय विद्यालय संगठन
KENDRIYA VIDYALAYA SANGATHAN



शिक्षा एवं प्रशिक्षण का आंचलिक संस्थान, चंडीगढ़
ZONAL INSTITUTE OF EDUCATION AND TRAINING, CHANDIGARH

अध्ययन सामग्री / Study Material

शैक्षिक सत्र / Session - 2022-23

कक्षा / Class – बारहवीं / XII

विषय / Subject - अर्थशास्त्र / ECONOMICS

विषय कोड / Subject Code - 030

तैयारकर्ता - सेवाकालीन प्रशिक्षण कार्यक्रम के प्रतिभागियों
(स्नातकोत्तर शिक्षक, अर्थशास्त्र) द्वारा

Prepared By - PARTICIPANTS OF IN-SERVICE COURSE
(PGT, ECONOMICS)

शिक्षा एवं प्रशिक्षण का आंचलिक संस्थान, चंडीगढ़
ZONAL INSTITUTE OF EDUCATION AND TRAINING, CHANDIGARH
सेक्टर-33 सी, चंडीगढ़ / SECTOR-33C, CHANDIGARH

वेबसाइट / Website : zietchandigarh.kvs.gov.in

ई-मेल / e-mail : kvszietchd@gmail.com दूरभाष / Phone : 0172-2621302, 2621364

हमारे संरक्षक

श्रीमती निधि पांडे, आईआईएस
आयुक्त

**Mrs. NIDHI PANDEY, IIS
COMMISSIONER**

श्री एन. आर. मुरली
संयुक्त आयुक्त (प्रशिक्षण)

**Mr. N R MURALI
JOINT COMMISSIONER (TRAINING)**

श्री सत्य नारायण गुलिया
संयुक्त आयुक्त (वित्त)

**Mr. SATYA NARAIN GULIA,
JOINT COMMISSIONER (FINANCE)**

श्रीमती अजीता लॉंगजम
संयुक्त आयुक्त (प्रशासन-I)

**Mrs. AJEETA LONGJAM
JOINT COMMISSIONER (ADMIN-I)**

डॉ. जयदीप दास
संयुक्त आयुक्त (प्रशासन-II)

**Dr. JAIDEEP DAS
JOINT COMMISSIONER (ADMIN-II)**

निदेशक महोदय का संदेश



विद्यार्थियों की शैक्षिक प्रगति को ध्यान में रखते हुए उपयोगी अध्ययन सामग्री उपलब्ध कराना हमारा महत्वपूर्ण उद्देश्य है। इससे न केवल उन्हें अपने लक्ष्य को प्राप्त करने में सरलता एवं सुविधा होगी बल्कि वे अपने आंतरिक गुणों एवं अभिरुचियों को पहचानने में सक्षम होंगे। बोर्ड परीक्षा में अधिकतम अंक प्राप्त करना हर एक विद्यार्थी का सपना होता है। इस संबंध में तीन प्रमुख आधार स्तंभों को एक कड़ी के रूप में देखा जाना चाहिए- अवधारणात्मक स्पष्टता, प्रासंगिक परिचितता एवं आनुप्रयोगिक विशेषज्ञता।

राष्ट्रीय शिक्षा नीति 2020 के उद्देश्यों की मूलभूत बातों को गौर करने पर यह तथ्य स्पष्ट है कि विद्यार्थियों की सोच को सकारात्मक दिशा देने के लिए उन्हें तकनीकी आधारित समेकित शिक्षा के समान अवसर उपलब्ध कराए जाएँ। बोर्ड की परीक्षाओं के तनाव और दबाव को कम करने के उद्देश्य को प्रमुखता देना अति आवश्यक है।

यह सर्वमान्य है कि छात्र-छात्राओं का भविष्य उनके द्वारा वर्तमान कक्षा में किए गए प्रदर्शन पर ही निर्भर करता है। इस तथ्य को समझते हुए यह अध्ययन सामग्री तैयार की गई है। उम्मीद है कि प्रस्तुत अध्ययन सामग्री के माध्यम से वे अपनी विषय संबंधी जानकारी को समृद्ध करने में अवश्य सफल होंगे।

शुभकामनाओं सहित।

मुकेश कुमार
(उपायुक्त एवं निदेशक)

INDEX

S. NO.	Topic	Page No
1.	CBSE Syllabus Class XII	1-3
2.	Suggested Question Paper Design/Unit Wise Weightage	4-6
3.	Unit 1: National income	7-14
4.	Unit 2: Money and banking	15-18
5.	Unit 3: Determination of income and employment	19-24
6.	Unit 4: Government budget and the economy	27-27
7.	Unit 5: Balance of payment and foreign exchange	28-30
8.	Unit 6: Development Experience (1947-90)and Economic Reforms since 1991	31-39
9.	Unit 7: Current Challenges facing Indian Economy	40-59
10.	Unit 8: Development Experience of India – A Comparison with Neighbours	60-66
11.	Unit Wise Graded Assignment/Minimum learning program- Macro Economics	67-83
12.	Unit Wise Graded Assignment/Minimum learning program- Indian Economic Development	84-96
13.	Sample Paper	97-102

ECONOMICS (Code No. 030) (2022-23)

Rationale

Economics is one of the social sciences, which has great influence on every human being. As economic life and the economy go through changes, the need to ground education in children's own experience becomes essential. While doing so, it is imperative to provide them opportunities to acquire analytical skills to observe and understand the economic realities.

At senior secondary stage, the learners are in a position to understand abstract ideas, exercise the power of thinking and to develop their own perception. It is at this stage, the learners are exposed to the rigour of the discipline of economics in a systematic way.

The economics courses are introduced in such a way that in the initial stage, the learners are introduced to the economic realities that the nation is facing today along with some basic statistical tools to understand these broader economic realities. In the later stage, the learners are introduced to economics as a theory of abstraction.

The economics courses also contain many projects and activities. These will provide opportunities for the learners to explore various economic issues both from their day-to-day life and also from issues, which are broader and invisible in nature. The academic skills that they learn in these courses would help to develop the projects and activities. The syllabus is also expected to provide opportunities to use information and communication technologies to facilitate their learning process.

Objectives:

- Understanding of some basic economic concepts and development of economic reasoning which the learners can apply in their day-to-day life as citizens, workers and consumers.
- Realisation of learners' role in nation building and sensitivity to the economic issues that the nation is facing today.
- Equipment with basic tools of economics and statistics to analyse economic issues. This is pertinent for even those who may not pursue this course beyond senior secondary stage.
- Development of understanding that there can be more than one view on any economic issue and necessary skills to argue logically with reasoning.

ECONOMICS CLASS - XII (2022-23)

Theory: 80 Marks

3 Hours

	Units	Marks	Periods
Part A	Introductory Macroeconomics		
	National Income and Related Aggregates	10	30
	Money and Banking	06	15
	Determination of Income and Employment	12	30
	Government Budget and the Economy	06	17
	Balance of Payments	06	18
		40	
Part B	Indian Economic Development		
	Development Experience (1947-90) and Economic Reforms since 1991	12	28
	Current Challenges facing Indian Economy	20	50
	Development Experience of India – A Comparison with Neighbours	08	12
	Theory Paper (40+40 = 80 Marks)	40	
Part C	Project Work	20	20

Part A: Introductory Macroeconomics

Unit 1: National Income and Related Aggregates

30 Periods

What is Macroeconomics?

Basic concepts in macroeconomics: consumption goods, capital goods, final goods, intermediate goods; stocks and flows; gross investment and depreciation.

Circular flow of income (two sector model); Methods of calculating National Income - Value Added or Product method, Expenditure method, Income method.

Aggregates related to National Income:

Gross National Product (GNP), Net National Product (NNP), Gross Domestic Product (GDP) and Net Domestic Product (NDP) - at market price, at factor cost; Real and Nominal GDP. GDP and Welfare

Unit 2: Money and Banking

15 Periods

Money – meaning and functions, supply of money - Currency held by the public and net demand deposits held by commercial banks.

Money creation by the commercial banking system.

Central bank and its functions (example of the Reserve Bank of India): Bank of issue, Govt. Bank, Banker's Bank, Control of Credit through Bank Rate, CRR, SLR, Repo Rate and Reverse Repo Rate, Open Market Operations, Margin requirement.

Unit 3: Determination of Income and Employment

30 Periods

Aggregate demand and its components.

Propensity to consume and propensity to save (average and marginal). Short-run equilibrium output; investment multiplier and its mechanism. Meaning of full employment and involuntary unemployment.

Problems of excess demand and deficient demand; measures to correct them - changes in government spending, taxes and money supply.

Unit 4: Government Budget and the Economy

17 Periods

Government budget - meaning, objectives and components. Classification of receipts - revenue receipts and capital receipts;

Classification of expenditure – revenue expenditure and capital expenditure.

Balanced, Surplus and Deficit Budget – measures of Government Budget deficit.

Unit 5: Balance of Payments

18 Periods

Balance of payments account - meaning and components; Balance of payments – Surplus and Deficit

Foreign exchange rate - meaning of fixed and flexible rates and managed floating.

Determination of exchange rate in a free market, Merits and demerits of flexible and fixed exchange rate.

Managed Floating exchange rate system

Part B: Indian Economic Development

Unit 6: Development Experience (1947-90) and Economic Reforms since 1991: 28 Periods

A brief introduction of the state of Indian economy on the eve of independence. Indian economic system and common goals of Five Year Plans.

Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy), industry (IPR 1956; SSI – role & importance) and foreign trade.

Economic Reforms since 1991:

Features and appraisals of liberalisation, globalisation and privatisation (LPG policy); Concepts of demonetization and GST

Unit 7: Current challenges facing Indian Economy

60 Periods

Human Capital Formation: How people become resource; Role of human capital in economic development; Growth of Education Sector in India

Rural development: Key issues - credit and marketing - role of cooperatives; agricultural diversification; alternative farming - organic farming

Employment: Growth and changes in work force participation rate in formal and informal sectors; problems and policies

Sustainable Economic Development: Meaning, Effects of Economic Development on Resources and Environment, including global warming

Unit 8: Development Experience of India:

12 Periods

A comparison with neighbours

India and Pakistan

India and China

Issues: economic growth, population, sectoral development and other Human Development Indicators

Part C: Project in Economics

20 Periods

Prescribed Books:

1. Indian Economic Development, NCERT
2. Macroeconomics, NCERT
3. Supplementary Reading Material in Economics, CBSE

Suggested Question Paper Design Economics (Code No. 030)

Class XII (2022-23) March 2023 Examination

Marks: 80

Duration: 3 hrs.

SN	Typology of Questions	Marks	Percentage
1	Remembering and Understanding: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	44	55%
2	Applying: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	18	22.5%
3	Analysing, Evaluating and Creating: Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	18	22.5%
	Total	80	100%

Guidelines for Project Work in Economics (Class XII)

The **objectives** of the project work are to enable learners to:

- probe deeper into theoretical concepts learnt in classes XI and XII
- analyse and evaluate real world economic scenarios using theoretical constructs and arguments
- demonstrate the learning of economic theory
- follow up aspects of economics in which learners have interest
- develop the communication skills to argue logically

expectations of the project work are that:

- learners will complete only **ONE** project in each academic session
- project should be of 3,500-4,000 words (excluding diagrams & graphs), preferably hand-written
- it will be an independent, self-directed piece of study

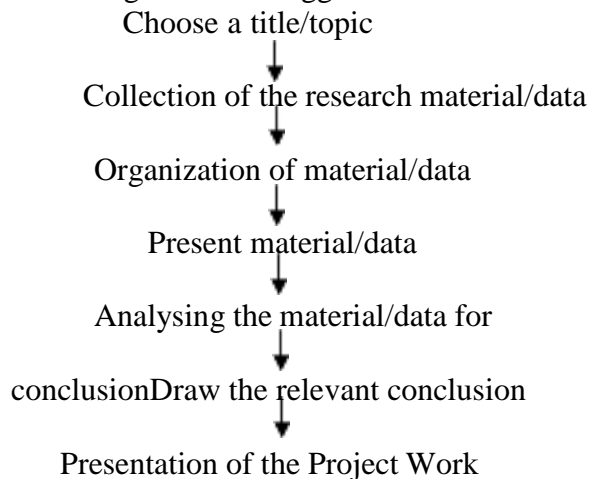
Role of the teacher:

The teacher plays a critical role in developing thinking skills of the learners. A teacher should:

- help each learner select the topic based on recently published extracts from the news media, government policies, RBI bulletin, NITI Aayog reports, IMF/World Bank reports etc., after detailed discussions and deliberations of the topic
- play the role of a facilitator and supervisor to monitor the project work of the learner through periodic discussions
- guide the research work in terms of sources for the relevant data
- educate learner about plagiarism and the importance of quoting the source of the information to ensure authenticity of research work
- prepare the learner for the presentation of the project work
- arrange a presentation of the project file

Scope of the project:

Learners may work upon the following lines as a suggested flow chart:



Expected Checklist:

- Introduction of topic/title
- Identifying the causes, consequences and/or remedies
- Various stakeholders and effect on each of them
- Advantages and disadvantages of situations or issues identified
- Short-term and long-term implications of economic strategies suggested in the course of research
- Validity, reliability, appropriateness and relevance of data used for research work and for presentation in the project file
- Presentation and writing that is succinct and coherent in project file
- *Citation of the materials referred to, in the file in footnotes, resources section, bibliography*

Mode of presentation/submission of the Project:

At the end of the stipulated term, each learner will present the research work in the Project File to the External and Internal examiner. **The questions should be asked from the Research Work/ Project File of the learner. The Internal Examiner should ensure that the study submitted by the learner is his/her own original work.** In case of any doubt, authenticity should be checked and verified.

Marking Scheme :

Marks are suggested to be given as –

S. No.	Heading	Marks Allotted
1.	Relevance of the topic	3
2.	Knowledge Content/Research Work	6
3.	Presentation Technique	3
4.	Viva-voce	8
	Total	20 Marks

Suggestive List of Projects:

Class XII	
• Micro and Small Scale Industries	• Food Supply Channel in India
• Contemporary Employment situation in India	• Disinvestment policy of the government
• Goods and Services Tax Act and its Impact on GDP	• Health Expenditure (of any state)
• Human Development Index	• Inclusive Growth Strategy
• Self-help group	• Trends in Credit availability in India
• Monetary policy committee and its functions	• Role of RBI in Control of Credit
• Government Budget & its Components	• Trends in budgetary condition of India
• Exchange Rate determination – Methods and Techniques	• Currency War – reasons and repercussions
• Livestock – Backbone of Rural India	• Alternate fuel – types and importance
• Sarwa Siksha Abhiyan – Cost Ratio Benefits	• Golden Quadrilateral- Cost ratio benefit
• Minimum Support Prices	• Relation between Stock Price Index and Economic Health of Nation
• Waste Management in India – Need of the hour	• Minimum Wage Rate – approach and Application
• Digital India- Step towards the future	• Rain Water Harvesting – a solution to water crises
• Vertical Farming – an alternate way	• Silk Route- Revival of the past
• Make in India – The way ahead	• Bumper Production- Boon or Bane for the farmer
• Rise of Concrete Jungle- Trend Analysis	• Organic Farming – Back to the Nature
• Any other newspaper article and its evaluation on basis of economic principles	• Any other topic

UNIT 1 NATIONAL INCOME

NATIONAL INCOME- Sum total of factor income (rent ,wages,intrest ,profit) earned by normal residents of a country during a period of one year.

CONSUMPTION GOODS :

Those goods which satisfy human wants directly. Example: Food, cloth, car.

CAPITAL GOODS :

Those final goods which help in production. These goods are used for generating income. Example: Machine, highway, plants, tools.

FINAL GOODS:

Are those goods which are used either for final consumption by consumers, or for investment by producers.

INTERMEDIATE GOODS:

Refers to those goods and services which are used for further production or for resale. These goods do not fulfill needs of mankind directly. Example: Wheat purchased by flour mill, yarn purchased by cloth mill.

DEPRECIATION :

Is expected fall in value of fixed capital goods due to normal wear and tear and obsolescence.

GROSS INVESTMENT :

Total addition of capital goods to the existing stock of capital during a time period including depreciation..

NET INVESTMENT :

It is a measure of net availability of new capital or new addition to capital stock excluding depreciation in an economy.

Net Investment = Gross investment – Depreciation.

STOCK VARIABLES:

Variables whose magnitude is measured at a particular point of time are called stock variables. Example: 100 crore population of India in 2001.

FLOWS :

Variables whose magnitude is measured over a period of time are called flow variables. Example: Monthly wages of a worker, production of cloth during a year.

DOMESTIC TERRITORY OF A COUNTRY

Domestic Territory is the geographical territory administrated by a Government within which persons, goods, and capital circulate freely.

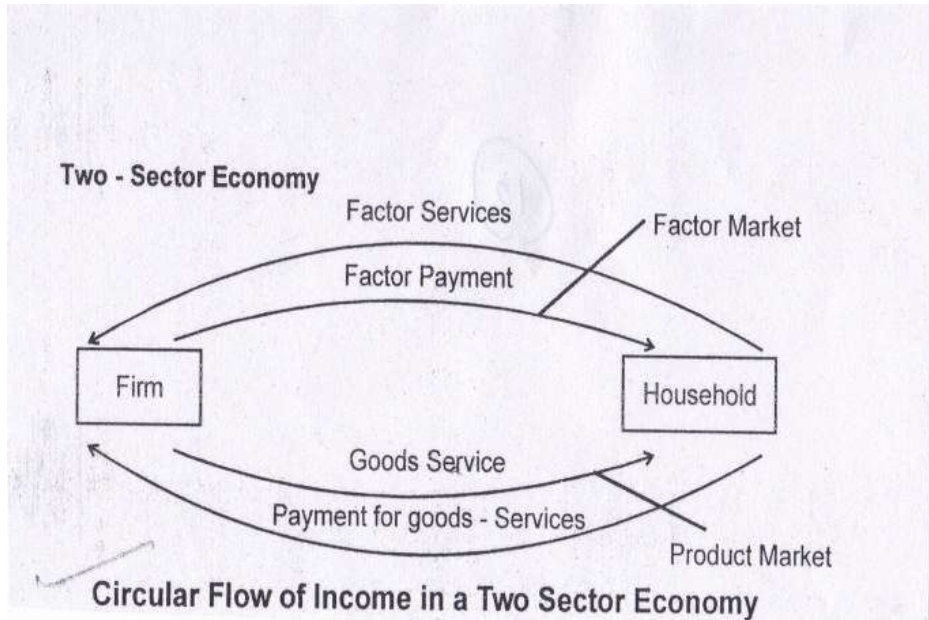
DOMESTIC TERRITORY INCLUDES :

- (a)Political frontiers including territorial waters and airspace.
- (b)Embassies, consulates, military bases etc. located abroad.
- (c)Ships and aircraft operated by the residents between two or more countries.
- (d)Fishing vessels, oil and natural gas rigs operated by residents in the international waters.

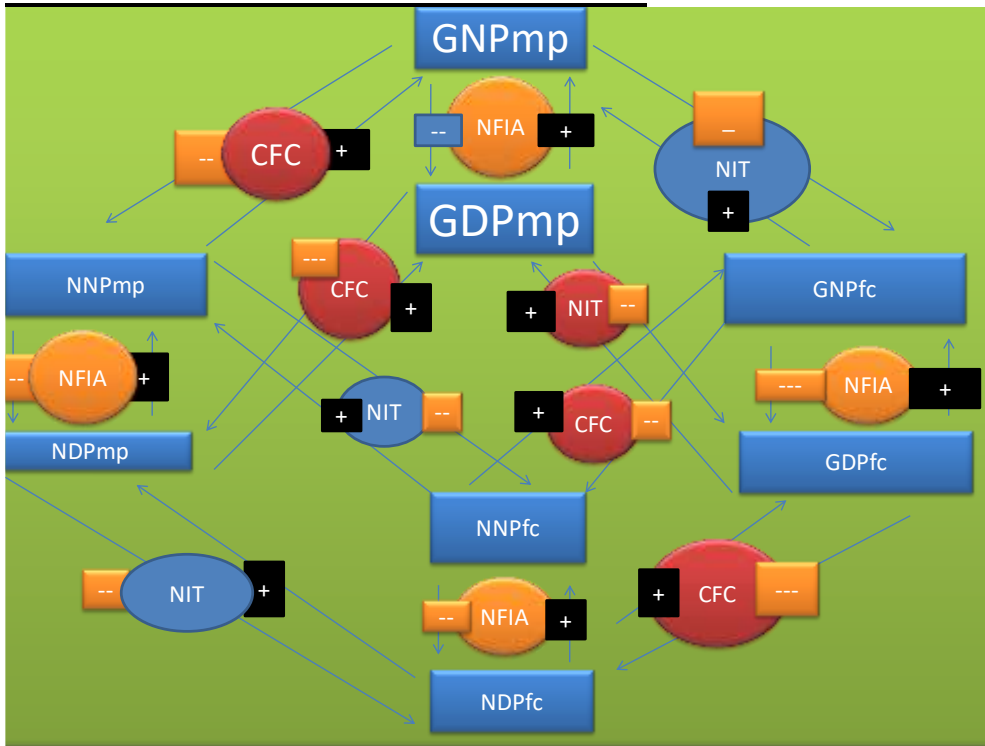
NORMAL RESIDENT OF A COUNTRY : A person or an institution who ordinarily resides in a country and whose center of economic interest lies in that country.

CIRCULAR FLOW OF INCOME IN TWO SECTOR ECONOMY:

1. The circular flow in two sector economy will keep on flowing without end as there is no leakage from and injection in the income stream.
2. Whatever is produced by firms is consumed by the household sector.
3. Factor payments by firms is equal to factor incomes to household sector.
4. Whatever is the factor income of the household sector is spent on consumption.



NATIONAL INCOME AGGREGATES



DOMESTIC AGGREGATES

Gross Domestic Product at Market Price: (GDP_{MP}) is the market value of all the final goods and services produced by all producing units located in the domestic territory of a country during a financial year.

Net Domestic Product at Market Price (NDP_{MP}) : $NDP_{MP} = GDP_{MP} -$
Depreciation (consumption of Fixed capital)

Domestic Income : (NDP_{FC}) : It is the factor income accruing to owners of factors of production for supplying factor services within domestic territory during an accounting year.

AGGREGATES RELATED TO NATIONAL INCOME

Gross National Product at Market Price (GNP_{MP}): It is the market value of all the final goods and services produced by all producing units (in the domestic territory and abroad) of a country during a financial year.

$$GDP_{MP} + NFIA = GNP_{MP}$$

National Income (NNP_{FC}) : It is a measure of factor earnings of the residents of a country both from economic (Domestic) territory and from abroad during an accounting year.

$$NNP_{FC} = NDP_{FC} + NFIA = \text{National Income.}$$

National Income at Current Prices (Nominal National Income) :

It is the money value of all final goods and services valued at current prices produced by normal residents of a country over a particular period of time.

National Income at Constant Prices (Real National Income):

It is the money value of all final goods and services valued at constant prices produced by normal residents of a country.

Value of Output :

Market value of all goods and services produced by an enterprise during an accounting year.

Value added : It is the difference between value of output of a firm and value of inputs bought from the other firms during a particular period of time.

$$\text{Value Added} = \text{Value of output} - \text{Intermediate cons.}$$

Double Counting :

Is used for counting the value of a commodity more than once while estimating national income is called double counting.

Ways to solve the problem of double counting.

(a) By taking the value of only final goods.

(b) By taking value added.

CALCULATION OF NATIONAL INCOME (NNP)_{FC}

1. Production Method
2. Income Method
3. Expenditure Method

1. PRODUCTION METHOD (Value Added)

GVA_{MP} = Gross value of output at Market price (Sales + change in stocks) - Intermediate consumption

NVA at FC = **GVA_{mp}** - Depreciation - net indirect tax

Steps Involved:

1. Identify all the producing units in the domestic economy and classify them into three industrial sectors such as Primary sector, Secondary sector, Tertiary sector.
2. Estimate net value added at FC by each producing unit.
3. Estimate net value added of each industrial sector by summing up net value added at FC of all producing units.
4. By adding up NVA at FC of all industrial sectors, we get domestic income.
5. By adding NFIA to domestic income, we get National Income.

Precautions:

Value of following items should be included:

- a. Imputed rent of owner occupied houses.
- b. Imputed value of goods and services produced for self consumption or for free distribution.
- c. Value of own account production of fixed assets by enterprises, government and households.
- d. Value of following items should be excluded:
 - a. Sale and purchase of second hand goods.
 - b. Sale of bonds by a company
 - c. Income of smuggler.

2. INCOME METHOD

Sum of total factor Payments:

- Compensation of employees
- Rent and Royalty
- Interest
- Profit mixed income
- Net factor income from abroad

Steps Involved:

1. Identify enterprises which employ factor of production (Land, Labour, Capital and Enterprise).
2. Classify factor payment like rent, wages, interest, profit and mixed income.
3. Sum up all factor payments made within domestic territory to get domestic income (NDP at FC).
4. By adding NFIA to domestic income, we get National Income.

Precautions:

1. Only factor incomes are included.
2. All types of transfer income are not included.
3. Sale and purchases of second hand goods are not included.
4. Imputed rent of owner occupied dwellings and value of production for self consumption are included.
5. Income from illegal activities like smuggling, black marketing, etc. as well as wind fall gains (Example: from lotteries) are not included.
6. Direct taxes such as income tax which are paid by the employees from their salaries are included.

3. EXPENDITURE METHOD

Sum of total final expenditure:

- Private final consumption expenditure +
- Govt. consumption expenditure +
- Gross domestic capital formation +
- Net exports

= GDP_{MP}

- (-) Net Indirect taxes (-) Depreciation (+) Net factor income from abroad.
- = NNP_{FC}

Steps Involved:

1. Identification of economic units incurring final expenditure, e.g., household sector, firm sector and government sector.
2. Classification of final aggregate expenditure into following components:
 - a. Private Final Consumption expenditure.
 - b. Government Final Consumption expenditure.
 - c. Gross Fixed Capital Formation.
 - d. Change in stocks.
 - e. Net Exports

By Summing up of all the 5 components, we get GDP at MP.

3. By deducting NIT and depreciation from GDP at MP , we get NDP at FC.
4. By adding NFIA to NDP at FC, we get National Income.

Precautions:

1. To avoid double counting, expenditure on all intermediate goods and services is not included.
2. Government expenditure on all transfer payments is not included.
3. Expenditure on purchase of second hand goods is not included.
4. Expenditure on purchase of old shares/bonds or new shares/bonds etc. is not included.

GDP And WELFARE:

1. Welfare means the sense of well-being among the people.
2. Welfare affected by economic factors like income, consumption etc. is called economic welfare. Economic factors are the factors which can be expressed in terms of money.
3. Welfare affected by non-economic factors like law and order, pollution etc. is called non-economic welfare. Non-economic factors cannot be expressed in terms of money.
4. Real GDP per capita at the most may indicate economic welfare with the following limitation.
 - a. GDP does not include many goods and services which contribute to welfare.
 - b. GDP does not take into account the externalities, i.e. harmful and beneficial effects of production influencing welfare.
 - c. Changes in inequalities in the distribution of income on account change in GDP influence welfare.
 - d. All products included in GDP may not contribute equally to economic welfare.
 - e. Contribution of some products included in GDP may be to reduce welfare.

$$\text{GNP DEFLATOR} = \frac{\text{Nominal GNP}}{\text{Real GNP}} \times 100$$

QUESTIONS

Calculate Value Added at factor cost from the following.

	ITEMS	Rs. CRORES
a.	Purchase of raw materials	30
b.	Depreciation	12
c.	Sales	200
d.	Excise tax	20
e.	Opening stock	15
f.	Intermediate consumption	48
g.	Closing stock	10

Ans: Sales + Δ in stock = value of output
 $200 + (\text{cl. St} - \text{op. st})$
 $200 + (10 - 15)$
 $= 200 - 5 = 195$

Value of output – intermediate consumption
 = value added at MP
 $195 - 48 = 147$
 V.A at FC = V.A at MP – Net indirect tax
 $147 - 20$
 127 crores

**Calculate Gross Domestic Product at Market Price by
 (a) Production Method and (b) Income Method**

ITEMS	Rs. crores
a. Intermediate consumption by	
i) Primary sector	500
ii) Secondary sector	400
iii) Tertiary sector	400
b. Value of output by	
i) Primary sector	1000
ii) Secondary sector	900
iii) Tertiary sector	700
c. Rent	10
d. Compensation of employees	400
e. Mixed income	550
f. Operating surplus	300
h. Net factor income from abroad	(--) 20
i. Interest	5
j. Consumption of fixed capital	40
k. Net indirect taxes	10

Ans: GDP_{MP} by production method

(b) (i) + (ii) + (iii) – a (i) + (ii) + (iii) = value added

$(1000 + 900 + 700) - (500 + 400 + 400)$

$2600 - 1300 = 1300$ crores Value added at MP (GDP_{MP})

Income method

Compensation of employees + operating surplus + mixed income = NDP_{FC}

$= 400 + 300 + 550 = 1250$ crores

GDP_{MP} = NDP_{FC} + conspn of fixed capital + net In. tax

$= 1250 + 40 + 10$

GDP_{MP} = 1300

Estimate national income by (a) expenditure method (b) income method from the following data:

Items	Rs. in crores
1. Private final consumption expenditure	210
2. Govt: final consumption expenditure	50
3. Net domestic capital formation	40
4. Net exports	(-) 5
5. Wages & Salaries	170
6. Employer's contribution	10
7. Profit	45
8. Interest	20
9. Indirect taxes	30
10. Subsidies	05
11. Rent	10
12. Factor income from abroad	03
13. Consumption of fixed capital	25
14. Royalty	15

Ans: National Income (NNP FC)

Expenditure Method

$$(1) + (2) + (3) + (4) = \text{NDP}_{\text{MP}}$$

$$210 + 50 + 40 + (-5) = 295$$

$$\text{NNP FC} = \text{NDP}_{\text{MP}} + \text{factor Income from abroad} - \text{net Indirect tax (Indirect tax - subsidy)}$$

$$295 + 3 - (30 - 5)$$

$$295 + 3 - 25$$

$$= 298 - 25 = 273$$

NNP FC= 273 crores

Income method:

$$(5) + (6) + (7) + (8) + (11) + (15)$$

$$170 + 10 + 45 + 20 + 10 + 15$$

$$= 270 (\text{NDP}_{\text{FC}})$$

$$\text{NDP}_{\text{FC}} = \text{NDP}_{\text{FC}} + \text{FIFA} = 270 + 3 = 273 \text{ crores}$$

1. Goods that are ready for use by final users and consumers are their final users are called
 - (i) Intermediate goods
 - (ii) final goods
 - (iii) capital goods
 - (iv) final consumer goods
2. Which of the following is the causes of expected obsolescence?
 - (i) natural calamities
 - (ii) change in demand
 - (iii) change in technology
 - (iv) both (ii) and (iii)
3. Quantities measured at a particular point of time is called
 - (i) flow variable
 - (ii) stock variable
 - (iii) fixed inventory
 - (iv) none of the above
4. Gross investment is equal to
 - (i) net investment – depreciation
 - (ii) net investment X depreciation
 - (iii) net investment + depreciation
 - (iv) net investment / depreciation]
5. Which of the following is an example of normal resident of India?
 - (i) Foreign worker working in WHO located in India
 - (ii) The German working as director in IMF office located in India
 - (iii) Ambassador in India from rest of the world
 - (iv) Ambassador of India in rest of the world
6. A transfer is:
 - a. Gift
 - b. Charity
 - c. Tax
 - d. All the above
7. National disposable income is different from national income because it also takes into account:
 - a. Current transfers
 - b. Capital transfers
 - c. Both a and b
 - d. Neither a nor b
8. Disposable income at the national level is:
 - a. GNPmp + net current transfers
 - b. GDPmp-net current transfers
 - c. GNPmp- net current tranfers to the rest of the world
 - d. GDPmp+net current tranfers to the rest of the world
9. Given private income=70, Direct tax=10, Personal tax=5 and retained earnings=5, what is personal income:
 - a. 50
 - b. 55
 - c. 60
 - d. 65
10. Welfare of the people of country is determined by:
 - a. Nominal GDP
 - b. Real GDP
 - c. Per capita real GDP
 - d. Per capita real GDP and host of others factors
11. Real GDP is:
 - a. Nominal GDP/nominal GDP
 - b. Price index/nominal GDP
 - c. a*100
 - d. b*100

12. Production of petrol and diesel driven vehicles:

- a. Raises welfare
- b. Reduces welfare
- c. Both a and b
- d. Has no effect on welfare

13. Reduction in production of junk food:

- a. Reduces welfare
- b. Increases welfare
- c. Both a and b
- d. Has no effect on welfare

Distinguish between GDP_{Mp} and GNP_{FC} .

Ans. The difference between both arise due to (1) Net factor income from abroad. and 2) Net indirect taxes. In GDP_{Mp} Net factor income from abroad is not included but it includes net indirect taxes.

$$GNP_{FC} = GDP_{Mp} + \text{net factor income from abroad} - \text{net indirect taxes}$$

Distinguish between personal income and private income

Ans. Personal income: -It is the sum total of earned income and transfer incomes received by persons from all sources within and outside the country.

Personal income = private income – corporate tax – corporate savings (undistributed profit)

Private income consists of factor income and transfer income received from all sources by private sectors within and outside the country.

Distinguish between nominal GNP and real GNP

Ans. Nominal GNP is measured at current prices. Since this aggregate measures the value of goods and services at current year prices, GNP will change when volume of product changes or price changes or when both changes.

Real GNP is computed at the constant prices. Under real GNP, value is expressed in terms of prices prevailing in the base year. This measure takes only quantity changes. Real GNP is the indicator of real income level in the economy.

What are the precautions to be taken while calculating national income through product method (value added method)

- a) Avoid double counting of production, take only value added by each production unit.
- b) The output produced for self-consumption to be included
- c) The sale & purchase of second hand goods should not be included.
- d) Value of intermediate consumption should not be included
- e) The value of services rendered in sales must be included.

Precautions to be taken while calculating national income through income method.

- a) Income from owner occupied house to be included.
- b) Wages & salaries in cash and kind both to be included.
- c) Transfer income should not be included
- d) Interest on loans taken for production only to be included. Interest on loan taken for consumption expenditure is non-factor income and so not included.

Precautions to be taken while calculations N.I under expenditure method.

- a) Avoid double counting of expenditure by not including expenditure on intermediate product
- b) Transfer expenditure not to be included
- c) Expenditure on purchase of second hand goods not to be included.

‘Machine purchased is always a final good’ do you agree? Give reason for your answer

Whether machine is a final good or it depends on how it is being used (end use). If machine is bought by a household, then it is a final good. If machine is bought by a firm for its own use, then also it is a final good. If the machine is bought by a firm for resale then it is an intermediate good.

UNIT 2 MONEY AND BANKING

Barter System: It is the system in which goods are exchanged with goods.

Double Coincidence of wants: It means the wants of two person must be for each other's good at the same time.

Money: Money is a commonly accepted as a **medium of exchange**.

Money Supply: Stock of money held by public at a point of time in an economy is referred to as supply of money.

Measure of money supply:

(i) $M1 = C + DD$

Where C = Currency held with public

DD = Demand Deposits

Difference between money and high powered money

Money = C + DD

Where C = Currency held with the public and DD = Demand Deposit

High powered money = C + Cash reserve of banks.

Bank: Bank is financial institution which **accepts deposits and advance/give loans**.

Chequable deposits: Against which cheque can be issued. Example: demand deposit and saving deposit.

Non Chequable deposits: Against which cheque can not be issued. Example: Time deposit.

Central Bank

Central bank controls entire banking system of the country. **Reserve Bank of India (RBI)** is the central bank of India. It was established on **1 April 1935**.

1. Which of the following concepts, refers to the barter system?
 - (i) Medium of exchange
 - (ii) double coincidence of wants
 - (iii) Store of value
 - (iv) both (i) and (iii)
2. The primary function of money is
 - (i) transfer the value
 - (ii) measure of value
 - (iii) medium of exchange
 - (iv) both (ii) and (iii)
3. In India are issued by
 - (i) state bank of india
 - (ii) reserve bank of india
 - (iii) ministry of finance
 - (iv) ministry of urban development
4. Commercial banks create money by way of
 - (i) time deposits
 - (ii) demand deposits]
 - (iii) treasury bills
 - (iv) bill of exchange
5. Which of the following is must for anything to be called money:
 - a. Measure of deferred payment
 - b. Medium of exchange
 - c. Store of value
 - d. Measure of value
6. Money is suitable for storing wealth because:
 - a. It requires less space
 - b. It is easily portable
 - c. It is readily acceptable for exchange
 - d. All the above
7. Money has made possible:
 - a. Borrowing and lending
 - b. Creation of financial institution
 - c. Keeping of accounts
 - d. All the above
8. Supply of money refers to quantity of money:
 - a. During the year only
 - b. During any period of time
 - c. As on 31st March only
 - d. As on any point of time

9. Which of the following makes a financial institution a bank?
- | | |
|------------------------------|----------------------------|
| a. Accepting deposits | b. Lending |
| c. Accepting demand deposits | d. Accepting time deposits |
10. Creation of money by commercial banks refers to:
- | | |
|------------------------------|---------------------|
| a. Creation of bank deposits | b. Issuing currency |
| c. Both a and b | d. Neither a nor b |
11. How much money are banks able to create is determined by:
- | | |
|---------------------|------------------|
| a. Initial deposits | b. SLR |
| c. CRR | d. All the above |
12. Given CRR=4% and SLR=16%, the value of multiplier is:
- | | |
|-------|---------|
| a. 25 | b. 6.25 |
| c. 5 | d. 8.33 |
13. When the central bank sells securities in the market, the credit creation capacity of the commercial banks is likely to:
- | | |
|-------------------------|--------------|
| a. Rise | b. Fall |
| c. May rise or may fall | d. No effect |

What are the drawbacks of barter system?

OR

What are the causes for evolution of money

1. Problem of Double Coincidence of wants: It is difficult to find a person who can purchase your commodity and also sell you the commodity of your need.
2. Lack of Measure of value: It was difficult to express the value of one commodity in terms of other commodity. Example: It is difficult to express the value of cow in terms of wheat or rice.
3. Store of value: It was difficult to store/save present earning in terms of goods like wheat or rice because most of goods are perishable and need large space.
4. Deferred payment: It was difficult to make future payment (repayment of loan) in terms of goods because of following reasons:
 - a) Interest can not be calculated in terms of goods
 - b) Value and quality of goods remain changing
 - c) Goods do not have the characteristics of general acceptability.
5. Transfer of value: It means transferring the value of immovable goods from one place to another place because it was difficult to carry them from one place to another place.

What are the functions of money:

OR

How does money solve the problems of Barter system?

1. **Medium of Exchange:** Money acts as medium of exchange in buying and selling of goods. A person can sell his commodity in the market in the form of money and by that money he can purchase the commodity of his need.
2. **Measure of value:** Money act as a common unit of value because the prices of all goods and services can be expressed in terms of money.
3. **Store of Value:** It is easy to store/save the present earning in terms of money because it needs less space, non-perishable and generally acceptable.
4. **Standard of deferred payments:** Deferred payments mean those payments which are made in future. It is easy to make future payment (repayment of loan) in terms of money because of following reasons:
 - a) Interest can be calculated in terms of money
 - b) Value and quality of money do not change.
 - c) Money has the characteristic of general acceptability.
5. **Transfer of Value:** Value of immovable goods can be easily transferred (by selling at one place and purchasing at another place in terms of money) from one place to another place in terms of money because it is easy to carry money from one place to another place and it has the characteristic of generally acceptability.

Who supplies/produces money?

Sources of supply of money are government, central bank and commercial banks. In India it is the ministry of finance that issues coins and RBI issues currency notes. RBI issues or prints currency notes on the basis of minimum reserve system. Under this system RBI has to maintain a minimum reserve of Rs 200 crore in the form of gold and foreign securities. Of this reserve value of gold must be Rs 115 crore.

Explain the process of credit creation by commercial banks.

Banks by their experience knows that all the depositors would not withdraw their money at the same time Therefore after keeping some legal reserve banks give loans from rest of the deposits.

Bank	Additional deposit	Additional loans	Legal Reserve Ratio (10 %)
A	1000	900	100
B	900	810	90
C	810	729	81
-	-	-	-
-	-	-	-
-	-	-	-
Total	10,000	9000	1000

Credit Multiplier = $1 / \text{LRR}$

LRR: Legal Reserve Ratio

Explain the Issuing of Notes and Banker to the govt. functions of central bank.

1) Issuing of Notes:

- Central bank of the country is **authorized by the govt.** for the printing/issuing of currency.
- No other individual or institution can issue currency.
- At present, In India RBI prints/issues the currency notes of Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs. 1000.
- RBI prints currency notes under **minimum reserve system** (Rs 200 crore in the form of gold and foreign securities out of which gold must be of Rs 115crore).

2) Banker to the govt.: Central bank do the same functions for the govt. as commercial banks do for their customers.

Central bank acts as a banker, agent and advisor to the govt.

- As a banker central bank accept deposits and advance/give loans to the govt.
- As an agent central bank buys and sells securities for the govt.
- As an advisor central bank advises the govt. in case of inflation and deflation.

Explain the Banker's Bank function of central bank.

Ans: Banker's Bank: Central Bank do the same functions for the commercial banks as commercial banks do for their customers. Central bank acts as a banker, agent, advisor and supervisor to the commercial banks.

- As a banker central bank accept deposits and give loans to the commercial banks.
- As an agent central bank settles the interbanking claims of commercial banks.
- As an advisor central bank advises the commercial banks in the case of inflation and deflation.
- As a supervisor central bank supervises the activities of commercial banks.

How central bank control the money supply in the economy.

Central bank controls the money supply in the economy though the following monetary instruments:

- i) Bank Rate:** The interest rate at which central bank gives loans to commercial banks for long period.

RBI increase bank rate to decrease money supply in case of Inflation and decrease bank rate to increase money supply in case of Deflation.

ii) CRR (Cash Reserve Ratio): Minimum percentage of total deposits that the banks has to keep in central bank. RBI increase CRR to decrease money supply and decrease CRR to increase money supply.

iii) SLR (Statutory Liquidity Ratio): Minimum percentage of total deposits that the banks has to keep in cash form with themselves. RBI increase SLR to decrease money supply and decrease SLR to increase money supply.

iv) Open Market Operations: It refers to sale and purchase of securities in open market by central bank to control money supply. RBI sells securities to decrease money supply and purchase securities to increase money supply.

How the Central bank control the money supply in the economy with the help of Repo rate and Reverse repo rate.

Ans: Central bank controls the money supply in the economy with the help of Repo rate and Reverse repo rate in the following ways:

i) Repo Rate: The interest rate at which central bank gives loans to commercial banks for short period. RBI increase repo rate to decrease money supply and decrease repo rate to increase money supply.

ii) Reverse Rate: The interest rate at which commercial bank gives loans to central bank. RBI increase reverse repo rate to decrease money supply and decrease reverse repo rate to increase money supply.

UNIT 3 DETERMINATION OF INCOME AND EMPLOYMENT

Aggregate demand: Total Demand of goods and services in an economy. AD is measured by total expenditure.

$$AD = C + I$$

Aggregate Supply: Total supply of goods and services in an economy. AS is measured by total Income (Y).

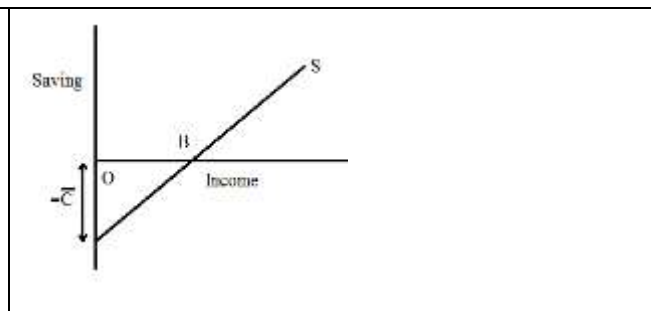
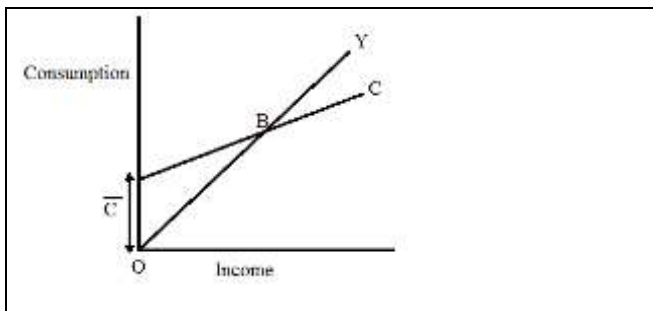
$$AS = Y$$

$$Y = C + S$$

Therefore $AS = C + S$

Propensity to Consume	Propensity to Save
Desire to consume at different level of income	Desire to save at different level of income
Average Propensity to consume (APC)	Average Propensity to save (APS)
$APC = \frac{C}{Y}$ Where C= Consumption & Y = Income	$APS = \frac{S}{Y}$ Where S= Saving & Y = Income
Marginal Propensity to consume (MPC)	Marginal Propensity to save (MPS)
$MPC = \frac{\Delta C}{\Delta Y}$	$MPS = \frac{\Delta S}{\Delta Y}$
Where ΔC = Change in consumption & ΔY = Change in Income	Where ΔS = Change in saving & ΔY = Change in Income
Relationship between APC & APS	
$APC + APS = 1$	
(APC can be more than 1 when $C > Y$ and APS can be negative when $C > Y$)	
Relationship between MPC & MPS	
$MPC + MPS = 1$	

Consumption Function	Saving Function
Relationship between Consumption and Income	Relationship between Saving and Income
$C = f(Y)$	$S = f(Y)$
$C = \bar{c} + cY$	$S = -\bar{c} + sY$
Where \bar{c} = Autonomous Consumption ,	Where $-\bar{c}$ = - ve Autonomous Consumption or -ve saving ,
$c = MPC$	$s = MPS$
& Y = Income	& Y = Income



B= Break Even Point where $S = 0$ or $C = Y$
Autonomous Consumption: Consumption when Income is ZERO.

Equilibrium of income/output/employment

Two approaches:

1. AD & AS Approach

2. Saving & Investment Approach

AD & AS Approach or C+I approach

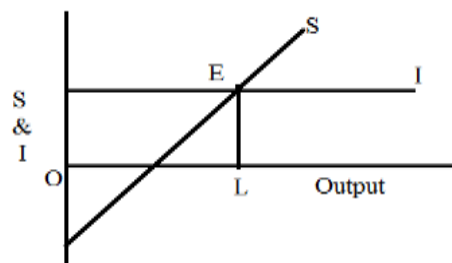
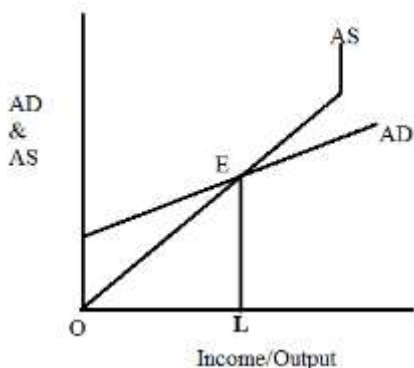
S & I Approach

Equilibrium condition: $AD = AS$

Equilibrium condition: $S = I$

What the buyers plan to buy = What the sellers Plan to sell

Saving = Investment



E is eq. point & OL is eq. output.

E is eq. point & OL is eq. output.

What happens when $AD > AS$

What happens when $S > I$

- More demand
- More expenditure
- More sale
- More output
- More AS

- More Saving
- Less expenditure
- Less sale
- Less output
- Less AS
- Less income
- Less saving

This process will continue till $AD = AS$ at eq. level

This process will continue till $S = AS$ at eq. level

What happens when $AD < AS$

What happens when $S < I$

- Less demand
- Less expenditure
- Less sale
- Less output
- Less AS

- Less saving
- More expenditure
- More sale
- More output
- More AS
- More Income
- More saving

This process will continue till $AD=AS$ at eq. level.

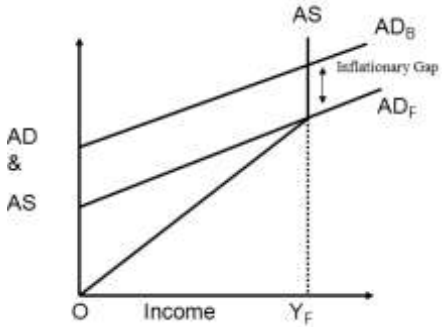
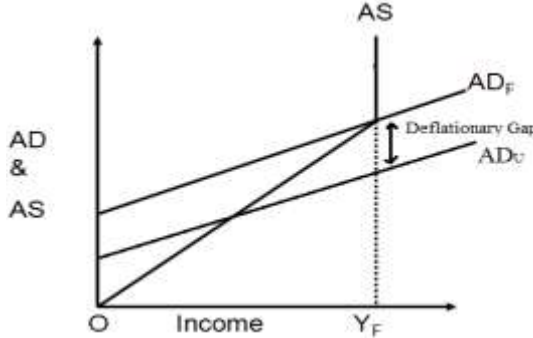
This process will continue till $S=I$ at eq. level.

Fundamental/Psychological law of consumption:

This law states that as income increases consumption also increases but less than income.

Multiplier: Measures change in income due to change in investment

$K = \frac{\Delta Y}{\Delta I}$ Where ΔI = Change in Investment ΔY = Change in Income

Excess demand or Inflationary Gap	Deficient demand or Deflationary Gap
<p>Excess demand means $AD > AD$ at full employment level.</p>	<p>Deficient demand means $AD < AD$ at full employment.</p>
<p>Excess demand or Inflationary gap = $AD_B - AD_F$</p>	<p>Deficient demand or deflationary gap = $AD_F - AD_U$</p>
<p>AD_B = Aggregate Demand beyond full employment</p>	<p>AD_F = Aggregate Demand at full employment</p>
<p>AD_F = Aggregate Demand at full employment</p>	<p>AD_U = Aggregate Demand under full employment</p>
	
<p>Measures to correct excess demand</p>	<p>Measures to correct deficient demand</p>
<p>Fiscal measures:</p>	<p>Fiscal measures:</p>
<ul style="list-style-type: none"> • Decrease in govt. expenditure • Increase in tax rate. 	<ul style="list-style-type: none"> • Increase in govt. expenditure • Decrease in tax rate
<p>Monetary measure (Decrease money supply)</p>	<p>Monetary measure (Increase money supply)</p>
<ul style="list-style-type: none"> • Increase in bank rate • Increase in repo rate • Increase in CRR • Increase in SLR • Increase in margin requirement • Open market operation: Sale of securities by central bank. 	<ul style="list-style-type: none"> • Decrease in bank rate • Decrease in repo rate • Decrease in CRR • Decrease in SLR • Decrease in margin requirement • Open market operation: Purchase of securities by central bank.

1. Theory of income determination is based on:

- a. Ex-ante variable
- b. Ex-post variables
- c. Both a and b
- d. None of these

2. Aggregate supply is same as:

- a. National output
- b. National Income
- c. Both a and b
- d. None of these

3. MPC equals:
 - a. C/Y
 - b. $\Delta C/\Delta Y$
 - c. $1-C/Y$
 - d. $1-\Delta C/\Delta Y$
4. Aggregate consumption expenditure includes this type of expenditure:
 - a. Autonomous
 - b. Induced
 - c. Both Autonomous and induced
 - d. Accumulated
5. Aggregate saving in an economy is:
 - a. Positive throughout
 - b. Positive in the beginning and then negative
 - c. Negative throughout
 - d. Negative initially and then positive
6. Value of multiplier is determined by:
 - a. MPS
 - b. MPC
 - c. Both a and b
 - d. Investment
7. The consumption function curve is:
 - a. Upward sloping
 - b. Downward sloping
 - c. Parallel to the X-axis
 - d. Parallel to the Y-axis
8. If $MPC=MPS$, the value of multiplier is:
 - a. 0
 - b. 1
 - c. 2
 - d. Infinity
9. Income gap arises when at full employment:
 - a. $AD=AS$
 - b. AD is not equal to AS
 - c. $AD>AS$
 - d. $AD<AS$
10. Government can correct income gap by taking:
 - a. Fiscal measures
 - b. Monetary measures
 - c. Both a and b
 - d. Neither a nor b
11. Inflationary gap can be corrected by the central bank by:
 - a. Reducing bank rate
 - b. Reducing SLR
 - c. Selling government securities
 - d. Buying government securities
12. Deflationary gap can be corrected by the central bank by:
 - a. Reducing bank rate
 - b. Raising CRR
 - c. Raising SLR
 - d. Selling government securities
13. Which one is the fiscal measure of correcting income gap:
 - a. Margin requirements
 - b. Moral suasion
 - c. Government expenditure
 - d. All the above

If $MPC = 0.3$ find out MPS

Ans: $MPS = 1-MPC$

$MPS = 1-0.3 = 0.7$

What is the relationship between Multiplier and MPC?

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

There is a positive relationship between MPC and K

(It means if MPC increases then K increases & vice versa)

MPC K

$$\frac{1}{2}=0.5 \quad \frac{1}{1-1/2}=2$$

$$\frac{2}{3}=0.6 \quad \frac{1}{1-2/3}=3$$

$$\frac{3}{4}=0.7 \quad \frac{1}{1-3/4}=4$$

If MPC & MPS are equal then what will be the value of multiplier?

Ans: $MPC + MPS = 1$

If $MPC = MPS$ then $MPC = MPS = 1/2$

$$K = \frac{1}{MPS} \quad K = \frac{1}{1/2}$$

$$K = 2$$

Derive Saving function from Consumption function.

Ans: $C = \bar{C} + cY$

$$Y = C + S$$

$$Y = (\bar{C} + cY) + S$$

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

$$S = -\bar{C} + (1-c)Y \quad \{ c = MPC \ \& \ 1-c = MPS \}$$

$$S = -\bar{C} + sY \quad \{ s = MPS \}$$

Why equilibrium occurs when $AD = AS$?

Ans: Equilibrium is a situation where there is no tendency to change.

It happens when AD (What the buyers plan to buy) is equal to AS (what the sellers plan to sell). It means both are satisfied.

If $C = 300 + 0.8Y$ & $\Delta I = 500$ Find out

i) Multiplier

ii) Change in Income

Ans:

i) $C = 300 + 0.8Y$

$$\{ C = \bar{C} + cY \text{ where } c = MPC \}$$

$MPC = 0.8$

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

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

$$K = \frac{1}{0.2}$$

$$K = \frac{1}{1/5} \quad \{ 0.2 = 2/10 = 1/5 \}$$

$$K = 5$$

ii) $K = \frac{\Delta Y}{\Delta I}$

$$5 = \frac{\Delta Y}{500}$$

$$\Delta Y = 5 \times 500 = 2500$$

If Consumption is $C = 300 + 0.8Y$ and $I = 500$.Then find out

i) Saving at equilibrium level of output

ii) Income at equilibrium level of output

iii) Consumption at equilibrium level of output

Ans:

i) At Eq. level $S = I$

Therefore Saving = 500

ii) At Eq. level $AD = AS$

$$C + I = Y$$

$$300 + 0.8Y + 500 = Y$$

$$800 = Y - 0.8Y$$

$$800 = Y(1 - 0.8)$$

$$800 = 0.2Y$$

$$Y = 4000$$

iii) $Y = C + S$

$$4000 = C + 500$$

$$C = 4000 - 500$$

$$C = 3500$$

Explain the working of Multiplier.

Ans: Working of Multiplier

Round	ΔI	ΔY	ΔC (MPC = 0.5)	ΔS
1	100	100	50	50
2	-	50	25	25
3	-	25	12.5	12.5
4	-	-	-	-
-	-	-	-	-
	100	200	100	100

Why Multiplier is called as two edged sword ?

Ans: Multiplier is a two edged sword as it works in both direction positive as well as negative direction. Positive direction means if investment increases than income increases many times. Negative direction means if investment decrease than income decrease many times.

What are the role of tax and money supply in the problem of inflationary gap?

Ans: Tax: Govt. will increase the tax rate to decrease the purchasing power of the public.

Money Supply: RBI decreases the money supply by using the instruments of increase in CRR, SLR, REPO rate etc.

UNIT 4 GOVT. BUDGET AND THE ECONOMY

Govt. Budget: It is the record of estimated receipts and expenditure of the govt. over the financial year, April 1 to March 31.

Components of Budget:

1. Revenue Budget: It is for administration, law and order and defence.

$$\text{Revenue Budget} = \text{Revenue Receipts} + \text{Revenue Expenditure}$$

2. Capital budget: It is related to the assets and liabilities of the govt.

$$\text{Capital budget} = \text{Capital receipts} + \text{Capital expenditure}$$

Revenue Budget	Capital Budget
<p><u>Revenue Receipts</u> Which neither increase liabilities nor decrease assets. These are of two types:</p> <ul style="list-style-type: none"> • Tax receipts Income Tax, Sale Tax, Excise Tax etc. • Non tax receipts Fees, Fines, License, Permit, Escheat, Special assessment, Income/Profit from public enterprises, Gifts and grants received by the govt., Forfeitures of bonds etc. <p>(Cause: Neither increase liabilities nor decrease assets.)</p>	<p><u>Capital Receipts</u> Which either increase liabilities or decrease assets. Example:</p> <ul style="list-style-type: none"> • Recovery of loans (<i>Cause: Decrease assets</i>) • Privatisation and Disinvestment (selling the shares of PSUs) (<i>Cause: Decrease assets</i>) • Loan or borrowing from public, RBI or Rest of the world (<i>Cause: Increase liabilities</i>) (Borrowing from RBI is called deficit financing)
<p><u>Revenue expenditure</u> Which neither decrease liabilities nor increase assets. Example:</p> <ul style="list-style-type: none"> • Old age pension, • Scholarships, • Interest payments, • Salaries, • Subsidies, • Expenditure on defence, • Gifts and grants by the govt. etc. <p>(Cause: Neither decrease liabilities nor increase assets.)</p>	<p><u>Capital Expenditure</u> Which either decrease liabilities or increase assets. Example:</p> <ul style="list-style-type: none"> • Purchase/construction of Building, Land, Machinery, Shares etc. (<i>Cause: increase assets</i>) • Loans by central govt. to state govt. (<i>Cause: increase assets</i>) • Repayment of loan (<i>Cause: Decrease liabilities</i>)

Budget Deficit

Budget deficit occurs when Budget expenditure > Budget receipts

$$\text{Budget deficit} = \text{Budget expenditure} - \text{Budget receipts.}$$

Revenue Deficit

$$\text{Revenue Deficit (RD)} = \text{Revenue Expenditure (RE)} - \text{Revenue Receipts (RR)}$$

Fiscal Deficit

Fiscal Deficit = Budget expenditure – Budget receipt other than borrowing

OR

$$\text{Fiscal Deficit} = (\text{RE} + \text{CE}) - (\text{RR} + \text{CR other than borrowing})$$

Primary Deficit:

Primary deficit = Fiscal Deficit – Interest payment

Primary deficit shows the borrowing requirement of the govt. to meet her expenditure excluding or other than interest payment.

Zero Primary Deficit

Zero Primary deficit means Fiscal Deficit = Interest payment

It means govt. has to borrow only for interest payments.

Measures to correct Budget Deficit:

- i) Decrease in expenditure
- ii) Increase in tax rates
- iii) Borrowing from public, RBI or Rest of world.

1. Spot the capital receipt:

- | | |
|----------------------|-----------------------------|
| a. Tax received | b. External grants received |
| c. Dividend received | d. Disinvestment |

2. Spot the revenue receipt:

- | | |
|----------------------|------------------|
| a. Recovery of loans | b. Borrowings |
| c. External grants | d. Disinvestment |

3. Fiscal deficit in a government budget refers to:

- | | |
|------------------------------|--------------------------------|
| a. Short fall in taxes | b. Short fall in disinvestment |
| c. Disinvestment requirement | d. borrowing requirements |

4. Primary deficit in a government budget refers to:

- | | |
|---------------------------|-----------------------------------|
| a. Borrowing requirements | b. Interest payments requirements |
| c. a less b | d. a+b |

5. Steps taken through the government budget can influence:

- | | |
|-----------------|----------------------------|
| a. Inequalities | b. Allocation of resources |
| c. Inflation | d. All the above |

What are the functions of Govt. budget?

1. Redistribution of Income and wealth:

- With the help of taxes on rich people, wine/liquor and cigarettes
- Subsidies to poor people on food grains, cloth, kerosene and LPG
- Grants and donations to weaker states and sections.
- To reduce inequalities in the economy and balanced development of the country.

2. Economic stability in the country by using fiscal policy (tax and expenditure) and monetary policy (CRR, SLR and Bank rate) to prevent business fluctuations of inflation and deflation in the country.

3. Management and growth of public sector enterprises like railways, NTPC, ONGC etc.

4. Rapid economic development of the country.

Categories the following into revenue receipts and capital receipts. Give reason.

Income Tax, Recovery of loans, Profit from public enterprises, Borrowing from RBI.

1. Income tax: Revenue receipt

Reason: Neither increase liabilities nor decrease assets.

2. Recovery of loans: Capital receipt

Reason: Decrease assets

3. Profit from public enterprises: Revenue receipt

Reason: Neither increase liabilities nor decrease assets.

4. Borrowing from RBI: Capital receipt

Reason: Increase liabilities

Categories the following into revenue expenditure and capital expenditure. Give reason.

Purchase of building, Subsidy

1. Purchase of building: Capital expenditure

Reason: Increase assets

2. Subsidy: Revenue expenditure

Reason: Neither decrease liabilities nor increase assets.

Explain the implications of Revenue deficit.

Revenue deficit means the routine expenditure of the govt. on administration, law and order and defense is more than tax and non tax receipts.

Therefore to reduce RD govt. should adopt following measures:

- i) Decrease in expenditure
- ii) Increase in tax rates
- iii) Borrowing from public, RBI or Rest of world.

What are the implications of Fiscal deficit?

FD is equal to the total borrowing by the govt.

It causes:

- i) Inflation in the economy.
- ii) Increase in foreign dependence and interference.
- iii) Increase in financial burden of repayment on future generations.

Differentiate between Direct Tax and Indirect tax.

Direct Tax	Indirect Tax
<ul style="list-style-type: none">• The burden of the direct tax can not be transferred to another person.• Example: Income tax, corporate tax etc.	<ul style="list-style-type: none">• The burden of the indirect tax can be transferred to another person.• Example: Sale tax, excise duty etc.

UNIT 5 BALANCE OF PAYMENT AND FOREIGN EXCHANGE RATE

BOP of a country is the record of all economic transactions of the country with the rest of the world (ROW).

Components of BOP Account:

A) Current Account

B) Capital Account

Components of Current Account:

1. **Visible items:** Imports and Exports of Goods; these are called visible because they can be seen while crossing the Borders. Example: Imports and Exports of cloth, shoes, machine etc.
2. **Invisible items:** Imports and Exports of Services; these are called invisible because they can not be seen while crossing the Borders. Example: Shipping, insurance, banking etc.
3. **Unilateral Transfers:** One sided transfers from one country to other. Example: Gifts, grant, donations etc.

Components of Capital Account:

1. **Borrowing**

- i) External borrowing: Borrowing at market rate of interest from ROW.
- ii) External assistance: Borrowing at concessional rate of interest (less than market rate of interest) from ROW.

2. **Investment**

- i) Foreign Direct investment: Investment with full control. Example: Purchasing of company/industry in ROW.
- ii) Portfolio investment: Investment without full control. Example: Purchasing of shares of a company in ROW.

Foreign exchange means Foreign currency.

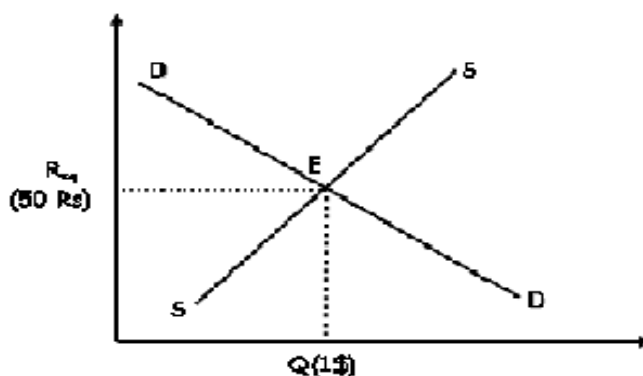
Foreign exchange rate: Price of one currency in terms of another currency. Example: 1\$ = 50 Rs.

Types of exchange rate System:

A) **Fixed Exchange Rate System:** Exchange rate is determined by the government.

B) **Flexible or Floating exchange rate system:** Exchange rate is determined by the forces of demand and supply of foreign exchange.

Determination of equilibrium exchange rate under Flexible or Floating exchange rate system



Where DD= Demand for foreign exchange

SS = Supply for foreign exchange

R_{eq} = Equilibrium exchange rate

Sources of Demand for Foreign Exchange	Sources of Supply of Foreign Exchange
<p>We need foreign exchange for the purpose of:</p> <p>(a) <u>For imports.</u></p> <p>(b) For investment in rest of the world</p> <p>(c) For the payment of international loans.</p> <p>(d) For giving gifts and grants to ROW.</p> <p>(e) For purchasing goods in foreign countries.</p>	<p>We get the foreign currencies:</p> <p>(a) <u>By Exports.</u></p> <p>(b) From investment by foreigners in home country.</p> <p>(c) By recovery of international loans.</p> <p>(d) By getting gifts and grants from ROW.</p> <p>(e) Purchasing goods by foreigners in the domestic country.</p>

Appreciation of currency: Increase in the value of domestic currency in comparison to foreign currencies. Example: If exchange rate changes from 1\$ = 50 Rs to 1\$ = 40 Rs. Then it is called as appreciation of Rs.

Depreciation of currency: Decrease in the value of domestic currency in comparison to foreign currencies. Example: If exchange rate changes from 1\$ = 50 Rs to 1\$ = 60 Rs. Then it is called as depreciation of Rs.

- 1.. Exchange rates refers to the rate at which the following is exchanged:
 - a. Goods
 - b. Services
 - c. Currencies
 - d. All the above
2. Floating exchange rate is determined by:
 - a. Mutual consultations between countries
 - b. Banking systems
 - c. Market forces
 - d. None of the above
3. Managed floating exchange rate is called “managed” because it is influenced by the steps taken by:
 - a. Government
 - b. Central Bank
 - c. World bank
 - d. IMF
4. When exchange rate in terms of domestic currency rises:
 - a. Exports become cheaper
 - b. Imports become cheaper
 - c. Exports become costlier
 - d. No effects on imports
- 5.. When exchange rate falls in terms of domestic currency:
 - a. Domestic currency depreciates
 - b. Foreign exchange appreciates
 - c. Domestic currency appreciates
 - d. No effect on domestic currency
- 6.. The measurement of Balance of Payments deficit is based on:
 - a. Autonomous transactions
 - b. Accommodating transactions
 - c. Current account transactions
 - d. Capital account transactions
7. Balance of payments of a country is a statement that records:
 - a. Sources of foreign exchange
 - b. uses of foreign exchange
 - b. Both a and b
 - d. None of the above
8. Balance of Trade equals:
 - a. Exports less imports
 - b. Exports of goods less imports of goods
 - c. Exports of services less imports of services
 - d. None of these
9. The categories of transactions that are included in the capital account of the Balance of Payments are:
 - a. Investments rom and to abroad
 - b. Borrowings and lending from and to abroad
 - c. Change in foreign exchange reserves
 - d. All the above

Explain the concept of managed floating.

Managed Floating: Exchange rate is determined by the forces of demand and supply but government can make some change/adjustments in exchange rate according to rule and regulations of foreign exchange market to correct BOP Deficit.

Differentiate between Balance of Trade and Balance of Payment

Balance of Trade (BOT)	Balance of Payment (BOP)
<ol style="list-style-type: none">1. Balance of Trade is a record of only visible items (BOT= Exports of goods – Import of goods)2. Balance of Trade is a narrow concept as it only a part of BOP.3. Balance of Trade can be in equilibrium or disequilibrium.	<ol style="list-style-type: none">1. Balance of Payment is a record of all economic transactions: visible items, invisible items and capital transfers.2. Balance of Payment is a wider concept.3. Balance of Payment always in equilibrium.

Differentiate between Autonomous & Accommodating items of BOP

Autonomous Items	Accommodating Items
<ol style="list-style-type: none">1. Motive: Profit maximization.2. Example: Export and import of goods and services.3. These are also called as <u>Above the line</u> items in BOP.	<ol style="list-style-type: none">1. Motive: BOP equilibrium.2. Example: Borrowing3. These are also called as <u>Below the line</u> items in BOP.

Explain the Impact of increase in supply of foreign exchange on foreign exchange rate?

Due to increase in supply of foreign exchange
↓
Supply curve shift forward or rightward
↓
New equilibrium (E_1) **exchange rate decreases**
↓
It means increase in value of domestic currency i.e. called as **appreciation**

Explain the Impact of increase in Demand of foreign exchange on foreign exchange rate?

Due to increase in demand of foreign exchange
↓
Demand curve shift forward or rightward
↓
New equilibrium (E_1) **exchange rate increases**
↓
It means decrease in value of domestic currency i.e. called as **depreciation**

Why does a fall in foreign exchange rate does cause fall in its supply?

Fall in foreign exchange rate → Appreciation → domestic goods become costly → export decreases → decrease in supply of foreign exchange.

Why does a rise in foreign exchange rate cause decrease in its demand?

Rise in foreign exchange rate → Depreciation → foreign goods become costly → import decreases → decrease in demand of foreign exchange.

What will be the impact of depreciation of home currency on import and exports of that particular country?

If there is a depreciation of domestic currency the imports of the country will decrease and exports will increase.

Indian Economic Development

Unit 6 Development Experience (1947-90) & Economic Reforms since 1991

Condition of agriculture sector at the time of Independence

1) Low level of agricultural productivity :-

Agricultural productivity became very low and this stagnation in agriculture sector was mainly due to systems of land settlement that were introduced by the British Government. The Zamindari system, the profit accruing out of the agriculture sector went to Zamindaris instead of the cultivators. This led to discouragement amongst the cultivators to produce less.

2. High dependence on Monsoon :-

Agriculture sector was mainly dependent on monsoon. No effort was ever made under the British rule to develop permanent means of irrigation.

3. Lack of Proper Input:-

Low level of technology, lack of irrigation facility and negligible use of fertilizers, added to aggravate the plight of the farmers and contributed to the dismal level of agricultural productivity.

Industrial sector at the time of Independence

1) Discriminatory Tariff Policy :-

The British Government allowed tariff free export of raw materials from India and tariff free import of British industrial products into India. But a heavy duty on the export of Indian handicrafts products. It leads to decay of handicrafts industry in India.

(ii) Competition from machine :-

Industrial revolution in Britain gave a stiff competition to the handicraft industries in India. Due to low cost and better quality product produced by machine forced the Indian craftsmen to shut down the handicraft industry in India.

(iii) New Patterns of Demand :-

Owing to British rule in India, a new class of people emerged in India. This changed the pattern of demand in India against the Indian products and in favour of British products. As a result, the Indian industry tended to perish.

(iv) More market for British Goods :-

An introduction of railways facilitated the transportation of the British products to different parts of the country. As a result, the size of the market for the low cost British product expanded while it started shrinking for the high cost Indian products. This led to decay of industry in India.

Foreign trade under the British rule

1) Due to discriminative tariff policy adopted by the British Government, India became net exporter of raw materials and primary products. On the other hand, it became net importer of finished goods reproduced by the British industry.

(ii) Composition of exports and imports showed the backwardness of Indian economy. Exports and imports were largely restricted to Britain only due to monopoly control of India's foreign trade.

(iii) Surplus profit made and account of foreign trade during the British rule was distributed on administrative and as well as on war expenses. It was only used to increase the pursuits of the British Government.

Demographic profile during the British rule.

1) High birth and High death rate implied low survival rate, which was nearly 8 per thousand per annum.

2) Life expectancy was as low as 32 years which shows the lack of health care facilities, lack of awareness as well as lack of means for health care.

3) Literacy rate was as low as 16 percent, which reflects the social and economic backwardness of the country.

Occupation structure at the time Independence.

- (i) Agriculture was the principal source of occupation and about 72.7 percent of working population was engaged in agriculture.
- (ii) Only 10.1% of the working population were engaged in the manufacturing sector, which showed the backwardness of Indian Industry at the time of Independence.
- (iii) only 17.2 percent of the working population were engaged in the service sector, which also proved the slow growth of tertiary sector at the time of Independence.
- (iv) There was an unbalanced growth of Indian economy at the time of Independence

Infrastructure at the time of Independence.

- 1) There was some infrastructural development during the British in the area of transport and communication.
- 2) Introduction of railways, was a major break through followed by the development of some ports and the construction of some roads.
- 3) But the main motive of the British government was to foster the interest of the British Government rather than to accelerate the growth of Indian economy.
- 4) There was transition from barter system of exchange to monetary system of exchange, which facilitated division of labour & large scale production.

Indian Economy: 1950-1990

Economic Planning

It means utilization of country's resources into different development. Activities in accordance with the national priorities. Planning commission was set up in 1950.

The goals or objectives of planning in India are as follows:

i) Growth: -

It refers to increase in the country's capacity to produce the output of goods and services within the country. It implies either a large stock of productive capital or an increase in the efficiency of productive capital and services like transport, banking & communication etc.

In other words, it means steady increase in the gross domestic product (GDP). It is necessary to produce more goods and services if the country need to achieve higher growth level.

(ii) Modernization:-

It is necessary to adopt new technology in order to increase production of goods & services. Adoption of new technology is called modernization.

However, modernization does not refer only to the use of new technology but also to change in social outlook such as women empowerment . A modern society makes use of the talents of women in the work place so that the society will be more civilized and prosperous

(iii) Self reliance:-

It refers to utilization of country's resources in order to promote economic growth and modernization without using the resources imported from other countries. It means avoiding imports of those goods which could be produced in India itself.

It is necessary in order to reduce our dependence on foreign countries in order to safeguard the sovereignty of our country and unnecessary foreign interference in our polices.

(iv) Equity:-

It means equal distribution of income and wealth among the societies. It is important to ensure that the benefits of economic development should reach the poor sections of the society as well instead of being enjoyed by the rich. It is necessary that every people of a country should be able to meet their basic needs such as food, education, health facilities in order to reduce the inequality

Development of Agriculture sector between 1950-1990

(i) **Land reforms** : Land reforms were initiated in order to bring equity in ownership of landholdings. It was decided to establish intermediaries and to make the tillers of the owners of land. It gives the tillers the incentives to invest in making improvements in land provided sufficient capital was made available to them.

(ii) **Land Ceiling** :- It refers to fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands and to promote equality in the agricultural sector.

(iii) **Green Revolution**:- It refers to large increase in production of food grains resulting from the use of High yielding variety (HYV) seeds. The use of fertilizers, pesticides, irrigation facilities is important along with HYV seeds in order to increase agricultural productivity & production. The farmers should be provided adequate financial resources in order to purchase agricultural inputs.

Development of Industrial sector between 1950-1990

1) Public enterprises were played a central role in the process of Industrialization

2) Private enterprises were to play only a secondary role in the process of industrialization. It means private sector were to obtain a license for their industrial establishments and to produce goods within the prescribed limits of production capacity.

3) Major thrust was given to import substitution. It means production of such goods were to be accorded high priority which were imported from abroad. It was necessary to achieve the objective of growth with self reliance.

4) Domestic industries were given protection from foreign competition and it was done through (i) Heavy duty in imports (ii) Large – scale industry was to be developed with a view to build an infrastructural base in country.

Development of foreign trade between 1950-1990

Inward looking trade strategy was adopted as foreign trade policy . This strategy is called import substitution. It aims at replacing or substituting imports with domestic production. Domestic industry is offered protection from foreign competition through import duties. Its main objective was to save foreign exchange by encouraging domestic production of such goods which could be imported from rest of the world.

The Government protected the domestic industries from competition through tariffs and quotas. Through imposition of tariffs and quotas, the government restricted the imports of goods and thereby protecting the domestic firms from foreign competition.

Marketed Surplus

The excess portion of agriculture produce which is sold into the market by the farmers is called marketed surplus.

Economic Reforms Since 1991

Meaning of economic reforms

.The new economic policy started by the government since 1991 in order solve the Economic crisis and to accelerate the rate of economic growth is called Economic Reforms. It is also known as new economic policy which consists of Liberalization, Privatization and Globalization (LPG)

Need for economic reforms

1. Mounting fiscal deficit :

Fiscal deficit of the government had been mounting year after year on continuous increase in non-development expenditure. Due to persistent rise in fiscal deficit there was corresponding rise in public debt and interest payment liability there was possibility that the economy might lead to debt-trap situation. Thus it becomes essential for the government to reduce its nondevelopment expenditure and restore fiscal discipline in the economy.

2. Adverse balance of payment : When receipts of foreign exchange fall short of their payments, the problem of adverse balance of payment arises. Despite the restrictive policy adopted by the government till 1990 import substitution and export promotion the desired result could not be met. Our export could not compete in terms of price and quality in the international market. As a result there was slow growth of export and rapid increase in imports. Accordingly the burden of foreign debt services increased tremendously and leading to depletion of foreign exchange reserves.

3. Gulf Crises: On account of Iraq war in 1990-91 prices of petrol shot-up . Besides india used to receive huge amount of remittances from gulf countries in terms of foreign exchange.

4. Poor performances of PSU's:

Due to poor performances of public sector undertakings degenerated in to a liability. Most of public sector undertakings were incurring loss and their performance was quiet satisfactory. On account of these factors, it becomes imperative for the government to adopt new economic policy or to initiate economic reforms.

5. Rise in price:Due to rise in prices of food grains there was pressure of inflation Prior to 1991. Which deepen the economic crisis from bad to worse.

6. Fall in foreign exchange reserves:In 1990-91 India's foreign exchange reserves fall to such a low level that there was not enough to pay for an import bill of even 10 days. In such situation the government had to helplessly resort to policy of liberalization as suggested by the World Bank.

New Economic Policy

New Economic Policy refers to adoption of Liberalisation, Privatisation and Globalization(LPG) which aims at the rendering the economy more efficient, competitive and developed.

ELEMENTS OF NEW ECONOMIC POLICY

1. **Liberalization:** It means to free the economy from the direct and physical control imposed by the government.

Measures adopted for Liberalization:

- (i) Abolition of industrial licensing.
- (ii) DE reservation of production areas
- (iii) Expansion of production capacity
- (iv) Freedom to import capital goods

2. **Privatization:** It refers to general process of involving the private sector in the ownership or management of state owned enterprises. It imply partial or full ownership and management of public sector enterprises by the private sector.

Measures adopted for Privatization:

- (i) Contraction of public sector
- (ii) Disinvestment of public sector undertaking
- (iii) Selling of shares of public enterprises

3. **Globalization:** It men's integrating the economy of a country with the economies of other countries under condition of free flow trade and capital and movement of persons across borders.

Measures adopted for Globalization:

- (i) Increase in equity limit of foreign investment
- (ii) Partial convertibility of Indian rupees
- (iii) Long –term trade policy
- (iv) Reduction in tariffs.

Positive impact of LPG polices

1. a vibrant Economy
2. Stimulant to Industrial production
3. Check on fiscal deficit
4. Check on inflation
5. Improvement in consumers sovereignty
6. A substantial increase in foreign exchange reserves.
7. Flow of private foreign investment.
8. India as an emerging economic power
9. Shift from monopoly market to competitive market

Negative impact of LPG polices.

1. Neglect of agriculture
2. Urban concentration of growth process
3. Economic colonialism
4. Spread of consumerism
5. Lopsided growth process
6. Cultural erosion

MCQ

In which year, railways were introduced in India?

- (A) 1850 (B) 1853 (C) 1890 (D) 1892

ANS. (A) 1850

When was India's first official census operation undertaken ?

- (A) 1881 (B) 1885 (C) 1890 (D) 1995

ANS.(A)1881

Major contribution to the GDP of the country on the eve of independence was from

- (A) Agriculture (B) Trade (C) Modern industries (D) None of these

ANS. (A) Agriculture

The second stage of demographic transition began after

- (A) 1947 (B) 1870 (C) 1921 (D) 1926

ANS. (C) 1921

During 1947-48 , India's exports were estimated at

- (A) Rs. 602 crore (B) Rs. 403 crore (C) Rs. 389 crore (D) Rs. 319 crore

ANS. (B) Rs. 403 crore

When was the planning commission set up ?

- A) 1947 B) 1950 C) 1956 D) 1850

ANSWER -- B

The first five year plan was launched from a period from?

- A) 1948-1953 B) 1959-1964 C) 1951-1956 D) 1955-1960

ANSWER -- C

Which of the following is not a goal of five year plan?

- A)Growth B)Equity C)Land Reforms D)Modernization

ANSWER -- C

which of these is a central problem of an economy?

- A) What to produce B) How to produce
c) for whom to produce d) all of these

ANSWER—D

In which type of economy means of production are owned, controlled and operated by the govt.

- A) Mixed b) socialist
c) Capitalist d) None of these

ANSWER—B

RBI was setup in

- (a) 2006 (b) 1971 (c) 1963 (d) **1935**

SHORT ANSWER TYPE QUESTIONS (3& 4 Marks)

1. How was the zamindari system of land settlement responsible for the stagnation of Indian agriculture?

Ans. The zamindari system of land settlement was responsible for the stagnation of Indian agriculture because of the below mentioned reasons:

- (1) The zamindars were recognized as permanent owners of the soil.
- (2) The zamindars were to pay a fixed sum to the govt. as land revenue.
- (3) The zamindars were absolutely free to extract as much from the tillers of the soil as they could.

2. When was the Suez canal opened? How did it affect the Indian economy?

Ans. Suez canal was opened in 1869. Suez canal is an artificial waterway running from North to South across the Isthmus of Suez in North-Eastern Egypt. It is one of the most important waterways in the world. Its opening reduced the cost of transportation and made access to the Indian market easier and economical. A significant reduction in transport cost prompted monopoly control of India's foreign trade by the British govt.

3. How did the construction of railways affect the structure of the Indian economy?

Ans. In India, railways were introduced by British in 1850, however it began its operation in 1853. It affected the structure of Indian economy in many ways

- (1) It enabled people to undertake long distance travel & thereby break geographical & cultural barriers
- (2) It fostered commercialization on Indian agriculture which adversely affected the self-sufficiency of the village economies in India.

4. Explain the state of industries in India on the eve of independence.

Ans. (1) The role of the public sector in development of industries was restricted to the railways, power generation, ports and some other departmental undertakings. There was no growth of industrial base in India.

(2) The traditional handicraft industries were decaying.

(3) There were hardly any capital goods industries to promote further industrialisation, since the British had no interest in the development of Indian economy.

5. Is it correct to say that the Indian economy was turned into a colonial economy by the Britishers?

Ans. Because of the following reasons it can rightly be said that the above statement is true

- (1) It had a typical pattern of trade of the colonial economy i.e., it was exporting raw materials and importing manufactured goods.
- (2) Foreign capital was controlling the major sectors of our economy i.e., banking, insurance and trade.

6. What was of economic policies pursued by the colonial govt. in India? What was the impact of these policies?

Ans. The focus of economic policies pursued by the colonial govt. in India was to make India an exporter of raw material for feeding the rapidly expanding modern industrial base & to target India as a market for its finished goods .

The British policies had the following impact on India

- (1) Agriculture sector had a lot of surplus labour and had extremely low productivity.
- (2) Poverty & unemployment were high.
- (3) Industrial sector was backward & lacked diversification.
- (4) Infrastructural facilities needed upgradation.
- (5) Foreign trade was beneficial for the Britishers.

7. What objectives did the British intend to achieve through their policies of infrastructure development in India?

Ans. Under the British rule, basic infrastructure such as railways, ports, water – transport, postage & telegraph developed, but the objective behind the development of infrastructure was not to provide basic amenities to the people but to cater to their colonial interests .

The objective of the Britishers behind the development of infrastructure were

- (1) Roads were developed for the purpose of mobilizing army & transporting raw materials to the nearest railway station and port.
- (2) Railways were developed to encourage commercialization of agriculture
- (3) Postage & telegraph were introduced to enable them to control the large sub-continent.

8. Underscore some of India's most crucial economic challenges on the eve of independence.

Ans. The Indian economy was a backward economy on the eve of independence as over 85% of the population was engaged in agriculture. There were not many industries & capital was mostly invested by foreigners. There was a complete absence of any infrastructure for imparting knowledge on technical skills to the labourers. The following statistics prevail the extent of backwardness in the economy

- (1) Per capita income was low. It was Rs. 1274 in 1950-51.
- (2) Large scale unemployment & under employment existed.
- (3) Agricultural sector & industrial sector both were in a dismal condition.

9. Give a quantitative appraisal of India's demographic profile during the colonial period.

Ans. The first census showed that India's population was about 22 crores. It rose to 23.87 crores in 1891, but fell to 23.83 crores in 1901. It rose to 25.21 crores in 1911 and again fell to 25.14 crores in 1921. From 1921 onwards it has shown a consistent rise . Therefore, 1921 is regarded as the defining year to mark demographic transition from first stage to second stage. The other social development indicators were also not quite encouraging.

- (1) The overall literacy was less than 16%.
- (2) Female literacy rate was about 7%.
- (3) IMR was quite high at 218 per 1000.
- (4) Life expectancy was also quite low at 44 years.

10. 'Composition of foreign trade of any country tells us about the nature of commodities that are exported & imported'. What can you state about the composition of foreign trade at the time of independence? (HOTS)

Ans. India's foreign trade under the British rule is described as below

- (1) The British followed a typical colonial pattern of trade in India, where it was made to serve their interest.
- (2) India exported raw materials to the home country of the British for their expanding industries.
- (3) India was also developed as a market for the finished goods of the British industries.

Thus, India was reduced to being a source of food for the British, a supplier of raw materials for the British industries and a market for their finished products.

LONG ANSWER TYPE QUESTIONS (6 MARKS)

1. Highlight the salient features of India's pre-independence occupational structure.

Ans. The following are the salient features of India's pre-independence occupational structure

1. **Predominance of Agriculture:** Under the colonial rule, India was basically an agrarian economy, with nearly 85% of its workforce engaged directly or indirectly in agriculture.
2. **Lack of Opportunities in Industry:** Only a small proportion of population was employed in manufacturing sector. Nearly 10% of the total workforce was engaged in manufacturing and industrial sector.
3. **Unequal Distribution Among Sectors:** The three sectors of Indian economy, i.e., agricultural, industrial & service sector were unequal in terms of occupational structure. While the agricultural sector employed majority of the workforce, the other two sectors were not contributing much to employment with 10% of the workforce in industries & 15-20% in service sector.
4. **Regional Imbalance:** There was regional variation in the occupational structure of India. On the one hand, the Madras Presidency, Bombay & Bengal experienced a fall in the agricultural workforce and increase in occupational share of manufacturing and services. On the other hand, states like Orissa, Rajasthan & Punjab experienced a rise in the agricultural workforce.

2. Critically appraise some of the short falls by the industrial policy pursued by the British colonial administration.

The industrial policy pursued by the Britishers under the colonial administration aimed at promoting the modern industries in Britain. This was achieved through

1. **Decay of Handicraft Industry:** The traditional & important handicraft industry of India, in the absence of any patronage & incentives started to decline. The decline of handicraft industry, not only created massive unemployment but also resulted in a spur of demand in the Indian consumer market which was now deprived of supply of locally made goods. This demand was met through goods produced in British industries.
2. **Limited Growth of Public Sector Enterprises:** Only those public sector enterprises which subserved the interests of Britishers were developed such as railways, postage & telegraph, etc.
3. **Absence of Capital Goods Industries:** The consumer goods industries were not supported by the capital goods industry. There was also a dearth of basic & heavy industries.
4. **Stagnant Growth of Modern Industry:** Because no initiative was taken by the British Govt. to industrialise the Indian economy, therefore modern industries registered a negligible growth rate. A few enterprising entrepreneurs opened iron & steel industry, sugar, cement & paper mills

3. What was of economic policies pursued by the colonial govt. in India? What was the impact of these policies?

Ans. The focus of economic policies pursued by the colonial govt. in India was to make India an exporter of raw material for feeding the rapidly expanding modern industrial base & to target India as a market for its finished goods.

The British policies had the following impact on India

1. Agriculture sector had a lot of surplus labour and had extremely low productivity.
2. Poverty & unemployment were high.
3. Industrial sector was backward & lacked diversification.
4. Infrastructural facilities needed upgradation.
5. Foreign trade was beneficial for the Britishers.

4. What objectives did the British intend to achieve through their policies of infrastructure development in India?

Ans. Under the British rule, basic infrastructure such as railways, ports, water – transport, postage & telegraph developed, but the objective behind the development of infrastructure was not to provide basic amenities to the people but to cater to their colonial interests .

The objective of the Britishers behind the development of infrastructure were

1. Roads were developed for the purpose of mobilizing army & transporting rawmaterials to the nearest railway station and port.
2. Railways were developed to encourage commercialization of agriculture
3. Postage & telegraph were introduced to enable them to control the large sub-continent.

5.Underscore some of India’s most crucial economic challenges on the eve of independence.

Ans. The Indian economy was a backward economy on the eve of independence as over 85% of the population was engaged in agriculture. There were not many industries & capital was mostly invested by foreigners. There was a complete absence of any infrastructure for imparting knowledge on technical skills to the labourers.

The following statistics prevail the extent of backwardness in the economy

1. Per capita income was low. It was Rs. 1274 in 1950-51.
2. Large scale unemployment & under employment existed.
3. Agricultural sector & industrial sector both were in a dismal condition.

6. Give a quantitative appraisal of India’s demographic profile during the colonial period.

Ans. The first census showed that India’s population was about 22 crores. It rose to 23.87 crores in 1891, but fell to 23.83 crores in 1901. It rose to 25.21 crores in 1911 and again fell to 25.14 crores in 1921. From 1921 onwards it has shown a consistent rise . Therefore, 1921 is regarded as the defining year to mark demographic transition from first stage to second stage.The other social development indicators were also not quite encouraging.

1. The overall literacy was less than 16%.
2. Female literacy rate was about 7%
3. IMR was quite high at 218 per 1000.
4. Life expectancy was also quite low at 44 years.

7.Highlight the salient features of India’s pre-independence occupational structure.

Ans. The following are the salient features of India’s pre –independence occupational structure

1. Predominance of Agriculture: Under the colonial rule, India was basically an agrarian economy, with nearly 85% of its workforce engaged directly or indirectly in agriculture.
2. Lack of Opportunities in Industry: Only a small proportion of population was employed in manufacturing sector .Nearly 10% of the total workforce was engaged in manufacturing and industrial sector.
3. Unequal Distribution Among Sectors: The three sectors of Indian economy, i.e., agricultural, industrial & service sector were unequal in terms of occupational structure .While the agricultural sector employed majority of the workforce, the other two sectors were not contributing much to employment with 10% of the workforce in industries & 15-20% in service sector.
4. Regional Imbalance: There was regional variation in the occupational structure of India. On the one hand, the Madras Presidency, Bombay & Bengal experienced a fall in the agricultural workforce and increase in occupational share of manufacturing and services.On the other hand, states like Orissa , Rajasthan & Punjab experienced a rise in the agricultural workforce.

Current Economic Challenge

HUMAN CAPITAL FORMATION

Physical capital refers to all those inputs which are required for further production, like plant and machinery, factory, buildings, raw materials, etc.

Human capital refers to the stock of skill, ability, expertise, education and knowledge involved in the people.

COMPARISON BETWEEN 'PHYSICAL CAPITAL' AND 'HUMAN CAPITAL'.

Physical Capital

- a) Physical capital is tangible and can be easily sold in the market.
- b) It depreciates with the passage of time.
- c) It is more mobile between countries
- d) Physical capital (like machinery) separated from its owners.
- e) Physical capital is the outcome of the conscious decision of the owner and is mainly an economic and technical process.
- f) It can be fault through insects.

Human Capital

- a) Human capital is intangible and cannot be sold in the market.
- b) Depreciation in human capital (due to again) can be reduced by making continuous investment in education & health.
- c) Human capital is less mobile between countries as compared to physical capital.
- d) Human capital (like skills of a person) cannot be separated from the own.
- e) Formation of human capital is partly a social process by partly a conscious decision of the possessor of the human capital.
- f) Human capital formation is to be done through conscious policy formulations.

Meaning of Human Capital formation: Human capital formation means the development of abilities and skills among the population of the country.

Sources of Human Capital Formation:

1) **Expenditure on education:** (It is one of the most important sources of human capital formation) proper utility of man power depends on the system of education, training and industrial experience of the people. Spending on education by individuals is similar to spending on capital goods by companies with the objective of increasing future profits once a period of time. This increase the income of the people and their standard of living.

Investment in education is not only highly productive but also it yields increasing return and accelerates economic growth of all the resources education receives most importance because it gives maximum contribution to the development of the country.

2) **Expenditure on Health:** Health is an important input for a development of a nation. Expenditure on health is needed in the following areas.

- a. A preventive medicine known as vaccination curative medicines, i.e., medical intervention during the time of illness is very important.
- b. Provision of clean drinking water and good sanitation is very important for improvement of health. Health expenditure directly increases the physical capacity of human being and it raises the supply of healthy labor force.

3. On the job training: productivity of physical capital is substantially increased with the improvement in human capital. Due to this reason many firms provide on the job training to their workers. Such training has the advantage that it can be provided fast and without much cost. It increases the skill and efficiency of the workers and leads to an increase in production by productivity. Expenditure regarding on the job training is the source of human capital formation because it increase labor productivity than its cost.

4. Expenditure on migration: - people migrate to one place to another that gives them higher salaries. Unemployment people from rural migrate to urban areas technically qualified people migrate to other countries for higher salaries. Though it results in cost of migration and higher cost of living due to migration in migrated place it enhances earning that their cost of migration. Hence it is a source of human capital formation.

5. Expenditure on Information:- Expenditure is incurred to acquire information relating to labour market and other market. It involves amount spent on seeking information about educational institutions, education standard their educational needs and cost of education. This information is necessary to make decisions regarding investment in human capital as well as for efficient utilization of the acquired human capital stock.

Importance of Human capital formation

1. Human Capital formation is very important for the growth of an economy.

(i) Effective use of physical capital: Its growth and productivity depends on human capital formation.

(ii) Human capital formation raises the productivity and production as knowledgeable and skilled worker makes the better (use of the resources). Increase in productivity and quality production depends on technical skill of the people which can be acquired only by education or training and maintaining health of the people.

2. Inventions, innovations and technological improvement are all due to the extra knowledge acquired during education which provides lot of innovations and inventions.

3. The knowledgeable, skilled and physically fit people help in the human capital formation.

4. Increases life expectancy: Formation of human capital raises life expectancy of the people. Health facilities and availability of nutritive food enable people to live a healthy and long life. This in turn, adds to the quality of life.

5. Improves Quality of life: The quality of population depends upon the level of education health of a person and skill formation acquired by the people. Human capital formation not only makes people productive and creative but also transforms the lives of the people.

6. Control of population growth: It has been observed that educated persons have smaller families as compared to illiterate families, So, spread of education is necessary to control the population growth rate.

Reasons for poor Human Capital formations are:

1) **Insufficient Resources:-** The resources allocated to the formation of human capital have been much less than the resources required for meeting the educational & health needs of the country. Due to this reason, the facilities for the formation of human capital have remained grossly inadequate.

2) **Serious Inefficiencies:** There are a lot of wastages of society's resources as capabilities of educated people are either not made use of (in case of unemployment or are underutilized in case of unemployment). Massive literacy, non-education of many children, poor health facilities are other inefficiencies, which have not been attended to adequately & properly.

3) **High Growth of population:** The continuous rise in population has adversely affected the quality of human capital.

4) **Lack of proper manpower planning:** There is an imbalance between the demands for the supply of human resources of various categories, especially in case of highly skilled personnel. The absence of such balancing has resulted in the wastage of resources.

Human Capital & Human Development

1. Human Capital consider education & health as a means to increase labour productivity Human Development is based on the Idea that education & health are integral to human well being
2. In Human capital, investment in education and health is considered to be unproductive, if it does not increase output of goods & services In case of human development, investments in education and health is taken to be productive, even if it does not leads to higher output
3. Human capital treats human beings as a means to an end; the end being the increase in productivity In the human development perspective, human welfare should be increased through investment in education & health as every individual & health as every individual has a right to be literate & lead a healthy life

Growth of Education Sector in India

There has been considerable growth in the field of Education. The number of schools increased from 230.7 thousands (1950-51) to 1,215.8 thousands (2005-06). The no. of teachers in the same period increased from 751 thousand to 6010 thousands & no of students from 23,800 thousands to 2, 22,700 thousands.

Gross Environment Ratio

Gross Enrollment Ratio (GER) is the total enrolment of pupil in grade or cycle or level of education, regardless of age, expressed as percentage of the corresponding eligible official age group population in a given school year. GER in elementary education increased steadily from 82% in 1950-51 to 94.85% in 2005-06.

Literacy Rate

The literacy rate has increased from 18.33% in 1951 to 64.84% in 2001

Elementary Education in India

Elementary Education in India means eight years of schooling from the age of six i.e., primary & middle school education together, is called Elementary Education. Elementary Education, therefore is the foundation on which the development of every citizens and the nation as a whole hinges. The government has made elementary education compulsory and free. But, the goal of universal elementary education in India has been very difficult to achieve till now. In December 2002, the government of India made free and compulsory education, a fundamental right of all children in the age group of 6-14 years.

Primary Education Schemes

Government has made number of schemes to make "Education for all" The following are the few schemes

Sarva Shiksha Abhiyan (SSA)

It was launched in 2001 to universalize & improve the quality of Elementary Education in India through community ownership of Elementary Education. The SSA is being implemented in partnership with states to address the needs of children in age group of 6-14 years. The achievements under SSA up to September 30, 2007, include constructions of 7, 13,179 additional classrooms, 1, 72,381 drinking water facilities, construction of 2, 18,075 toilets. Supply of free textbooks of 6.64 crore children & appointment of 8.10 lakh teacher's besides opening of 1, 86,985 (till 31.3.07) new schools.

National Programme for Education of Girls at Elementary Education (NPEGEL):

The programme is aimed at enhancing girl's education by providing additional support for development of a model girl child friendly school. In every cluster with more intense community mobilization and supervision of girls enrolment in schools. Under NPEGEL, 35,252 model schools have been opened. In addition to supporting 25,537 Early Childhood Care & Education (ECCE) centers. Besides, 24,837 additional classrooms have been constructed and 18.75 lakh teachers have been given training on gender sensitization.

Kasturba Gandhi Balika Vidyalaya (KGBV)

The Kasturba Gandhi Balika Vidyalaya (KGBV) scheme was launched in July 2004 for setting up residential schools at upper primary level, for girls belonging predominantly to the SC, ST, OBC & minority community. The scheme ran as separate scheme for two years but was merged with Sarva Shiksha Abhiyan w.e.f April 1, 2007.

Secondary Education

Secondary Education, which starts with classes IX and X leads to senior secondary classes XI and XII aims to in cooperate basic skills & analytical abilities. It provides a stepping stone to higher professional and technical education.

Higher Education

The Higher Education System comprises both general and technical education. The higher education has undergone a manifold expansion since Independence. The no. of universities in the country has increased from 27 in 1950-51 to 350 in 2005-06 University Grants Commission (UGC) takes measures for promotion and coordination of university education and determination and maintenance of standards in teaching, examination and research in universities and allocation and disbursement of grants to them.

Technical Education

Technical Education plays a vital role in human resources development of the country by creating skilled manpower, enhancing Industrial productivity and improving the quality of life.

Since independence, there has been a phenomenal expansion of Technical Education Sector in the country. With 43 diploma level polytechnic at the time of independence, the no. increased to 1,231 in 2000-01. Similarly, the no. of degree level engineering institutions rose from 38 in 1947 to 1265 in 2001-02. All India Council for Technical Education (AICTE) is the apex body in the field of Technical Education.

Weakness of the Education Sector

1. **High Illiteracy:** According to 2001 census, the literacy rate of 64.8 percent is still far off the 100 percent mark.
2. **Gender Bias:** Education in India is gender biased. The enrolment of girls in both primary and upper primary classes is much below the boys.
3. **Low Quality Education:** The quality of the education is fairly low.
4. **Lack of Vocational and Technical Training:** Too much emphasis on general education neglecting the Vocational and Technical Education.
5. **Low Level of Government Expenditure:** Actual level of expenditure is only 3.46% compared to the desired level of 6%

Multiple Choice Questions (MCQs):

1. Which of the following is not an example of physical capital:

- (a) Machinery
- (b) Raw Material
- (c) Building
- (d) Education and Knowledge in people

2. Which of the following is a major source of human capital formation in a country:

- (a) Expenditure on education
- (b) Expenditure on Infrastructure
- (c) Expenditure on Defense
- (d) None of these

3. In which five year plan importance of human capital recognized:

- (a) Third
- (b) Sixth
- (c) Seventh
- (d) Eight

4. What is the full form of ICMR:

- (a) International council of Medical Research
- (b) Indian council of Medical Recourses
- (c) International council of Medical Recourses
- (d) Indian council of Medical Research

5. Which one of the following is a reason for poor human capital formation in India:

- (a) Brain drain
- (b) Insufficient Resources
- (c) High growth of population
- (d) All of these

Ans. 1. (d) 2. (a) 3. (c) 4. (d) 5. (d)

Very Short Answer Questions for 3 Marks:

Q.1. Briefly discuss the meaning of human capital.

Ans. It refers to the stock of skill, ability, expertise, education and knowledge embodied in the people. Human capital is needed to make effective use of physical capital. there is a need for investment in human capital to produce more human capital out of human resources.

Q.2. Discuss the concept of physical capital.

Ans. It includes all those inputs which are required for further production, like plant and machinery, factory, buildings, raw materials etc. the physical capital is needed to make use of physical resources.

Q.3. What factors contribute to human capital formation?

Ans. The following factors contribute to human capital formation: (1) Expenditure on Education (2) Expenditure on Health (3) On-the-job-Training (iv) Expenditure on Migration and (v) Expenditure on Information

Q.4. Mention two government organizations each that regulate the health and education sectors.

Ans. Regulatory authority in Health : (1) Ministries of Health at the union and state level (ii) Indian council for Medical Research (ICMR)

Regulatory authority in Education : (1) Ministries of Education at the union and state level (ii) National Council of Educational Research and Training (NCERT)

Q.5. Bring out the differences between human capital and human development.

Ans. These two terms are sound similar yet there is a clear demarcation between them.

Human Capital	Human Development
(i) Human capital considers education and health as a means to increase labour productivity.	(i) Human Development is based on the idea that education and health are integral to human well being because when people have the ability to read and apply their knowledge to derive maximum benefit they will be able to lead a long and healthy life.
(ii) Human capital treats human beings as a means to achieve an end which is higher productivity, failing which the investment is not considered to be	(ii) Human development on the other hand is a broader concept which considers human beings as end in themselves and their welfare as the objective which can be achieved through investments in education and health.

Very Short Answer Questions for 4 Marks:

Q.1. Identify how human development index is calculated.

Ans. Human Development Index (HDI) is a comprehensive index of development. It is calculated by combining all variables which influence quality of life of people.

These factors are: (i) Longevity or life expectancy at birth (ii) Educational attainment (iii) Real GDP per capita

HDI is calculated by calculating an average of all three. They all are rated on a scale of 0-1, the higher the index, the higher is the development.

Q.2. What role can the government play in human capital formation in India?

Ans. Both education and health have been considered as important for human capital formation. The provision of basic education and health facilities has been accepted as a goal in all societies. It is important that these facilities be made available free for the poor classes who cannot afford them in order to insure better skills and health of manpower.

However the private sector will not be forthcoming in making large investments in non-profitable or free distribution of such services. Hence the government has an important role to play.

Q.3. Bring out the need for on-the-job-training for a person.

Ans. The productivity of physical capital is substantially enhanced with the improvement in human capital. Due to this reason, many firms provide on the job training to their workers.

- (a) training has the advantage that it can be provided fast and without much cost.
- (b) It increases the skill and efficiency of the workers and leads to an increase in production and productivity.
- © On-the-job-training may take different forms; workers may be trained in the firm itself under the supervision of a skilled worker as well as workers may be sent for off campus training.
- (d) It is a source of human capital formation as return of expenditure on such training in the form of enhanced labour productivity is more than the cost of it.

Q.4. Why do so many children drop out from different levels of education in India?

Ans. The rate of drop outs from school is one of the major problems in achieving the objective of 100 percent literacy levels. The rate is higher at higher levels of education and among females. A large section of the population lives BPL and do not have access to basic educational facilities. A substantial section cannot afford to reach higher education.

Q.5. Explain the relationship between human capital and economic growth.

Ans. Role of human capital formation in increasing the rate of economic growth.

- (i) Investment in human capital formation yields higher returns in future by yielding larger outputs.
- (ii) It improves the social outlook of the workers and helps to increase mobility of labour.
- (iii) When existing human resource is further developed by becoming more educated and healthy, human capital formation take place. This adds to the productive power of the country by increasing the efficiency of workers.

Long Answer Questions for 6 marks:

Q.1. Explain the role of education and health in economic development.

Ans. Education is an important source of human capital formation:

- (i) It generates technical skills and creates manpower, well suited for improving labour productivity and thus sustaining rapid economic development.
- (ii) It also tends to bring down birth rates, bringing a decline in population growth rate. Consequently it makes more resources available per person coupled with enhanced productivity.
- (iii) It also results in social benefits.

Health is also an important source of human capital formation:

- (i) Health directly increases the supply of healthy labour force.
- (ii) Poor health and undernourishment adversely affect the quality of man power. A sick labour without access to medical facilities is compelled to abstain from work and there is loss of productivity.
- (iii) Adequate food and proper nourishment to people along with adequate health and sanitation facilities leads to qualitative improvement in human capital.

Q.2. What are main problems of human capital formation in India?

Ans. Problems of human capital formation in India are:

- (i) Rapidly rising population adversely affects the quality of human capital formation in developing countries. It reduces per capita availability of existing facilities. A large population also requires large investment in education and health.
- (ii) The process of human development is a long period policy because skill formation is time consuming. The process which produces skilled manpower is thus slow.
- (iii) Regional and gender inequality lowers the human development levels.
- (iv) Migration of highly skilled labour termed as “Brain Drain”, adversely affects the economic development.
- (v) Agricultural sector is neglected where the workers are not given on the job training to absorb emerging new technologies.
- (vi) A large section of the population lives below poverty line and do not have access to basic health and educational facilities. A substantial section cannot afford to reach higher education or expensive medical treatment for major illness.

RURAL DEVELOPMENT

- **Rural Development:** It is a continuous comprehensive socio-economic process, attempting to improve all aspects of rural life.
- **Rural Credit**
 1. Rural Credit means provision of loans especially in production for agriculture and non-agricultural sectors.
 2. Credit facilities in the rural areas have contributed a large increase in agricultural productivity and employment facilities in non-agricultural sectors.
 3. The loans have provided in rural areas to the frames in order to purchase machineries agricultural implements etc.
 4. The government had also provided long term loans which can be repaved in 15to 20 years for improvement of the land, digging tube well, purchase of tractors etc.
 5. There are some loans which are provided to farmers to celebrate religious ceremonies, marriages for settlements of old loans and to support the family in case of a crop failure.
 6. These loans are called as unproductive loans.
- **Sources of Rural Credit**

Rural Credit availability can be broadly classified into 2 categories:

 1. **Non-institution Sources:** - These are the traditional sources of agricultural credit in India. They include money lenders, relatives, traders, commission agents and land lords.
 2. **Institutional Sources:-** They are cooperative credit, land development banks, commercial banks, regional rural banks, govt., national bank for agricultural and rural development (NBNR) and also self-help groups.
- **Micro finance:** is a credit scheme extended to the poor through Self Help Groups (SGHs)
- The **Self-Help Groups (SGHs)** have been set up to promote thrift in small proportions by a minimum contribution from each member. From the pooled money, credit is given to the needy numbers to be repayable in small instalments at reasonable interest rates.
- **Agricultural Marketing System:** Agricultural marketing is a process which involves assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.
- **Measures to Improve Agricultural Marketing**
- After Independent govt. has adopted various measures to improve of the system of agricultural marketing in the country. It has brought about following measures in order to regulate the markets:-
 1. **Regulated Markets:-** The first measure was regulation of markets, to create orderly and transparent marketing condition. This is organized in order to protect farmers from malpractices of sellers and brokers.
 2. **Cooperative Marketing:** Marketing societies are formed by farmers to sell the output collectively and to take advantages of collective bargaining, for obtaining a better price. Cooperatives are not functioning properly in a recent past due to inadequate coverage of farmer members and processing cooperatives and also inefficient management.
 3. **Infrastructural facilities:-** Govt. had also provided infrastructural facilities like roads, railways, warehousing, old storage and processing units.
 4. **Standardization and Grading:-** Grading And quality control helps farmers to get good price for quality products produced by them.
 5. **Minimum Support Price:-** To safeguard the Interest of the farmers government fixes the minimum support price for agricultural products like wheat, rice, maize, cotton, sugarcane, pulses etc. the government willingly will buy any amount of grains from the farmers at a price higher than the market price in order to help them recover their loss. This is normally done by good cooperation of India & the Government in turn will supply these products in public distribution system against BPL & APL card.

- **Defects of Agricultural Market in India:** The existing system of Agricultural marketing has no. of defects the following are some of the defects due to which the marketing system is not properly organized.
 1. Lack of storage facility for food grain and crops has damaged the products either by rats or insects or due to rain.
 2. Distress Sale: Most Indian farmers are poor and they have no capacity to wait for better price. They sell the commodities at whatever the price available immediately. As a result they go for distress sale of their output, to the village money lenders or traders for poor price.
 3. Lack of transportation as a result farmer cannot reach nearby mandis to sell their produce at a fair price.
 4. Long chain of middleman or intermediaries between the cultivator and the consumer will also reduce the profit of the producer.
 5. There are also other defects like lack of institutional finance, lack of guiding etc. This makes Indian marketing system disorganized.
- **Remedial measures for improvement of agricultural marketing**
 1. Extension of storage facilities at the farm level and storage and warehousing facilities in the markets and consumption centres.
 2. Establishments of regulated markets.
 3. Improvement of transport facilities between the village and the mandis.
 4. Establishment of cooperation marketing societies.
 5. Provision of cheap credit, especially from institutional sources.
 6. Provision for grading of the produce to ensure good quality to the consumers and better prices for the producers.
 7. Prompt supply of marketing information.
- **Diversification of Agricultural Activity:** This means the excess of people in agriculture can be given gainful employment in some other allied activities in agriculture and non-farm activities. This is done in order to overcome poverty, improve employment and make rural agricultural people fully employed.

Diversification includes 2 aspects.

 1. **Diversification of crop production:-** This involves shift from single cropping system to multiple cropping system. This also involves shifting cropping pattern from food grains to cash crops. The main aim is to promote shift from subsistence farming to commercial farming.
 2. **Diversification of Productive Activities:-** As agricultural is already overcrowded the major portion of the increasing labour force needs to find alternate employment opportunities in other non-farm sectors. This will provide alternate sustainable livelihood and would raise the level of income.

Some of the non- farm activities are animal husbandry, dairy farming, fishers, horticulture, agro processing industries, food processing industries leather industry, tourism etc. These sectors have the potential but they lack infrastructure and other financial support.
- **Operation flood** is a system, whereby all the farmers can pool their milk produce according to different grading and the same is processed and marketed to urban centers through cooperatives.
- The period of 1991-2003 is known as **Golden Revolution** because during this period, the planned investment in horticulture became highly productive and the sector emerged as a sustainable livelihood option.
- **Role of IT Industries in the development of agriculture**
 1. Information Technology has revolutionized many sectors in Indian economy. There is a broad agreement that IT will play critical role in achieving sustainable development and food security in the 20th century.
 2. Through proper information and software tools, govt has been able to predict area of food insecurity and vulnerability to prevent or reduce the livelihood of an emergency.

3. It also has a posture impact on the agricultural sector as it circulate information regarding technologies and its application prices, weather and soil condition for growing different crops.
4. This has increased the knowledge about agriculture.
5. The aim for increasing the role of information technology is to make ever village a knowledge Centre, where IT provides a sustainable option of employment and livelihood.

- **Sustainable Development:** It is the development which aims to develop the present generation without affecting the quality of life of future generation.

Sustainable development does not prohibit the use of any resources, but aims to restrict their use in such a way it is left for the future generation.

- **Organic Farming**

1. Organic farming is the process of producing food naturally.
2. This method avoids the use of synthetic chemical fertilizers and genetically modified organisms.
3. It is very eco-friendly and very essential for sustainable development. It has a zero impact on environment.

Advantages of Organic Farming

1. It substitutes costlier agricultural inputs such as HYV seed, Chemical fertilizers, pesticides etc. locally produced organic inputs, which are cheaper and thereby generate good returns on Investments.
2. It generates income through export as the demand, for organically grown crops are on the raise.
3. It provides healthy food as organically grown food has more nutritional value than food grown through chemical farming.
4. It can provide more employment opportunities in India as it requires more labourers for production than chemically produced goods.
5. Organic food is a pesticide free and is produced in an environmentally sustainable way.

- **Disadvantages of Organic Farming**

1. Organic farming needs to be popularized by creating awareness and willingness on the part of the farmers for adoption of new methods.
2. There is no proper infrastructure and marketing facilities for these products alone. An appropriate agricultural policy should be brought in for organic farming.
3. The fields from organic farming are less than modern agricultural farming in the initial years. Therefore small and marginal farmers may find it difficult to adapt to large scale production.

The problems faced in rural banking are:

A: Insufficient rural credit

B: Growing overdues

C: Inadequate amount of sanction

D: All of these

ANSWER: D: All of these

The scheme of “Micro Finance” is extended through:

A: Self-help Groups

B: Land development Banks

C: NABARD

D: Regional rural banks

ANSWER: A: Self-help group

Which period is known as Global Revolution?

A: 1991-2003

B: 2000-2005

C: 1990-1995

D: 2005-2010

ANSWER: A: 1991-2003

Which of the following is not a non-institutional source of credit?

A: Money lenders

B: Relatives

C: Traders and commission agents

D: Land development bank

ANSWER: D: Land development bank

Organic Farming is beneficial because:

- A: It generates income through international exports
- B: It is produced in an environmentally sustainable way
- C: It provides healthy food
- D: All of these

ANSWER: D: All of these

1. Discuss the importance of credit in rural development.

In agriculture due to long time gap between crop sowing and realisation of income, farmers are in strong need for credit. Farmers need money to meet initial investment on seeds, fertilizers, implements and other family expenses of marriage, death, religious ceremonies, etc. So, credit is one of the important factors, which contribute to agricultural production. An efficient and effective rural credit delivery system is crucial for raising agricultural productivity and incomes.

2. Why is agricultural diversification essential for sustainable livelihoods?

(Agricultural diversification is essential for sustainable livelihoods because:

- 1: There is greater risk in depending exclusively on farming for livelihood;
- 2: To provide supplementary gainful employment to rural people and to enable them to overcome poverty by earning higher level of income.

3. What do you mean by agricultural marketing?

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

4. Explain the term 'Golden Revolution'.

The period of 1991-2003 is known as 'Golden Revolution' because during this period, the planned investment in horticulture became highly productive and the sector emerged as a sustainable livelihood option.

5. Why have self-help groups (SGHs) been set up?

The self-help groups (SGHs) have been set up to promote thrift in small proportions by a minimum contribution for each member. From the pooled money, credit is given to the needy members to the repayable in small installments at reasonable interest rates.

6. Explain the role of micro-credit in meeting credit requirements of poor.

Micro credit or self help group(SHG) has emerged as the major micro finance programmed in the country in recent year.

1. Their focus is largely on those rural poor, who have no sustainable access to the formal banking system. So their target groups comprise of small and marginal farmers, agricultural and non-agricultural laborers, artisans etc.
2. SHGs promote thrift in small proportions by a minimum contribution from each member.
3. From the pooled money, credit is given to the needy members at reasonable interest rates, which is to be repaid in small installments.
4. By March 2003, more than seven Lakh SHGs had reportedly been credit linked. Such credit provisions are generally referred to as micro-credit programmes. SHGs have also helped in the empowerment of women.

7. Mention some obstacles that hinder the mechanism of agricultural marketing?

Some of the obstacles that hinder the mechanism of agricultural marketing are:

1. Agricultural markets are still dominated by the private traders like moneylenders, rural political leaders, big merchants and rich farmers.
2. The quantity of agricultural products, handled by the government agencies and consumer cooperatives, constitutes only 10%, while the rest is handled by the private sector
3. Lack of storage facility: the facilities available for storing the food grains and commercial crops are far from satisfactory.
4. Lack of transportation: due to absence of proper road transportation facilities, they have to sell their produce at the village market itself.
5. Lack of market information: farmers were often forced to sell at low prices due to lack of required information on prices prevailing in markets.

8. Explain the role of non-farming employment in promoting the rural diversification

The following are the importance of non-farm employment opportunities in promoting rural diversification:

There is greater risk in depending exclusively on farming for livelihood. Non-farm employment provides productive sustainable livelihood option to rural people.

Most of the agricultural employment activities are concentrated in the khaki season. However, during the Rabi season, it becomes difficult to find gainful employment in the areas where there are inadequate irrigation facilities. So, diversification into non-farm areas proves to be crucial. Non-farm activities has several segments of non-farm activities possess dynamic linkages that permit healthy growth.

The output of non-farm sectors acts as an input for the large scale industries. For example, agro-processing industries, leather industry, etc.

9. What is organic farming and how does it promote sustainable development?

Organic farming is the form of agriculture that relies on techniques such as crop rotation, green manure, compost and biological pest control.

Organic farming is the process of producing safe and healthy food, without leaving any adverse impact on the environment. This method avoids the use of synthetic chemical fertilizers and genetically modified organism. It means, organic farming promote sustainable development as it restores, maintains and enhances the ecological balance. The produce of organic farming is pesticide-free and is produced in an environmentally sustainable way.

10. Enlist some problems faced by farmers during the initial years of organic farming.

Some of the problems faced by farmers during the initial years of organic farming are:

- 1: in the initial years organic farming has a lesser yield as compared to modern agricultural farming. As a result small and marginal farmers find difficult to adapt to large scale production.
2. Organic farming faces problems of inadequate infrastructure and marketing facilities.
3. Organic produce has a shorter shelf life as compared to sprayed produce.
4. The choice in production of off-season crops is quite limited in organic farming.

QUESTION _____ (6mark)

11. What do you mean by rural development? Bring out the key issues in rural development

Rural development refers to continuous and comprehensive socio-economic process, attempting to improve all aspects of rural life.

1. Development of human resource: The quality of the human resource need to be improved by giving proper attention to literacy and better health facilities.
2. Development of Infrastructure: It involves improvement in electricity, irrigation, credit, marketing and transport facilities.
3. Land Reforms: It includes: (1) Elimination of exploitation in land relation; (2) Actualization of the goal of 'land to the tiller'; (3) Improvement of socio economic condition of rural poor by widening their land base; (4) Increase agricultural productivity and production.
4. Alleviation of Poverty: It includes taking serious steps for alleviation of poverty and bringing significant improvement in living condition of weaker sections.
5. Development of the productive resources of each locality to enhance opportunities of employment.

12. Explain the steps taken by the government in developing rural markets. (6 marks)

The steps taken by the government in developing rural markets, including the following measures:

1. Regulated market: Regulated markets have been organized with a view to protect the farmers from the malpractices of sellers and brokers. This policy benefited farmers as well as consumers.
2. Infrastructures Facilities: The government aims to provide physical infrastructure facilities like roads, railway, warehouses, godowns, cold storages and processing units.

3 .Cooperatives Marketing :The aim of cooperatives marketing is to realize fair price for farmers products .Under this marketing societies are formed by farmers to sell the output collectively and to take advantage of collective bargaining in order to obtain better price.

4. Different policy instruments: in order to protect the farmer , the government has initiated the following policies:

(a) Minimum support prices (MSP): to safeguard the interest of farmers, government fixes the minimum support prices, which is regarded as an offer price, at which the government is willing to buy any amount of grains from the farmers.

(b) Maintenance of buffer stocks: The food corporation of India (FCI) purchases wheat and rice at the procurement prices , to maintain buffer stock . Buffer stock insure regularity in supply and stability in prices.

(c) Public distribution system (PDS): PDS operates through a network of ration shops and fair price shops , in which essential commodities like wheat , rice, kerosene, etc. are offered at a price below the market price to the weaker section of the society.

Employment: Growth, Informalisation and Other Issues

- **Worker:** A worker is an individual who is involved in some productive activities to earn a living.
- **People included in workers:** It is not only people those who are paid workers also includes self-employed people like shopkeepers, barbers, cobblers etc.. Workers include all those people who are engaged in work whether for others (paid workers or self-employed)
- **Difference between labour force and work force**
 - **Labour Force:** All persons, who are working (who have a job) and though not working, are seeking and are available for work, are dram to be in the labour force.
 - **Work force:** The number of persons, who are actually employed at a particular time are known as work force.
- **Worker – population ratio:** Worker- population ration is the percentage of total population engaged in work.
$$\text{WPR} = \frac{\text{Total number of workers in India} \times 100}{\text{No. of work population In India}}$$
- **Labour force participation rate:** The ratio of labour force to total participation is called labour force participation rate.
- **Informalisation of workforce:** refers to a situation whereby the proportion of workforce in the informal sector to total workforce increases.
- More rural women are found working because of their poor economic condition as compared to urban women.
- People in rural areas are engaged mostly in agriculture, which is a seasonal activity. So, rural workforce migrates to urban areas during some part of the year.
- Regular salaried employees are more in urban areas as considerable section of urban people are able to study in various educational institution and it enables them to look for an appropriate job to suit their qualifications and skills. However, in rural areas, most of the people are illiterate and lack skills, which are needed for regular Employment.
- **Employment** is an activity which enables a person to earn means of living.
- **Casual Wage Labourer:** Workers who are not hired by their Employers on a regular or permanent basis (i.e. do not have job security) and do not get social security benefits, are termed as casual wage labour.
- **Jobless growth** refers to a situation when the Economy is able to produce more goods and service without a proportionate increase in Employment opportunities.
- **Regular workers:** Workers who are hired by their employers on a permanent basis and also get social security benefits (like pension, provident fund, etc.) are higher in regular workers.
- **Casualisation of work force:** The process of moving from Self- Employment and regular salaried employment to casual wage work is known as Casualisation of Workforce.
- Types of **urban unemployment:**
 - **Industrial unemployment:** It refers to the unemployment among the illiterates who wish to work in industrial establishment
 - **Educated unemployment:** Educated unemployment refers to the unemployment among the educated people.
- **Wage employment:** An arrangement in which a worker sells his labour and earns wages in return
- Types of **rural unemployment:**
 - **Disguised unemployment:** Disguised unemployment refers to a state in which more people are engaged in work than are really needed.
 - **Seasonal unemployment:** Unemployment that occurs at certain seasons of the year is known as Seasonal unemployment.
- **Full employment:** Full employment refers to a situation in which all the workers who are capable of working and willing to work get an Employment in prevailing wage rates.

- **Self-employment:** An arrangement in which a worker used his own resources, to make a living is known as self-employment.
- **Formal sector establishment:** All the public enterprises and private establishments, which employ 10 or more hired workers are called formal sector establishments.
- **Informal sector Establishment:** All those private enterprises which hire less than 10 workers are called Informal sectors. Eg: Workers who work in farms, owners of Small Enterprises, Agriculture labourers. Here they do not get regular income. No protection or regulation by government can be dismissed at any time. Live in slums, use outdated technology and do not maintain accounts.
- **Frictional unemployment:** Temporary unemployment, which exists during the period, wherein. Workers leave one role and join some other, are called frictional unemployment.
- **Labour Force:** People those who are not working and are neither seeking nor available for work are considered to be outside the labour force.
Labour force = Person's working + Persons seeking & available for work.
After 66 years & below 15 years not included labour force. A handicapped person not included. People those who are not interested not included. People are not available not included.
- Unemployed people = labour force – Work force

1. Who is worker?

A worker is an individual who is doing some productive employment to earn a living.

2. Define self employed workers?

Self employed workers are those who work in their own business or profession and get profit as their reward.

3. Define job less growth.

Jobless growth is defined as a situation in which there is an overall acceleration in the growth rate of GDP in the economy which is not accompanied by a commensurate expansion in employment opportunities.

4. Define casualisation.

Casualisation is defined as a situation in which percentage of casually hired workers in the workforce tends to grow overtime.

5. Explain classification of workforce.

The number of persons, who are actually employed at a particular time are known as workforce.

6. Define GDP

Sum total of the goods and services produced in the economy during a year is called GDP.

7. why are regular salaried employees more in urban areas than in rural areas?

Regular salaried employees are more in urban areas as considerable section of urban people are able to study in various educational institutions and it enables them to look for an appropriate job to suit their qualifications and skills. However, in rural areas, most of the people are illiterate and lack skills, which are needed for regular employment.

8. What do you mean by Informal sector Establishment?

All those private enterprises which hire less than 10 workers are called Informal sectors. Eg: Workers who work in farms, owners of Small Enterprises, Agriculture labourers. Here they do not get regular income. No protection or regulation by government can be dismissed at any time. Live in slums, use outdated technology, do not maintain accounts.

9. What is worker population ratio? How do we calculate Worker population ratio? What is its use?

WPR refers to participation of people in the employment. It is measured by calculating

$$\text{WPR} = \frac{\text{Total number of workers in India}}{\text{No. of work population In India}} \times 100$$

It helps in knowing the proportion of population that is actively contributing to the production of goods and services of a country.

10. What is meant by frictional unemployment?

Temporary unemployment, which exists during the period, wherein. Workers leave one role and join some other, are called frictional unemployment.

People those who are not working and are neither seeking nor available for work are consider to be outside the labour force.

11. What are the Causes of unemployment ? what are remedial measures to solve problem of unemployment?

1. Slow rate of economic growth
2. Population explosion
3. Underdeveloped agriculture
4. Defective educational system
5. Slow growth of Industry
6. Decline of collage and small industry .
7. Faulty planning
8. Inadequate employment planning.
9. Low capital formation.

Remedial measures for unemployment .

1. Accelerating growth rate of GDP
2. Control of population growth
3. Development to small scale enterprises.
4. Encouragement in infrastructure.
5. Special employment programmes.
6. Rapid industrialisation.

Environment and Sustainable Economic Development

Environment is defined as the total planetary inheritance and the totality of all resources.

Functions of Environment

1. It provides resources for production:- Resources such as renewable and non- renewable are supplied by the environment.
2. Environment assimilates wastes.
3. It sustains life by providing essential elements like sun, soil, air, water etc.
4. It provides aesthetic services: - It includes land, forest, water bodies, rainfall, mountain etc., with this people enjoy the beauty of hill station and to improve the quality of life.

Carrying Capacity

Carrying capacity means 2 things.

1. Resources extraction should remain below the rate of resource generations.
 2. Generation of wastes should remain within the absorption capacity of the environment.
- If these two conditions are not fulfilled, then environment fails to perform its vital functions of life sustenance and it leads to the situations of environmental crises.

Reason for Environmental Crises

- Population explosion and Industrial revolution has increased the demand for environmental resources, but their supply is limited due to misuse and overuse.
- The intensive and extensive extraction of both renewable and non-renewable resources has exhausted some of the vital resources.
- Extinction of many resources and continuous rising population has also resulted in environmental crisis.
- Due to affluent consumption and production standard of developed world, the waste generated is beyond the absorptive capacity of the environment.
- The development process has polluted environment, water and atmosphere and there is decline in air and water quality. It has resulted in increased incidence of respiratory and water borne diseases.
- The expenditure on health is also rising. Global environmental issues such as global warming. Ozone depletion also contributes to the increased financial commitments of government.

Pollution

Pollution is the introduction of contaminants into an Environment that causes instability, disorder, harm and or discomfort in the ecosystem.

Pollution is substances, chemicals or factors which cause adverse effect on natural quality of any constituent of environment.

Strategies for Sustainable development

The following strategies should be adhered to, for sustainable development.

1. **Use of Non-conventional source of Energy** – India is mostly dependent on thermal and hydropower plants which have adverse environmental impact. Non-conventional sources like wind and solar says are cleaner and greener technologies, which can be effectively used to replace thermal and hydropower.
2. **Use of Cleaner fuels** – Use of Compressed Natural Gas (CNG) is being promoted to be used as fuel. In Delhi, the use of CNG as fuel in public transport system has lowered air pollution and the air has become cleaner. The use of LPG and Gobar Gas is being promoted which reduces air pollution.
3. **Establishment of Mini-Hydel plants** – Mountain regions and streams are used to generate electricity through mini Hydel plants. These are environment friendly.
4. **Traditional Knowledge and Practices** – Traditionally all practices relating to agriculture system, health care system, housing, transport etc. used to be environment friendly. The shift from the traditional system has caused large scale damage to the environment as our social heritage.

5. **Use of Bio-Compost** – The use of chemical fertilizers to increase the Agricultural production has not only adversely affected the large areas of productive land but also contaminate the water bodies. Increases in demand for organic food demand for dung are in increased use which is an important fertilizer and soil conditioner.

6. Control of Bio pest

7. **Change in unsustainable patterns of consumption and production** – India has taken large number of steps for sustainable development.

MULTIPLE CHOICE ANSWER TYPE QUESTIONS (1 mark each)

- Which of these is included in the physical environment?
A. Land B. Water C. Air D. All of those
Ans. D. All of those
- 'Green GNP' Concept is related to.....
A. Economic Development c. Sustainable development
B. Green Colour D. None of these
Ans. B. Sustainable development
- Which of these is related to future generation?
A. Economic development C. Growth
B. Sustainable development D. Quality of life
Ans. B. Sustainable development
- Structural changes are related to.....
A. Economic development c. Quality of life
B. Economic growth D. Sustainable development
Ans. Economic development
- Which of following is the measure for sustainable development?
A. Green national income c. Green GNP
B. Genuine savings D. All of these
Ans. D. All of these

VERY SHORT ANSWER TYPE QUESTIONS (1 mark each)

6. Define environment.

Environment is defined as the total planetary inheritance and the totality of all resources.

7. Give two examples of biotic elements of environment.

Animal and plants.

8. What do you mean by carrying capacity of environment?

Carrying capacity of the environment implies that the resource extraction is not above the rate of regeneration of the resources and the wastes generated are within the absorption capacity of environment.

9. Give the meaning of renewable resources.

Renewable resources are those which can be used without the possibility of being exhausted, such as trees, fishes etc.

10. What do you mean by non-renewable resources?

Non-renewable resources refer to those resources which get exhausted with extraction and use such as fossil fuel, coal etc.

11. What happens when the rate of resource extraction exceeds that of their regeneration?

Then environment fails to perform its vital function of life sustenance and it leads to the situation of environmental crisis.

12. Give the meaning of absorptive capacity of the environment.

Absorptive capacity of the environment means the ability of the environment to absorb degradation.

13. Why have some resources become extinct?

Some resources have become extinct because their extraction has been above the rate of regeneration.

14. What is global warming?

Global warming is a gradual increase in the average temperature of the earth's lower atmosphere and ocean.

15. Give two examples of overuse of resources

- i) Excessive exploitation of fossil fuel.
- ii) Excessive tree felling.

16. Define sustainable development.

Sustainable development is that process of development which meets the needs of present generation without reducing the ability of future generation to meet their own needs.

17. Give two examples of misuse of resources.

- i) Use of wood as a household fuel.
- ii) Use of rivers to absorb industrial effluents.

18. State the two major environmental issues the world is facing today:

- i) Depletion of natural resources
- ii) Environmental degradation

19. Mention any one measure to control air pollution.

Promotion of cleaner fuel, like use of CNG, LPG

20. Give the name of two movements which aimed at protecting forests.

- i) Chipko Movement
- ii) Appiko Movement.

21. State two basic problems related to environment

- i) Problem of Pollution.
- ii) Problem of excessive exploitation of natural resources.

22. State main function of central pollution control board?

Board (CPCB) investigates, collects and disseminates information relating to water, air and long pollution, lays down standards of sewage/trade effluent and emissions.

SHORT ANSWER TYPE QUESTIONS (3/5 marks each)

23. What are the functions of the environment?

The environment performs the four vital functions:

- i) It supplies resources, which includes 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.

24. Identify six factors contributing to land degradation in India.

The factors contributing to land degradation in India are.

- i) Loss of vegetation
- ii) Unsustainable fuelwood and fodder extraction
- iii) Shifting cultivation
- iv) Encroachment of forestland
- v) Forest fires and overgrazing
- vi) Lack of adequate soil conservation measures

25. Outline the steps involved in attaining sustainable development in India.

To achieve sustainable development, the following needs to be done :

- i) Limiting the human population
- ii) Technological progress should be input efficient and not input consuming.
- iii) Renewable resources should be extracted on a sustainable basis, that is, the rate of Extraction should not exceed rate of regeneration.
- iv) For non-renewable resources rate of depletion should not exceed the rate of creation of Renewable substitutes.
- v) Inefficiencies arising from pollution should be corrected. Strategies for Sustainable Development.
- vi) Use of non-conventional sources of energy .

- vii) Use of cleaner fuels : LPG , Gobar gas in rural areas and CNG in Urban areas.
- viii) Use of Solar energy and wind power.
- ix) Shift to organic farming
- x) Recycle the wastes
- xi) Public means of transport.
- xii) Traditional knowledge and practice s.
- xiii) Establishment of Mini Hydel plants.

26. Is environmental crisis a recent phenomenon? If so, why?

Ans. The various reasons for environmental crisis are as under :

- i) Population explosion and advent of industrial revolution.
- ii) The intensive and extensive extraction of both renewable and non-renewable resources.
- iii) The affluent consumption and production standards of developed countries.

LONG ANSWER TYPE QUESTIONS (6 marks each)

27. Discuss the strategy of sustainable development.

Ans. Inefficiencies arising from pollution should be corrected. Strategies for Sustainable Development.

- i) Use of nonconventional sources of energy.
- ii) Use of cleaner fuels : LPG , Gobar gas in rural areas and CNG in Urban areas.
- iii) Use of Solar energy a wind power.
- iv) Shift to organic farming
- v) Recycle the wastes
- vi) Public means of transport.
- vii) Traditional knowledge and practice s.
- viii) Establishment of Mini Hydel plants.

28. Explain how India's environmental problems are both poverty induced as well as the consequences of affluence in living standards.

Ans. i) loss of vegetation occurring due to deforestation.

- ii) Forest fires and over grazing.
- iii) Improper crop rotation.
- iv) Encroachment into forest lands.
- v) Shifting cultivation.
- vi) Indiscriminaty use of agro-chemicals such as fertilizers and pesticides.
- vii) Improper planning and management of irrigation systems.
- viii) Extraction of ground water in excess of the recharge capacity .
- i x) Poverty of the agriculture dependent people .
- x) No adoption of adequate soil conservation measures.

29. What is meant by sustainable economic development? Explain its main features.

Ans. Sustainable development is that process of development which meets the needs of present generation without r educing the ability of future generation to meet their own needs.

Main features of sustainable development are as under :

- i) Sustained rise in Real per Capita Income and Economic welfare.
- ii) Rational use of natural resources.
- iii) No reduction in the ability of the future generation to fulfill their own needs.
- iv) No increase in pollution.

30. How economic development causes environmental degradation? Explain.

Ans. India's rapid economic development has made us aware of two realities:

- i) Economic development has lifted millions out from poverty .
- ii) Economic development has been accompanied by accelerated depletion of natural resources and rapid deterioration in environment quality .

Unit 8 - Development Experience Of India Pakistan And China - A Comparative Study

Comparison between India, China, & Pakistan in terms of GDP growth rate.

After the Independence in 1947, India & Pakistan adopted planned development programmes which relied on public sector to spearhead the process of growth and development.

China adopted more rigorous model of growth in 1949 and it decided to bring all critical areas of production activity under government control.

The great leap forward (GLF) campaign was launched in 1958, focusing on wide spread Industrialization of the Economy. People were encouraged to launch household Industry in the country yards.

China adopted Commune system of agricultural production which was a system of collective cultivation.

Great Proletarian Cultural revolution launched in 1965 and making it mandatory for the students and professionals to go to the country side to work and learn from the countryside.

Chinas Export driven manufacturing is the key parameter of its success story in economic growth. Till about 1980, the economies of India, china, & Pakistan did not show much divergence in the GDP growth rate and it was around 4% annually.

It was around early 1980s in China, mid 80's in Pakistan, 90's in India that the breakthrough in GDP Growth rate was recorded.

In 2005, India & Pakistan both recorded GDP growth of 6 to 8 percent, where as china recorded GDP growth of about 10% per annum.

Comparison of the structure of growth between India, China, and Pakistan

Sector	% Share in GDP			% share in employment		
	India	Pakistan	China	India	Pakistan	China
Primary	23	23	15	60	49	54
Secondary	26	23	53	16	18	27
Tertiary	51	54	32	24	33	19

China has succeeded in placing greater reliance on Industrial sector compared to India & Pakistan. It is due to

1. GLF, a campaign launched in China in 1958 focusing on widespread industrialization of the Country.
2. Policy of reforms and opening up launched in 1978 which gave big push to china's manufacturing exports.

Implication of the one child norm in China

One child norm in China has successfully reduced the growth rate of population:

- After few decades in china there will be more elderly people in proportion to young people.
- This will force China to take steps to provide social security measures with fewer workers.

Comparison of the Demographic profile of India, China, and Pakistan.

One child policy in china adopted since 1979 has reduced the growth rate of population from 1.33 percent in 1979 to 0.64% in 2005.

(i) Growth rate of Population

Country	Growth rate of Population
China	0.64
India	1.33
Pakistan	2.5

Fertility rate is also very low in china as Compared to India & Pakistan.

ii) Low Density of Population

Country	Person per square kilometer
China	138
India	358
Pakistan	193

iii) Urbanization

Country	% of Population
China	36%
India	28%
Pakistan	34%

iv) Sex ratio

Country	Female per 1000 male
China	937
India	933
Pakistan	922

Comparison between India, China and Pakistan on the parameters of Human development.

i) HDI Ranking

Country	Ranking in the world
China	81
India	128
Pakistan	136

ii) INFANT MORTALITY RATE

Country	Per thousand
China	30
India	63
Pakistan	81

iii) Maternal Mortality Rate

Country	Per Lack
China	56

India	540
Pakistan	500

iv) Improved Sanitation

Country	Of Population
China	44%
India	30%
Pakistan	54%

v) Safe Drinking Water facility

Country	Of Population
China	77%
India	86%
China	77%

vi) Below Poverty Line

Country	Of Population
China	16.6%
India	21.8%
Pakistan	13.4%

Common success story of India & Pakistan

1. A substantial rise in GDP per capita.
2. Self-sufficiency in food production.
3. Dualistic nature of the economy is gradually declining.
4. Considerable increase in the incidence of poverty.

Common failures of India and Pakistan

1. Relatively slow pace of GDP growth rate as Compared to China.
2. Poor performance in HDI ranking.
3. Poor fiscal management.
4. Lack of political interest for social prosperity.

Areas where India has an edge over Pakistan

1. Skilled manpower
2. Investment in Education.
3. Health facilities.

Areas where Pakistan has an edge over India

1. Urbanization
2. Less percentage of population below poverty line.
3. More percentage of population having access to improved water sources.

Areas where China has an edge over India

1. China has successfully focused on Pro-poor reforms.
2. Agrarian reforms have been effectively carried out.
3. Export driven manufacturing has significantly grown, adding to the pace of GDP growth.
4. SEZ policy has proved to be a boon for FDI flow in India.

Question:-

fill in the blanks

- (a) First five year plan of -----commenced in the year 1956 (Pakistan/china)
- (b) Maternal mortality rate is high in -----(china/Pakistan)
- (c) Proportion of people below poverty line is more in ----- (India/Pakistan)
- (d) Reforms in-----were introduced in1988 (china/Pakistan)

Ans) (a) Pakistan (b) Pakistan (c) India (d) Pakistan

1. Objective of Great Leap Forward is –

- a) Extensive industrialization
- b) Development of agriculture
- c) Economic reforms
- d)All the above

Ans-(a)

2. What is meant by SEZ?

Ans Special Economic Zones were set up in china to attract foreign investors.

3. Which of the following countries has the least urbanization-

- a) India
- b) China
- c) Pakistan
- d) None of these

Ans-(a)

4. Economic reforms were introduced in India in the year-

- a) 1947
- b) 1950
- c) 1991
- d)2010

Ans-(c)

5. Full form of ASEAN is-

- a) Name of a continent
- b) Association of South East Asian Countries
- c) All South East American Nations
- d) None of the above

Ans-(b)

4 mark Questions

1. What are the various means by which countries are trying to strengthen their own domestic economies?

The various means by which countries are trying to strengthen their own domestic economies are-

- a) They have formed global economic groups like SAARC, European Union, ADEAN, G-8, G-20 etc.
- b) Through economic reforms.

2-State the problems faced by GLF campaign.

The problems faced by GLF campaign are-

- a)A severe drought caused havoc in China killing about 30 million people.
- b) When Russia had conflicts with China, it withdrew its professionals, who had earlier been sent to China to help in the industrialisation process.

3. China achieved a breakthrough in GDP growth in the early 1980's.What are the reasons for this?

The achievement is attributed to the following factors-

- a) China shifted from a centrally planned to a market economy.
- b) It focussed on export related domestic production.
- c) It facilitated the flow of FDI by building a strong infrastructural base

4. What is the important implication of the ‘one child norm’ in China?

- a) The low growth rate of population.
- b) This lead to a decrease in the sex ratio.
- c) In the coming decade there will be a lot of elderly people compared to number of young people. Hence the government would have to take steps to provide social security measures.

5.- What are the policy measures adopted by China to emerge as a leading exporter in the global market?

- a) SEZ played important role in luring FDI to China. These zones offered all basic amenities to the investors, which prompted them to consider China a lucrative destination for investment.
- (b)Availability of cheap labour.
- (c)GLF campaign.

4 Mark Questions

1. What are the areas where China has an edge over India?

The areas where China has an edge over India are-

- a) China has successfully focused on pro- poor reforms.
- b) Agrarian reforms have been effectively carried out.
- c) Export driven manufacturing has significantly grown, adding to the pace of GDP growth.
- d) SEZ policy has proved to be a boon for FDI flow in China.

2. What are the basic components of the New Economic Policy of India?

The basic components of the New Economic Policy of India are-

- a) A massive shift towards privatisation.
- b) A transformation towards liberalisation
- c) Greater reliance on export –promotion rather than import substitution.
- d) FDI to be the mainstay of investment rather than domestic investment.

3. GDP growth rate in China has slowed down in the recent past. Give the reasons for this.

Some notable reasons in this regard are-

- a) Slowdown in the global economies has dampened the demand for the Chinese products.
- b) Growth of domestic demand in China is slowing down .This is because of rising propensity to save in the Chinese economy.
- c) Corruption and economic crimes have tended to rise over time.
- d) Chinese people are now exploring higher wage opportunities of employment in the rest of the world where government intervention is minimum.

4.- While FDI in retail has proved to be growth friendly in China , why should there be opposition to it in India? Give your opinion.

It is undisputed fact that FDI is growth-friendly. It is an investment that increases production capacity of a nation. The opposition to FDI is not because it may be a road lock in the process of growth. It is because it may generate unwarranted competition for the retail traders in India who may be marginalised and finally driven out of the market. such a situation may erode the opportunities of self –employment in the country.

5.- Compare the salient demographic indicators in case of India and China.

Ans- The Salient demographic indicators are as under-

Country	Estimated population (in million)	Annual growth rate of population (2001-2011)	Density (Per Sq.Km)	Sex Ratio (out of 100 persons)	Urbanisation
India	1237	1.26	411	48.3	32
China	1350	0.49	144	48.2	52

6. What similar development strategies have India and Pakistan followed for their respective developmental paths?

1. India has the largest democracy of the world. Pakistan has authoritarian militarist political power structure.
2. Both India and Pakistan followed a mixed economy. both create a large public sector and planned to raise public expenditure on social development

7. Describe the path of development initiatives taken by Pakistan for its economic development.

1. In 1950s&1960s Pakistan introduce a variety of regular policy frame work .the policy combine tariff protection for manufacturing of consumer good together with direct import control
2. The green revolution leads to mechanization of agricultural. finally lead to rise in the production of food grains .this change the cultural dramatically
3. In1970s nationalization of capital goods industries took place
4. In 1998s structure reforms. The thrust areas encouragement to private sector.

8. Mention salient demographic indicators of china, Pakistan and India.

1. The population of Pakistan is very small &account for roughly about one-tenth of china or India.
2. China is largest nation geographically among the three ,its density is lowest
3. The population growth is highest in Pakistan followed by India. One child normal introduce in china in late 1970s is the major reason for low population growth.
4. The sex ratio is low &based against females in all three countries
5. The fertility rate is low in china &very high in Pakistan
6. Urbanization is high in both Pakistan &china with India having 28per cent of its people living in areas.

9. Give reasons for slow growth & re-emergence of poverty in Pakistan.

1. Pre-reform period: failure
 - (a) The proportion of poor in 1960s was more than 40 per cent.
 - (b) The economy started to suffering from the drop in remittances from middle east .
 - (c) A growth rate of over 5% in 1980s could not be sustained
 - (d) At times foreign exchange reserves were as low as for 2 weeks of imports

10. Compare & contrast the development of India, china and Pakistan with respect to some salient humans development indicators.

- (a) China is moving ahead of India. This is true for many indicators –income indicators such as gaper capital. of population below poverty line such as mortality rates, literacy ,life expectancy.
- (b) Pakistan is ahead of India in reducing proportion of people below poverty line and also its performance in education, sanitation is better than that of India. The international poverty rate of a day proportional is almost two times higher for India.
- (c) In china for one lakh birth only 50 women die whereas in i8ndia Pakistan more than 500women die.
- (d) India &Pakistan are ahead of china in providing improving water resources.

6 Mark Questions

1. - Describe the important parameters of HDI with reference to the performance of India and China.

- Ans- a) In the year 2014,HDI for China and India was estimated to be 0.719and 0.586respectively.
- b) Global ranking of these countries found to be 91and 135.
 - c) In the year 2011 China's GDP per capita was estimated to be US \$8394, while it was merely US\$3703 for India.
 - d) 55% of China's population has access to improved sanitation compared with 31% in India.
 - e) Infant Motality Rate is as low as15.62 per th. In China compared with 46 per th.In India.
 - f) Maternal Mortality Rate is just 38 per lakhin China Compared with 230 in India.

2- Compare the sectoral contribution in GDP and employment in India and China.

Sector	% share in GDP		% share in employment	
	India	China	India	China
Primary	17	10	51	34
Secondary	26	47	22	29
Tertiary	57	43	27	37

Ans-

- a) Both the countries have experienced a noticeable structural transformation .No longer primary sector is the principal contributor to GDP.
- b) In terms of sectoral contribution to GDP, economy of India rely on tertiary sector, whereas China rely more on secondary sector.
- c) In terms of employment, the shift from primary to secondary and tertiary sectors has not been so significant in India compared to China .India has virtually failed in this respect. People have here been strck to primary activities, despite a substantial in percentage of this sector to GDP.

MINIMUM LEVEL OF LEARNING – MACROECONOMICS
1.NATIONAL INCOME AND RELATED AGGREGATES

1. Distinguish between Stock & Flow.

<u>STOCK</u>	<u>FLOW</u>
* It refers to that variable which is measured at a point of time.	* It refers to that variable which is measured over a period of time.
It does not have time dimension.	* It has a time dimension as its magnitude can be measured over a period of time
* It is a static concept.	* It is a dynamic concept.
* Examples – Population of India as on 31.3.2014, Money Supply, National Wealth	* Examples – No of birth during 2014, national income, Expenditure in money.

2. Differentiate between consumption goods and capital goods.

<u>CONSUMPTION GOODS</u>	<u>CAPITAL GOODS</u>
* These goods satisfy human wants directly.	* Such goods satisfy human wants indirectly.
* These goods have direct demand.	* Such goods have derived demand.
They do not promote production capacity.	* They help in rising production capacity.
* Most of the consumption goods (except durable goods) have limited expected life.	* Capital goods generally have an expected life more than one year.

3. Write the steps while calculating National Income by Value Added Method?

STEPS-

- (1) Identify and classify the production units.
- (2) (Estimate Gross Domestic product at Market Price $\Sigma GVA_{MP} = GDP_{MP}$.)
- (3) (Calculate Domestic Income (NDP_{FC}) = $NDP_{FC} = GDP_{MP} - \text{Depreciation} - \text{Net Indirect Tax}$.)
- (4) (Estimate net factor income from abroad (NFIY) to arrive at National Income.
 $NNP_{FC} = NDP_{FC} + NFIA$.)

OR

Write the steps while calculating National Income by Income Method?

STEPS-

- (1) Identify and classify the production units.
- (2) Estimate the factor income paid by each sector.
- (3) Calculate Domestic Income (NDP_{FC}) = $NDP_{FC} = C.O.E. + \text{Rent and Royalty} + \text{Interest} + \text{Profit} + \text{Mixed Income}$
- (4) Estimate net factor income from abroad (NFIY) to arrive at National Income.
 $NNP_{FC} = NDP_{FC} + NFIA$.)

OR

Write the steps while calculating National Income by Expenditure Method?

STEPS-

- (1) Identify the Economic units incurring Final Expenditure
- (2) Classification of Final Expenditure ($PFCE + GFCE + GDCF + \text{Net Export} = GDP_{MP}$)
- (3) Calculate Domestic Income (NDP_{FC}) = $NDP_{FC} = GDP_{MP} - \text{Depreciation} - \text{Net Indirect Tax}$.)
- (4) Estimate net factor income from abroad (NFIY) to arrive at National Income.
 $NNP_{FC} = NDP_{FC} + NFIA$.)

4. What precautions should be taken while calculating National Income by Value Added Method?

PRECAUTIONS-

- (1) Intermediate Goods are not to be included in N.I.
- (2) Sale and Purchase of second hand goods is not included.
- (3) Production of services for self consumption (Domestic Services) is not included.
- (4) Production of Goods for self consumption is not included.
- (5) Imputed value of owner occupied houses should be included.
- (6) Change in stock of Goods (inventory) will be included.

OR

What precautions should be taken while calculating National Income by Income Method?

PRECAUTIONS-

- (1) Transfer Incomes are not included in the N.I.
- (2) Income from sale of second hand goods will not be included.
- (3) Income from sale of shares, bonds and debentures will not be included.
- (4) Windfall gains.
- (5) Imputed value of services provided by owners of production units will be included.
- (6) Payments out of past savings are not included in the N.I.
- (7) Indirect Taxes are not included in N.I. at factor cost.

OR

What precautions should be taken while calculating National Income by Expenditure Method?

PRECAUTIONS-

- i) Expenditure on Intermediate Goods will not be included in the National Income.
- ii) Transfer payments are not included.
- iii) Purchase of second hand goods will not be included.
- iv) Purchase of financial assets (shares, debentures, Bonds) will not be included.
- v) Expenditure on own account production will be included in the National Income.

2. MONEY AND BANKING

1. Explain the credit creation by commercial bank with a numerical example.

MONEY CREATION OR CREDIT CREATION - Money creation (or deposit creation or credit creation) by the commercial banks is determined by

- (1) The amount of the initial fresh deposit and (2) The Legal Reserve Ratio

(LRR) – It is the minimum ratio of deposit legally required to be kept as cash by the banks.

LRR includes

Cash Reserve Ratio – It is the minimum proportion of cash reserves which is kept by commercial banks with the central bank against its total deposits; and

Statutory Liquidity Ratio It is that proportion of the total deposits which a commercial bank has to keep with itself in the form of liquid assets (i.e. cash, gold and unencumbered approved securities). It is assumed that all the money that goes out of banks is redeposit into the banks.

1.Explain the functions of Central Bank.

Currency Authority or Bank of Note Issue - Central bank is a sole authority to issue currency in the country. The main advantages of sole authority of note issue.

- (a)Uniformity in note circulation, (b) Better supervision and control, (c) It is easy to control credit, (d) Ensure public faith, (e) Stabilization in internal and external value of currency.

Banker's Bank-

RBI acts as Bankers bank in 3 capacities-

Banker's Bank and Supervisor – There are no of commercial bank in country. There should be some agency top regulate and supervise their proper functioning. Being the apex bank, The RBI regulates and controls the commercial banks. The regulation of banks may be related to their licensing, branch expansion, liquidity of assets, management, Merging, winding up etc. The control is exercised by periodic inspections of banks and the returns filed by them.

Custodian of Cash Reserve – Commercial Banks must keep a certain proportion of cash reserves with the central banks from their total Deposit (known as Cash Reserve Ratio or CRR).

Lender of Last Resort - The central bank also acts as lender of last resort for the other banks of the country. It means that if a commercial bank fails to get financial accommodation from anywhere, it approaches the central bank as a last resort. Central bank advances loan to such a bank against approved securities. As a lender of the last resort, central bank exercises control over the entire banking system of the country.

Clearing House - Every bank keeps cash reserves with the central bank. The claims of banks against one another can be easily and conveniently settled by simple transfers from in to their account. Supposing, Bank A receives a cheque of Rs 10,000 drawn on Bank B and Bank B receives a cheque of Rs. 15000 drawn on Bank A. The most convenient method of settling or clearing their mutual claims is that Bank A should issue a cheque amounting to Rs 5000 in favour of Bank B, drawn on central Bank. As a result of this transference, a sum of Rs 5000 will be debited to the account of Bank A and credited to the account of B. There is no need of cash transactions between the banks concerned. It facilitates cash transaction across the entire banking system, it also reduces requirement of cash reserves of the commercial banks.

Custodian of Foreign Exchange Reserves - Another important function of Central Bank is the custodian of foreign exchange reserves. Central Bank acts as custodian of country's stock of gold and foreign exchange reserves. It helps in stabilizing the external value of money and maintaining favorable balance of payments in the economy.

Controller of Money Supply and Credit – Central bank or RBI plays an important role during the times of economic fluctuations. It influences the money supply Through Quantitative instruments (like – Bank Rate, Open Market Operations, legal Reserve ratios, Cash reserve Ratios, Statutory Liquidity ratios) and Qualitative instruments (like – Moral Suasion, Credit Rationing, Direct Action, Margin Requirements).

What do you mean by double coincidence of wants?

Or

What are the drawbacks of barter system? How money overcome to this problem?

Draw Backs of Barter System –

1. Problem of Double Co incidence of Wants – A can exchange goods with B only when A has what B wants and B has what A wants.
2. Lack of Common Measure of Value
3. Lack of Standard of Deferred Payment
4. Difficulty in Storing Wealth.
5. Lack of Divisibility.

How is money created by commercial Banks? Explain it.

Credit Creation by Commercial Banks

Moneys creation by the bank is determined by

- i. The amount of the initial fresh deposits
- ii. The legal Reserve Ratio (LRR) (the minimum ratio of deposit legally required to be kept as cash by the banks)

Assumption:

All the money that goes out of bank is redeposited into the banks

- i. Let LRR 20%, Fresh deposit Rs.10,000, LRR=2000

Bank lend the remaining Rs.8000.

Bank receives back the fresh deposits Rs.8000

ii. The bank again keep 20% .That is, Rs1600 and lend Rs 6400

iii. The money again comes back to the banks leading to the fresh deposits of Rs.6400.

The money goes on multiplying in this way, ultimately total money creation is Rs 50000.

Given the amount of fresh deposit and the LRR, the total money creation is:

Total money creation = Initial Deposit x 1/LRR

	Deposits (in Rs)	Loans (in Rs)	Cash Reserve Ratio (20%)
Initial deposit	10,000	8000	2000
First Round	8,000	6400	1600
Second Round	6,400	5120	1280
Total	50,000	40,000	10,000

Total Money Creation = Initial Deposit x 1/LRR

$$= 10,000 \times 1/20\%$$

$$= 10,000 \times 5$$

$$= 50,000 \text{ /-}$$

What are the functions of Money?

Functions of Money:

- (i) Medium of exchange,
- (ii) Measure of value,(Unit of account),
- (iii) Store of value,
- (iv) Standard of deferred payments,
- (v) Transfer of value.

DETERMINATION OF INCOME AND EMPLOYMENT

Explain the Income determination by AD = AS approach. How to reach at Equilibrium when AD>AS & AS>AD?

AD = AS Approach – Equilibrium level is determined when AD is equal to AS.

AD>AS - It means that consumers and firms together would be buying more goods than the firms are willing to produce. As a result planned inventory would fall below the desired level. To bring the nventory back to the desired level, firms would resort to increase in employment and output till the economy is back at output level at OY, where AD is become to AS and there is no further tendency to change.

AS>AD - It means that consumers and firms together would be buying less goods than the firms are willing to produce. As a result planned inventory would rise. To clear the unwanted increase in inventory, firms Plan to decrease the employment and output till the economy is back at output level at OY, where AD is become to AS and there is no further tendency to change.

Explain the Income determination by I=S approach. How to reach at equilibrium when I > & I<S?

I = S Approach –Equilibrium level is determined when I = S.

I > S - If planned saving is less than planned investment, i.e. before point E. It means that households are consuming more and saving less than what the firms expected them to. As a result planned inventory would fall below the desired level. To bring the inventory back to the desired level, firms

would plan to increase in employment and output till saving and investment equal to each other and there is no further tendency to change.

$S > I$ - If planned investment is less than planned saving, i.e. after point E. It means that households are not consuming as much as the firms expected them to. As a result inventory rises above the desired level. To clear the unwanted increase in inventory, firms would plan to reduce the production till saving and investment equal to each other and there is no further tendency to change.

How will you derive the saving curve from consumption curve?

OR

How will you derive the consumption curve from saving curve?

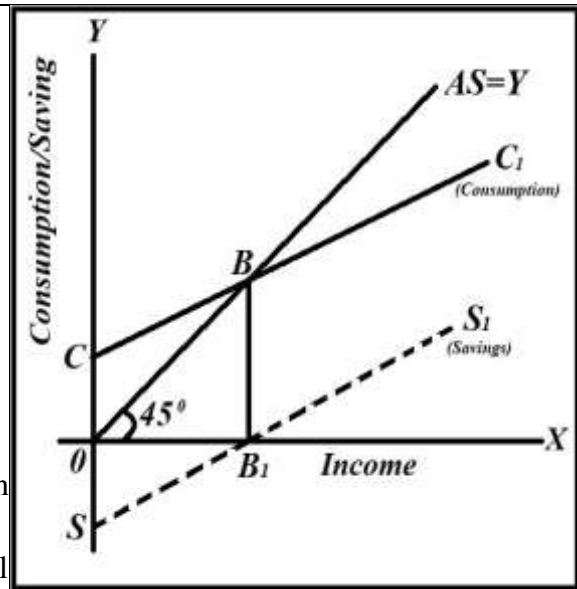
saving curve from consumption curve

We can derive saving curve from the given consumption curve by taking following steps –

1. Take a point B on consumption curve and from it draw a perpendicular on x axis intersecting it at point B₁.
2. Take OS on y axis of lower part as equal to OC (as OC=OS as Autonomous Consumption is equal to dissaving). This gives point S from where saving curve will start.
3. Join point S and B₁ and extend the straight line upward and thus we get saving curve SB₁S₁.

In this way saving curve is diagrammatically drawn from consumption curve.

APC at point B is = 1, because consumption is equal to income and savings = 0.

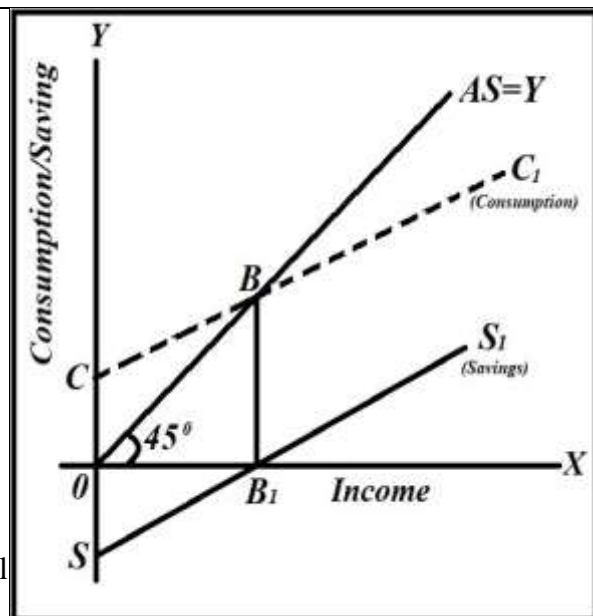


consumption curve from saving curve

We can derive consumption curve from the given saving curve by taking following steps –

1. Take a point B₁ on Saving curve and from it draw a perpendicular on x axis parallel to Y axis intersecting Income curve at point B.
 2. Take OC on y axis as equal to OS (as OS=OC as dissaving is equal to Autonomous Consumption). This gives point C from where consumption curve will start.
 3. Join point C and B and extend the straight line upward and thus we get consumption curve CBC₁.
- In this way consumption curve is diagrammatically drawn from saving curve.

APC at point B is = 1, because consumption is equal to income and Savings = 0.



Distinguish between Excess demand & Deficient demand. How will you correct the Excess demand (AD required < AD actual) (Inflationary Gap) situation with fiscal policy and monetary policy? OR

Distinguish between Excess demand & Deficient demand. How will you correct the Deficient demand

(AD required > AD actual) (Deflationary Gap) situation with fiscal policy and monetary policy?
EXCESS DEMAND - It is a situation when actual aggregate demand is more than aggregate demand required at the full employment equilibrium. It is also known as Inflationary Gap.
DEFICIENT DEMAND - It is a situation when actual aggregate demand is less than aggregate demand required at the full employment equilibrium. It is also known as Deflationary Gap.

EXCESS DEMAND	CORRECTION MEASURES			DEFICIENT DEMAND
It refers to the situation when $AD > AS$ at full employment Equilibrium.	FISCAL MEASURE (ADOPTED BY GOVERNMENT)			It refers to the situation when $AD < AS$ at full Employment equilibrium.
	Decrease	Expenditure Policy	Increase	
It leads to Inflationary gap.	Increase	Taxation Policy	Decrease	It leads to Deflationary Gap.
	NO	Public Borrowings	NO	
Its indicate Over Full Employment equilibrium.	NO	Deficit Financing	Yes	Its show Under Employment Equilibrium.
	MONETARY POLICY – QUANTITATIVE (ADOPTED BY RBI)			
It occurs due to excess of anticipated expenditure, i.e. due to rise in consumption expenditure, investment expenditure, etc.	Increase	BANK RATE	Decrease	It occurs due to shortage of anticipated expenditure, i.e. due to fall in consumption expenditure, investment expenditure, etc.
	Increase	REPO RATE	Decrease	
	Increase	RVERSE RAPO RATE	Decrease	
	Increase	CASH RESERVE RATIO	Decrease	
	Increase	S. L. R.	Decrease	
It does not affect the Output, Employment and Income level as economy is already operating at full employment level.	Sell of Securities	OPEN MARKET OPERATION	Purchase of Securities	It leads to fall in output and employment due to shortage of aggregate demand.
	MONETARY POLICY – QUALITATIVE (ADOPTED BY RBI)			
	Increase	MARGIN REQUIRMENTS	Decrease	
It leads to inflation, i.e. it results in rise in general price level.	Follow by Commercial banks	MORAL SUASSION	Follow by Commercial banks	Its leads to deflation, i.e. it results in fall in general price level.
EX ANTE SAVING – What households plan to save at different levels of Income in an economy. It is shown by saving function.	Selected Credits	CREDIT RATIONING	Encourage Credits	EX-POST SAVING – It is the actual or realized savings in an economy during a year.
	Stop functioning as banker's bank	DIRECT ACTION	Stop functioning as banker's bank	
EX-ANTE INVESTMENT– What firms plan to invest at different levels of income in an economy. It is shown by investment demand function.	IMPACT ON VARIOUS SECTOR			EX-POST INVESTMENT – It refers to the actual or realized investment in an economy during a year. Ex-post saving and Ex-post Investment are equal at all levels of income.
	EXCESS DEMAND		DEFICIENT DEMAND	
	No Change	Employment	Fall	
	No Change	Output	Fall	
	No Change	National Income	Fall	
	Rise	General Price Level	Fall	
POSSIBILITIES OF EQUILIBRIUM AT EMPLOYMENT LEVEL				
FULL EMPLOYMENT EQUILIBRIUM	UNDER EMPLOYMENT EQUILIBRIUM		OVER FULL EMPLOYMENT EQUILIBRIUM	

4. GOVERNMENT BUDGET AND THE ECONOMY

1. What is Government budget? Explain the objectives of budget.

Meaning of Government Budget:-A government budget is an annual statement of the estimated receipts and estimated expenditure during a fiscal year.

Objective of the Government Budget

The objective that are pursued by the government through the budget are-

1. To Achieve Economic Growth.
2. To Reduce Inequalities in Income and Wealth.
3. To Achieve Economic Stability.
4. To Management of Public Enterprises.
5. To Reallocation of Resources.
6. To Reduce regional Disparities.

Explain the implications of:

1. Revenue Deficit.
2. Primary Deficit.
3. Fiscal Deficit.

Revenue Deficit:-Revenue deficit refers to the excess of revenue expenditure of the government ver its revenue receipts.

Revenue deficit = Total revenue expenditure – Total revenue receipts.

Importance:- Since it is largely related with the recurring expenditure. Therefore, high revenue deficit gives a warning to the government either to cut expenditure or to increase revenue receipts. It also implies requirement burden in future.

Fiscal Deficit:-Fiscal deficit is defined as excess of total expenditure over total receipts excluding borrowings.

Fiscal Deficit = Total budget expenditure - Total budget receipts (excluding borrowings)

Importance: - Fiscal deficit is a measure of total borrowings required by the government. Greater fiscal deficit implies greater borrowings by the government. This creates a large burden of interest payments in the future that leads to increase in revenue expenditure, causing an increase in revenue deficit. Thus a vicious circle sets in. In the present, a large fiscal deficit may also lead to inflationary pressures.

Primary Deficit: -Primary deficit is defined as fiscal deficit minus interest payment. It is equal to fiscal deficit reduced by interest payment.

Primary deficit = Fiscal deficit – interest payment.

Importance: - Primary deficit signifies borrowing requirements of the government. A low or zero primary deficit means that while government's interest requirement on earlier loans have compelled the government to borrow but it is aware of the need to tighten its belt.

Differentiate between Revenue Receipts & Capital Receipts

Revenue Budget	Capital Budget
<p>Which neither increase liabilities nor decrease assets.</p> <p>These are of two types:</p> <ul style="list-style-type: none"> • Tax receipts Income Tax, Sale Tax, Excise Tax etc. • Non tax receipts Fees, Fines, License, Permit, Escheat, Special assessment, Income/Profit from public enterprises, Gifts and grants received by the govt., Forfeitures of bonds etc. <p>(Cause: Neither increase liabilities nor decrease assets.)</p>	<p>Which either increase liabilities or decrease assets.</p> <p>Example:</p> <ul style="list-style-type: none"> • Recovery of loans (<i>Cause: Decrease assets</i>) • Privatisation and Disinvestment (selling the shares of PSUs) (<i>Cause: Decrease assets</i>) • Loan or borrowing from public, RBI or Rest of the world (<i>Cause: Increase liabilities</i>) (<i>Borrowing from RBI is called deficit financing</i>)

Differentiate between Revenue Expenditure & Capital Expenditure

<p><u>Revenue expenditure</u> Which neither decrease liabilities nor increase assets. Example:</p> <ul style="list-style-type: none"> • Old age pension, • Scholarships, • Interest payments, • Salaries, • Subsidies, • Expenditure on defence, • Gifts and grants by the govt. etc. <p>(Cause: Neither decrease liabilities nor increase assets.)</p>	<p><u>Capital Expenditure</u> Which either decrease liabilities or increase assets. Example:</p> <ul style="list-style-type: none"> • Purchase/construction of Building, Land, Machinery, Shares etc. (<i>Cause: increase assets</i>) • Loans by central govt. to state govt. (<i>Cause: increase assets</i>) • Repayment of loan (<i>Cause: Decrease liabilities</i>)
---	---

Differentiate between Direct Tax & Indirect Tax

Direct Tax	Indirect Tax
* Liability to pay and burden of direct tax falls on same person.	* Liability to pay and burden of direct tax falls on some other person.
* Direct taxes are levied on individuals and companies.	* Indirect taxes are levied on goods and services.
* Levied on income and property of person.	* Levied on goods and services on their sale, Production, import and export.
* Direct taxes are generally progressive in nature.	* Indirect taxes are generally proportional in nature.
* Eg. Income tax, Corporate tax, Wealth Tax, Capital Gains etc.	* Eg. Sales tax, Service Tax, Excise duty, Custom duty etc.

5. BALANCE OF PAYMENTS

What are the components of current account of Balance of Payment?

CURRENT ACCOUNT - The current account records all transactions related to imports and exports of goods and services and unilateral transfers during a given period of time. The main components of this account are -

- (i) **EXPORT AND IMPORT OF GOODS – (Visible Items)** – The balance of export and import of goods is called the balance of visible trade. Payment for import of good is written on the negative side and receipt from export is shown on positive side.
- (ii) **EXPORT AND IMPORT OF SERVICES (Invisible Trade)** -The balance of exports and imports of services is called the balance invisible trade. Example - Shipping, Banking, Insurance etc. Payments for these services are written on the negative side and receipt on positive side.
- (iii) **UNILATERAL TRANSFER TO AND FROM ABROAD** -Unilateral transfers is receipts which residents of a country make without getting anything in return eg. Gifts, donation, personal remittances etc.
- (iv) **INCOME RECEIPT AND PAYMENT TO AND FROM ABROAD** – It includes income in the form of interest, rent and profits.

The net balance of visible trade, invisible trade and of unilateral transfers is the balance on current account. Current Account shows the Net Income.

What are the components of capital account of Balance of Payment?

It records are international transactions that involve a resident of the domestic country changing his assets or liability with a foreign resident. It is concerned with financial transfers. So it does not have direct effect on income, output and employment of the country.

Various forms of capital account transactions:-

1. **PRIVATE TRANSACTIONS** - There are transactions that affect the liabilities and assets of individuals.
- ii. **OFFICIAL TRANSACTIONS** - Transactions affecting assets and liabilities by the govt. and its agencies.
- iii. **PORTFOLIO INVESTMENT (FII)** - It is the acquisition of an asset that does not give the purchaser control over the asset.
- iv. **DIRECT INVESTMENT (FDI)**- It is the act of purchasing an asset and at the same time acquiring control of it.
- v. **BANKING INFLOW** – Inflow of hot money seeking the highest rate of return as NRI deposits.
- vi. **OFFICIAL RESERVE TRANSACTION** – It includes change in a countries gold reserves, foreign exchange reserves, foreign securities and SDRs with IMF.
The net value of the balance of direct and portfolio investment is called the balanced on Capital Account.

**Differentiate between Current account and Capital Account of Balance of Payment.
Differentiate between Balance of Trade and Balance of Payment.**

<u>CURRENT ACCOUNT</u>	<u>CAPITAL ACCOUNT</u>
<ul style="list-style-type: none"> * It records all transaction between the resident of a country and the rest of the world which does not change asset and liability * It is a flow concept * It consist of export and import of goods, services and unilateral transfer 	<ul style="list-style-type: none"> * It records all transaction between the resident of a country and the rest of the world which change asset and liability * It is a stock concept *It consist of borrowing and lending, change in foreign exchange reserve and FDI
<u>BALANCE OF TRADE</u>	<u>BALANCE OF PAYMENTS</u>
Balance of trade is a record of only visible items i.e. exports and imports of goods.	Balance of payments is a record of both visible items (goods) and invisible items (services)
Balance of trade can be in a deficit, surplus or balanced	Balance of payments must always balance.
Unfavorable BoT can be met out with of favourable BoP.	Unfavourable BoP favourable BoT.
BoT does not record ant transaction of capital nature.	BoP records all the transactions of capital nature.
Balance of trade is a narrower concept as it is only a part of the balance of payments account.	Balance of payments is a wider and more useful concept as it is a record of all transactions in foreign exchange including balance of trade.

Differentiate between Autonomous items & Accommodating items.

<u>AUTONOMOUS ITEMS</u>	<u>ACCOMODATING ITEMS</u>
Autonomous items refer to international economic transactions that take place due to some economic motive such as profit maximization.	This refers to transactions that occur because of other activity in the BOP, such as government financing.
These transactions are independent of the state of the country's BOP.	These transactions are responsible for country's BOP
These items are often called above the line items in the BOP.	These items are called below the line items.

Why foreign exchange demanded?

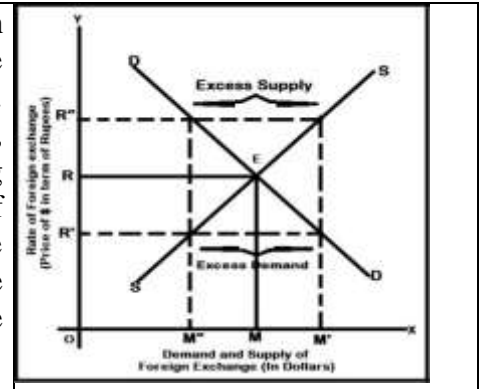
<u>DEMAND OF FOREIGN CURRENCY</u>	
<ol style="list-style-type: none"> 1. Import of goods and services from other countries; 2. Tourism; 3. Unilateral Transfers sent to abroad; 4. To purchase assets in foreign countries; 5. To speculate on the value of foreign currencies 	

What are the supply sources of foreign exchange?

<u>SUPPLY SOURCES OF FOREIGN</u>	
<ol style="list-style-type: none"> 1. Export of Goods and Services to other countries; 2. Tourism; 3. Foreign investment like FDI and FII; 4. Unilateral Transfers received from abroad; 5. Speculation 	

Explain foreign exchange rate determination.

6. DETERMINATION OF EXCHANGE RATE Equilibrium in the foreign exchange market is determined in the same way as the price of a commodity through the forces of supply and demand. The foreign exchange market, like any other normal market, contains a downward sloping demand curve and an upward sloping supply curve. The price on the vertical axis is stated in terms of domestic currency (i.e. how many rupees for one US dollar). The horizontal axis measures the quantity demanded or supplied. The intersection of the supply and demand curve determines the equilibrium foreign exchange rate



Impact of Appreciation / Revaluation and Depreciation / Devaluation on its export & Import of a country.

DEPRICIATION	DEVALUATION
Depreciation refers to fall in the price of domestic currency in terms of foreign currency.	It refers to reduction in the price of domestic currency by the government in terms of foreign currency.
It takes place due to market demand and market supply of foreign exchange.	It is done deliberately by the government or central bank
It takes place under Flexible Exchange Rate System	It takes place under Fixed Exchange Rate System.
It is very common.	It is very uncommon.

Differentiate between Appreciation & Depreciation.

1. DEPRICIATION	APPRICIATION
Depreciation refers to fall in the price of domestic currency in terms of foreign currency.	Appreciation refers to rise in the price of domestic currency in terms of foreign currency.
<u>IMPACT ON EXPORT AND IMPORT</u> It makes domestic goods cheaper in foreign country as more of such goods can now be purchased with same amount of foreign currency. So, it leads to increase in export and decrease in Import. (Same result will be in case of Devaluation)	<u>IMPACT ON EXPORT AND IMPORT –</u> It makes foreign goods cheaper in domestic country as more of such goods can now be purchased with same amount of domestic currency. So, it leads to increase in import and decrease in Export.(Same result will be in case of Revaluation)
A change from 1 \$ = 50 Rs. to 1 \$ = 55 Rs. is Depreciation of Indian Currency.	A change from 1 \$ = 50 Rs. to 1 \$ = 45 Rs. is Appreciation of Indian Currency.

Differentiate between revaluation & devaluation.

9.FIXED EXCHANGE RATE	FLEXIBLE EXCHANGE RATE
It is officially fixed by the government in terms of gold or any other currency.	It is determined by the forces of demand and supply of foreign exchange.
Traditional exchange rate system (adopted by all countries from 1946 to 1973)	New exchange rate system (adopted by almost all countries after 1973)
The exchange rate is generally stable or a very small variation possible	The exchange rate keeps on changing.
In this system only government has the power to change exchange rate.	Market forces changes the exchange rate. (In Managed Floating RBI can intervene under certain limits)

Write short notes on fixed exchange rate, Flexible exchange rate & Managed floating exchange rate.

Or

Merits & demerits of fixed exchange rate, Flexible exchange rate & managed floating exchange rate.

FIXED EXCHANGE RATE - Under the fixed exchange rate system the exchange rate is officially declared and it is fixed. Only a very small deviation from this fixed value is possible. It is not determined by supply of and demand for foreign exchange.

MERITS – 1. Stability in the exchange Rate; 2. Promote International Investment; 3. Promotes International Trade; 4. Prevent Speculative Activity; 5. Coordination of Macroeconomics Policies.

DEMERITS – 1. Huge foreign Exchange Reserves Required; 2. Difficulty in fixing the Exchange rate; 3. Exchange Rates are not fixed.

FLEXIBLE EXCHANGE RATE - In the flexible exchange rate system exchange rate is determined by the supply and demand for foreign exchange. There is no intervention by the central bank

MERITS – 1. Maintains Equilibrium Level; 2. No need or Huge Foreign Exchange Reserves; 3. Optimum Utilization of resources
DEMERITS – 1. Instability in the Exchange Rate; 2. Speculative Activities; 3. Creates Inflationary Situation

MANAGED FLOATING EXCHANGE RATE - In this system foreign exchange rate is determined by the market demand and supply and central bank can intervene in foreign exchange rate determination whenever it feels desirable. It is also known as dirty floating.

NATIONAL INCOME

SHORT ANSWER TYPE QUESTIONS (3-4 MARKS)

1. Distinguish between real and nominal gross domestic product.
2. Explain the basis of classifying goods into intermediate and final goods. Give suitable examples.
3. Distinguish between consumer goods and capital goods. Which of these are final goods?
4. Explain how distribution of G.D.P. is its limitation as a measure of economic welfare.
5. Explain the meaning of “Domestic Territory of a country”.
6. Distinguish between ‘factor income’ and ‘transfer income’.
7. Classify the following into stock and flow :
 - (i) Population of India
 - (ii) Exports
 - (iii) Investment
 - (iv) Expenditure on food by household.
 - (v) National Capital
 - (vi) Deposits in saving account of bank.
8. Explain how distribution of Gross domestic product is a limitation in taking domestic product as an Index of welfare.
9. How can externalities be a limitation of using gross domestic product as an index of welfare?
10. Giving reasons, classify the following into intermediate and final goods:
 - (i) Machines purchased by a dealer of machines.
 - (ii) A car purchased by a house hold.
11. Distinguish between stock and flows. Give an example of each.
12. What is meant by a normal resident? State which of the followings are treated as normal resident of India.
 - (i) An American working in the office of WHO located in India.
 - (ii) Indian working in U.S.A. embassy located in India.
13. Which of the following is factor income from abroad for an Indian resident and why?
 - (a) Interest income received by Indian resident on the bonds of companies operating in USA.
 - (b) Remittances by Indians settled abroad to their families in India.

LONG ANSWER QUESTIONS (6 MARKS)

1. How will you treat the following while estimating national income of India.
 - (a) Dividend received by an Indian from his investment in shares of a foreign company.
 - (b) Money received by a family in India from relatives working abroad.
 - (c) Interest received on loan given to a friend for purchasing a car.
2. How will you treat the following while estimating national income of India? Give reason for your answer?
 - (a) Dividend received by a foreigner from investment in shares of an Indian Company.
 - (b) Money received by a family in India from relatives working abroad.
 - (c) Interest received on loan given to a Friend for purchasing a car.
3. Explain the problem of double counting in estimating national income, with the help of an example. Also explain two alternative ways of avoiding the problem.
4. Distinguish between real gross domestic product and nominal gross domestic product. Can gross domestic product be used as an index of welfare of the people? Give two reasons.
5. How will you treat the following in estimating national income of India? Give reasons for your answer.
 - (a) Value of bonus shares received by share holders of a company.
 - (b) Fees received from students.
 - (c) Interest received on loan given to a foreign company in India.
6. Explain the steps of measuring national income by income method.
7. Explain value added method of estimating National Income with the help of suitable example.
8. Giving reasons, categories following into transfer payment or factor payments.
 - (a) financial help gives to flood victims
 - (b) Old age pension.
 - (c) Imputed rent.

9. Calculate private income :

	Rs. (Crore)
(i) National interest	10
(ii) Personal disposable income	150
(iii) Corporate Profit Tax	25
(iv) Personal Taxes	50
(v) Retained earnings of private corporations	05

10. Giving reasons explain whether the following are included in domestic product of India.

- (i) Profit earned by a branch of foreign bank in India.
- (ii) Payment of salaries to its staff by an embassy located in New Delhi.
- (iii) Interest received by an Indian resident from firms abroad.

11. How will you treat the following while estimating national income. Give reasons for your answer.

- (i) Capital gain on sale of house.
- (ii) Prize won in lottery.
- (iii) Interest on public debt.

12. While estimating national income. How will you treat the following. Give reason for your answer.

- (i) Imputed rent of occupied house.
- (ii) Interest received on debentures.
- (iii) Financial help received by Flood victims.

13. Calculate National Income by the (a) Expenditure method and (b) Production method from the following data

	Rs. (Crore)
(i) Gross value added at market price by the primary sector	300
(ii) PVT. final consumption expd.	750
(iii) Consumption of Fixed capital	150
(iv) Net Indirect Taxes	120
(v) Gross value added at market price by the secondary sector	200
(vi) Net domestic fixed capital formation	200
(vii) Change in stock	(-) 20
(viii) Gross value added at market price by the tertiary sector	700
(ix) Net imports	50
(x) Govt. final consumption expd.	150
(xi) Net factor income from abroad.	20

14. From the following data show that net value added at factor cost (NVA FC) is equal to the sum of factor incomes.

	Rs. (Crore)
(i) Purchase of raw material and other input from the domestic market	600
(ii) Increase in stock	200
(iii) Domestic sales	1800
(iv) Import of raw material	100
(v) Exports	200
(vi) Depreciation of fixed capital	75
(vii) Salaries and wages	600
(viii) Interest payments	450
(ix) Rent	75
(x) Dividends	150
(xi) Undistributed profits.	80
(xi) Corporate profit tax	20
(xii) Indirect tax	50

MONEY AND BANKING

SHORT ANSWER TYPE QUESTIONS (3-4 MARKS)

1. Explain the function of money as 'Unit of value'.
2. How does money solve the problem of double coincidence of wants?
3. Explain 'Store of value' function of money.
4. What are open market operations? What is their effect on availability of credit?
5. Explain the 'lender of last resort' function of central bank.
6. Distinguish between SLR and CRR. Explain the Role of SLR and CRR in credit control.
7. How does changes in Bank rate affect money creation by commercial Bank? Explain.
8. State the role of central Bank as a banker of the Government.
9. State any four functions of money.
10. Explain the 'Standard of deferred payment'.
11. How central bank is controller of credit?
12. Explain how does followings helps to control the credit creation.
 - (i) Open market operation
 - (ii) Margin requirement of loans

LONG ANSWER TYPE QUESTIONS (6 MARKS)

1. Define Central Bank. What are the functions of Central Bank?
2. Explain any four functions of money.
3. How does a central bank influence credit creation by commercial banks through 'open market operation' explain.
4. Explain the process of credit creation or money creation by commercial banks with the help of numerical example.

DETERMINATION OF INCOME AND EMPLOYMENT

SHORT ANSWER TYPE QUESTIONS (3-4 MARKS)

1. Define aggregate demand. State its components.
2. Distinguish between average propensity to consume and marginal propensity to consume with the help of numerical examples.
3. Savings and investment are always equal discuss.
4. What is meant by investment multiplier? Explain the relationship between MPC and K?
5. State briefly the effect of excess demand on output, employment and price.
6. Explain the concept of inflationary gap with the help of a diagram?
7. Explain the situation of deficient demand in an economy with the help of a diagram.
8. State briefly any three measures to control excess demand in an economy.
9. What is monetary policy? Explain the role of (i) Bank rate and (ii) Margin requirements in influencing the availability of credit in an economy.
10. Give the meaning of excess demand? Explain any two fiscal measures to current excess demand.
11. What is fiscal policy? What possible fiscal measures can be taken with respect to deficient demand in an economy?
12. What do you mean by full employment equilibrium? Explain with the help of diagram.
13. Explain with the help of diagram the concept of under-employment equilibrium.
14. Distinguish between induced investment and autonomous investment?
15. Explain the concept of consumption function.
16. Briefly explain the relationship between MPC and MPS.
17. Giving reasons, state whether the following statements are true or false :
 - (i) When marginal propensity to consume is zero, the value of investment multiplier will also be zero.
 - (ii) Value of average propensity to save can never be less than zero.
18. If national income is 50 crore and saving Rs. 5 crore, find out APC. When income rises to Rs. 60 crore and saving to Rs. 9 crore. What will be the APC and MPS.
19. An economy is in equilibrium. Its national income is Rs. 5000 and autonomous consumption expenditure is Rs. 500. What is the total consumption expenditure if MPC is 0.7?

20. Given marginal propensity to save equal to 0.25, what will be the increase in national income if investment increases by Rs. 125 crore. Calculate multiplier.
21. Find out equilibrium level of income, when $S = -40 + 0.25 Y$ and investment is Rs. 60.
22. Can an economy be in equilibrium when there is unemployment in the economy? Explain.
23. How does change in bank rate controls the situations of excess and deficient demand?
24. Briefly explain with the help of diagram the relationship between savings and income?

LONG ANSWER TYPE QUESTIONS (6 MARKS)

1. Why must aggregate demand be equal to aggregate supply at the equilibrium level of income and output? Explain with the help of a diagram?
2. Explain the equilibrium level of income with the help of saving and investment curves. If saving exceed planned investment, what changes will bring about the equality between them?
3. Explain the working of multiplier with the help of a numerical example.
4. When planned investment is more than planned savings, what will be its impact on income and employment. Explain with the help of diagram.
5. What do you mean by Fiscal Policy? How it helps in controlling excess demand?
6. Can there be equilibrium in case of underemployment. Explain with the help of a diagram?
7. How quantitative and qualitative instruments of Govt. monetary policy controls deficient demand?
8. Distinguish between inflationary gap and deflationary gap. Show deflationary gap on a diagram. Can this gap exist at equilibrium level of income? Explain.
9. In an economy $S = -50 + 0.5Y$ is the saving function (where S = saving and Y = national income) and investment expenditure is 7000.
Calculate.

- (i) Equilibrium level of national income
- (ii) Consumption expenditure at equilibrium level of national income.

10. $C = 100 + 0.75y$ is a consumption function where C = consumption expenditure and Y = national income and investment expenditure is 800.

On the basis of this information calculate.

- (i) Equilibrium level of national income.
- (ii) Saving at equilibrium level of national income.

11. Given below is the consumption function in an economy.

$$C = 100 + 0.5Y$$

with the help of a numerical example show that in this economy, as income increase APC will decrease.

12. Draw on a diagram a straight line saving line curve for an economy. From it derive the consumption curve, explaining the method of derivation. Show a point on the consumption curve at which APC is equal to 1.
13. How increase in investment will effect income level of an economy? Explain with the help of an example and diagram.
14. Briefly explain the concept of under employment equilibrium with the help of diagram. How increase in investment helps in achieving, full employment equilibrium?
15. What is 'deficient demand' in macroeconomics? Explain the role of open market operations in correcting it.
16. Explain the step taken in derivation of the saving curve from the consumption curve use. Use diagram.

GOVERNMENT BUDGET AND THE ECONOMY

SHORT ANSWER TYPE QUESTIONS (3-4 MARKS)

1. Explain the allocation of resources objective of Govt. budget.
2. What is the difference between revenue budget and capital budget?
3. What is meant by revenue receipts? Explain the components of revenue receipts of the Govt.
4. Distinguish between direct tax and indirect tax.
5. What do you mean by capital receipts? What are the main components of the capital receipts?
6. Give the meaning of revenue deficit and fiscal deficit. What problems can the fiscal deficit create?
7. What is fiscal deficit? What are its implications?

8. Distinguish between revenue expenditure and capital expenditure with an example of each.
9. Explain the “redistribution of income” objective of Govt. budget.
10. Explain the ‘Economic stability’ objective of Govt. budget.
11. Under which situations deficit budget is beneficial for the economy.
12. Are fiscal deficits necessarily inflationary? Give reasons in support of your view.
13. Discuss the issue of deficit reduction.
14. How can surplus budget be used during inflation.
15. Giving reasons, classify the following as direct and indirect taxes.
 - (i) Entertainment tax
 - (ii) Corporation tax
 - (iii) Excise tax
 - (iv) Capital gains tax.
16. From the following data about a government budget find

(a) revenue deficit,	(b) fiscal deficit and	(c) primary deficit. (Rs. arab)
(i) Plan capital expenditure		120
(ii) Revenue expenditure		100
(iii) Non-plan capital expenditure		80
(iv) Revenue receipts		70
(v) Capital receipts net of borrowing		140
(vi) Interest payments		30
17. Distinguish between :
 - (i) Capital expenditure and Revenue expenditure
 - (ii) Fiscal deficit and Primary deficit.

BALANCE OF PAYMENT AND FOREIGN EXCHANGE

SHORT ANSWER TYPE QUESTIONS (3-4 MARKS)

1. Write any three points of difference between BOT and BOP.
2. Distinguish between current account and capital account of BOP.
3. How can deficit in BOP be financed?
4. What are the components of the current account of the balance of payment account.
5. Give difference between the autonomous and accommodating items included in BOP.
6. Distinguish between autonomous and accommodating transaction in the balance of payment account. Give an example each.
7. Give three reasons why people desire to have foreign exchange.
8. Give any three/four sources of supply of foreign exchange.
9. Explain the relationship between foreign exchange rate and demand for it.
10. Explain the relationship between foreign exchange rate and supply of foreign exchange.
11. Explain the terms ‘appreciation and depreciation of currency.’
12. Explain the merit and demerits of fixed exchange rate.
13. Explain the merits and demerits of flexible exchange rate.
14. How is flexible exchange rate determined in a free market economy? Explain with the help of diagram.
15. Higher the foreign exchange rate, lower the demand for foreign exchange. Explain why?
16. Lower the foreign exchange rate, higher the demand for foreign exchange. Explain why?
17. Explain the impact of Devaluation of domestic currency on the export and imports of an economy.
18. Give the meaning of fixed flexible and managed floating exchange rate.
19. Why the demand for foreign exchange falls when the foreign exchange rate rise explain with the help of an example.
20. What is the impact of appreciation of currency on the demand for foreign exchange?
21. What is the impact of appreciation of currency on the supply of foreign exchange?
22. What is the impact of depreciation of currency on the demand for foreign exchange?

MINIMUM LEVEL OF LEARNING- INDIAN ECONOMIC DEVELOPMENT

Indian Economy at the time of Independence

1. What was the conditions of agriculture sector at the time of Independence?

i. Low Level of agricultural productivity:-

Agricultural productivity became very low and this stagnation in agriculture sector was mainly due to systems of land settlement that were introduced by the British Government. The Zamindari system, the profit accruing out of the agriculture sector went to Zemindaris instead of the cultivators. This led to discouragement amongst the cultivators to produce less.

ii. High dependence on Monsoon:-

Agricultural sector was mainly dependent on monsoon. No effort was ever made under the British rule to develop permanent means of irrigation.

iii. Lack Proper Input:-

Low level of technology, lack of irrigation facility and negligible use of fertilizers, added to aggravate the plight of the farmers and contributed to the dismal level of agricultural productivity.

2. What was the condition of industrial sector at the time of Independence?

i. Discriminatory Tariff Policy:-

The British Government allowed tariff free export of raw materials from India and tariff free import of British industrial products into India. But a heavy duty on the export of Indian handicrafts products. It leads to decay of handicrafts industry in India.

ii. Competition from machine:-

Industrial revolution in Britain gave a stiff competition to the handicraft industries in India. Due to low cost and better quality product produced by machine forced the Indian craftsmen to shut down the handicraft Industry in India

iii. New patterns of Demand:-

Owing to British rule in India, a new class of people emerged in India. This changed the pattern of demand in India against the Indian products and in favour of British products. As a result, the Indian Industry tended to Perish.

iv. More Market for British Goods:-

An introduction of railways facilitated the transportation of the British products to different parts of the country. As a result, the size of the market for the low cost British product expanded while it started shrinking for the high cost Indian products. This led to decay of industry in India.

3. What was the condition of foreign trade under the British rule?

i. Due to discriminative tariff policy adopted by the British Government, India became net exporter of raw materials and primary products.

On the other hand, it became net importer of finished goods reproduced by the British Industry.

ii. Composition of exports and imports showed the backwardness of Indian economy. Exports and imports were largely restricted to Britain only due to monopoly control of India's foreign trade.

iii. Surplus profit made and account of foreign trade during the British rule was distributed on administrative and as well as on war expenses. It was only used to increase the pursuits of the British Government.

4. Mention the demographic profile during the British rule.

i. High birth and High death rate implied low survival rate, which was nearly 8 per thousand per annum.

ii. Life expectancy was as low as 32 years which shows the lack of health care facilities, lack of awareness as well as lack of means for health care.

iii. Literacy rate was as low as 16 percent, which reflects the social and economic backwardness of the country.

5. Mention the condition of occupation structure at the time independence.

- i. Agriculture was the principal source of occupation and about 72.7 percent of working population was engaged in agriculture.
- ii. Only 10.1 % of the working population were engaged in the manufacturing sector, which showed the backwardness of Indian Industry at the time of Independence.
- iii. Only 17.2 percent of the working population were engaged in the service sector, which also proved the slow growth of tertiary sector at the time of independence.
- iv. There was an unbalanced growth of Indian economy at the time of Independence.

6. What was the condition of Infrastructure at the time of Independence.

- i. There was some infrastructure development during the British in the area of transport and communication.
- ii. Introduction of railways, was a major break through followed by the development of some ports and the construction of some roads.
- iii. But the main motive of the British government was to foster the interest of the British Government rather than to accelerate the growth of Indian economy.
- iv. There was transition from barter system of exchange to monetary system of exchange, which facilitated division of labour & large scale production.

DEVELOPMENT POLICIES AND EXPERIENCE (1950- 1990)

1. What is Economic Planning?

It means utilization of country's resources into different development. Activities in accordance with the national priorities.

2. When was planning commission set up?

It was set up in 1950

3. When was National development council set up?

It was set up in 1952

4. Mention the objectives or goals planning in India. Briefly explain it.

The Goals or objectives of planning in India are as follows

i. Growth:-

It refers to increase in the country's capacity to produce the output of goods and services within the country. It implies either a large stock of productive capital or an increase in the efficiency of productive capital and services like transport, banking & communication etc. In other words, it means steady increase in the gross domestic product (GDP). It is necessary to produce more goods and services if the country need to achieve higher growth level.

ii. Modernization:-

It is necessary to adopt new technology in order to increase production of goods & services. Adoption of new technology is called modernization. However, modernization does not refer only to the use of new technology but also to change in social outlook such as women empowerment. A modern society makes use of the talents of women in the work place so that the society will be more civilized and prosperous.

iii. Self reliance:-

It refers to utilization of country's resources in order to promote economic growth and modernization without using the resources imported from other countries. It means avoiding imports of those goods which could be produced in India itself.

It is necessary in order to reduce our dependence on foreign countries in order to safeguard the sovereignty of our country and unnecessary foreign interference on our policies.

iv. Equity:-

It means equal distribution of income and wealth among the societies. It is important to ensure that the benefits of economic development should reach the poor sections of the society as well instead of being enjoyed by the rich. It is necessary that every people of a country should be able to meet their basic needs such as food, education, health facilities in order to reduce the inequality.

5. Mention the development of Agriculture sector between 1950 – 1990

i. Land reforms:-

Land reforms were initiated in order to bring equity in ownership of landholdings. It was decided to establish intermediaries and to make the tillers of the owners of land. It gives the tillers the incentives to invest in making improvement in land provided sufficient capital was made available to them.

ii. Land Ceiling:-

It refers to fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands and to promote equality in the agricultural sector.

iii. Green Revolution:-

It refers to large increase in production of food grains resulting from the use of High yielding variety (HYV) seeds. The use of fertilizers, pesticides, irrigation facilities is important along with HYV seeds in order to increase agricultural productivity & production. The farmers should be provided adequate financial resources in order to purchase agricultural inputs.

6. Mention the development of Industrial sector between 1950-1990

- i. Public enterprises were played a central role in the process of industrialization
- ii. Private enterprises were to play only a secondary role in the process of industrialization. It means private sector were to obtain a license for their industrial establishments and to produce goods within the prescribed limits of production capacity.
- iii. Major thrust was given to import substitution. It means production of such goods were to be accorded high priority which were imported from abroad. It was necessary to achieve the objective of growth with self reliance.
- iv. Domestic industries were given protection from foreign competition and it was done through
(i) Heavy duty in imports (ii) Large – scale industry was to be developed with a view to build an infrastructural base in country.

7. Mention the development of foreign trade between 1950-1990

Inward looking trade strategy was adopted as foreign trade policy. This strategy is called import substitution. It aims at replacing or substituting imports with domestic production. Domestic industry is offered protection from foreign competition through import duties. Its main objective was to save foreign exchange by encouraging domestic production of such goods which could be imported from rest of the world. The Government protected the domestic industries from competition through tariffs and quotas. Through imposition of tariffs and quotas, the government restricted the imports of goods and thereby protecting the domestic firms from foreign competition.

8. What is marketed Surplus?

The excess porting of agriculture produce which is sold into the market by the farmers is called marketed surplus.

ECONOMIC REFORMS SINCE 1991

1. What is economic reforms?

The new economic policy started by the government since 1991 in order solve the Economic crisis and to accelerate the rate of economic growth is called Economic Reforms. It is also known as new economic policy which consists of Liberalization, Privatization and Globalization (LPG).

2. Why there was need for economic reforms?

i. Mounting fiscal deficit:

Fiscal deficit of the government had been mounting year after year on continuous increase in non development expenditure. Due to persistent rise in fiscal deficit there was corresponding rise in public debt and interest payment liability there was possibility that the economy might lead to debt – trap situation. Thus it becomes essential for the government to reduce its non-development expenditure and restore fiscal discipline in the economy.

ii. Adverse balance of payment :

When receipts of foreign exchange fall short of their payments, the problem of adverse balance of payment arises. Despite the restrictive policy adopted by the government till 1990 import substitution and export promotion the desired result could not be met. Our export could not compete in terms of price and quality in the international market. As a result there was slow growth of export and rapid increase in imports. Accordingly the burden of foreign debt services increased tremendously and leading to depletion of foreign exchange reserves.

iii. Gulf Crises :

On account of Iraq war in 1990-91 prices of petrol shot-up. Besides India used to receive huge amount of remittances from gulf countries in terms of foreign exchange.

iv. Poor performances of PS U's :

Due to poor performances of public sector undertakings degenerated in to a liability. Most of public sector undertakings were incurring loss and their performance was quite satisfactory. On account of these factors, it becomes imperative for the government to adopt new economic policy or to initiate economic reforms.

v. Rise in price:

Due to rise in prices of food grains there was pressure of inflation Prior to 1991. Which deepened the economic crisis from bad to worse

vi. Fall in foreign exchange reserves:

In 1990-91 India's foreign exchange reserves fall to such a low level that there was not enough to pay for an import bill of even 10 days. In such situation the government had to helplessly resort to policy of liberalization as suggested by the World Bank.

3. What is New Economic policy? Briefly explain it.

New Economic Policy refers to adoption of Liberalisation, Privatisation and Globalization (LPG) which aims at the rendering the economy more efficient, competitive and developed.

HUMAN CAPITAL FORMATION

1. What is meant by physical capital?

Physical capital refers to all those inputs which are required for further production, like plant and machinery, factory, buildings, raw materials, etc.

2. What are the two major sources of human capital in a country?

The two major sources of human capital are

1. Investment in Education
- 2) Investment in health

3. What are the various forms of health expenditure?

Preventive medicine, curative medicine, social medicine, provision of clean drinking water and good sanitation are the various forms of health expenditure.

4. Give the meaning of human capital

Human capital refers to the stock of skill, ability, expertise, education and knowledge involved in the people.

5. Why do we observe regional differences in Educational attainment in India?

Regional differences in educational attainment in Indian can be due to regional inequality in incomes and expenditure of government on development of educational facilities.

6. Why has India not been able to achieve 100% literacy even till today?

India has not been able to achieve 100% literacy because of its failure to provide free and compulsory education for all children up to the age of 14 years.

7. What is meant by human capital formation?

Human capital formation implies the development of abilities and skills among the population of the country.

8. Why do we need to invest in human capital?

We need to invest in human capital to make effective use of physical capital and to increase productive capacity of the country.

9. Mention two government organizations each, that regulate the health and education sectors.

Indian Council for Medical Research (ICMR) and National AIDS Control Organization regulates health. National Council of Educational Research and Training (NCERT) and University Grants Commission (UGC)

10. Why there is a need to promote women's education in India?

Women's Education need to be promoted because :

- a) They can become economically independent
- b) Women education makes favourable impact on fertility rate & health care of women and children

11. Why do people migrate?

People migrate from one place to another in search of jobs that fetch them higher salaries.

12. Why there is need acquiring information relating to health & education expenditure from the effective utilization of human resources?

Such information helps in making decision regarding investments in human capital as well as for effective utilization of acquired human capital work.

13. How is on-the-job training a source of human Capital formation?

It is a source of human capital formation as it increases the skill & efficiency of the workers & leads to an increase in production & productivity.

14. Why are workers required to work for a certain period after the on-the-job training?

Workers are required to work for a certain period after the on-the job training so that firm can recover the benefits of the enhanced productivity owing to the training.

15. What do the differences in male & female literacy rates indicate?

The differences in male & female.

RURAL DEVELOPMENT

1. What do you mean by Rural Development?

Rural Development is a continuous comprehensive socio-economic process, attempting to improve all aspects of rural life.

2. What is agricultural diversification essential for sustainable livelihood?

Agricultural diversification is essential for rural people to generate supplementary gainful employment and realizing higher level of income.

3. What is cooperative marketing?

Cooperative marketing refers to a system in which marketing societies are formed by farmers to sell the output collectively and to take advantage of collective bargaining.

4. What do you mean by agricultural marketing?

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

5. What are the 2 aspects of diversification of activities?

Diversification includes 2 aspects

- i. Diversification of crop production
- ii. Diversification of productive activities (Shift of workplace from agricultural to other allied activities and non-agricultural sector)

6. Classify rural credit on base of time

On the basis time, rural credit can be classified as : short-term credit, medium-term credits and long-term credits.

7. Which is the apex institution in rural financing?

National Bank for Agricultural and Rural Development (NABARD), established in 1982.

8. Name three institutional sources of agricultural credit

3 institutional sources of agricultural credit are :

- i. Cooperative Credit Societies
- ii. Commercial Banks
- iii. Regional Rural Banks

9. What is distress sale?

It refers to a sale in which farmers are forced to sell their surplus produce to the money lenders or traders at lower price.

10. What is organic farming?

Organic farming is a production system that sustains the health of soils, ecosystem and people. It relies on ecological processes bio diversity and cycles adapted to a local conditions, rather than the use of inputs with adverse effects.

11. What is Micro-finance?

Micro finance is a credit scheme extended to the poor through Self Help Group (SGHs)

12. Why have Self Help Groups (SGHs) been set up?

The Self-Help Groups (SGHs) have been set up to promote thrift in small proportions by a minimum contribution from each member. From the pooled money, credit is given to the needy numbers to be repayable in small installments at reasonable interest rates.

13. What is meant by Operation flood?

Operation flood is a system, whereby all the farmers can pool their milk produce according to different grading and the same is processed and marketed to urban centres through cooperatives.

14. Give any one limitation of Organic farming?

Yields from Organic farming are less than modern farming.

15. Why is minimum support price (MSP) fixed by the government?

Minimum support price is fixed by the govt. to safe guard the interest of farmers.

16. Why do people seek employment in non-farm sectors?

People seek employment in non-farm sectors as agriculture is already over-crowded and cannot offer additional employment.

17. What is the share of total fish production in the total GDP in the year 2005-06?

1.4. percent

18. State one advantage of organic farming

Organic farming requires cheaper agricultural inputs

19. Why is the period of 1991 – 2003 is known as period of Golden Revolution?

The period of 1991 – 2003 is known as Golden Revolution because during this period, the planned investment in horticulture became highly productive and the sector emerged as a sustainable livelihood option.

20. What is the main function of co-operative marketing societies.

The main function is to improve agricultural marketing

21. What is Rural Development?

1. Rural Development is a continuous and comprehensive Socio Economic process, attempting to improve all aspects of rural life.
2. It aims at improving the economic & Social Conditions of the people living in villages.
3. The rural development includes development in human resource, infrastructure and reforms, removal of poverty and development of productive resources to improve employment.

EMPLOYMENT GROWHT, INFORMATION AND OTHER ISSUES

1. Who is worker?

A worker is an individual, who is involved in some productive activity, to earn a living.

2. Why do people work?

People work for earning a living which helps them and their families to survive.

3. Who all are included in labour force?

All persons, who are working (have job) and though not working, are seeking and are available for work, are deemed to be in the labour force.

4. Give the meaning of work force.

The number of persons, who are actually employed at a particular time are known as work force.

5. Define worker – population ratio

Worker – population ration is the percentage of total population engaged in work.

6. What is meant by labour force participation rate?

The ratio of labour force to total participation is called labour force participation rate.

7. What is information of workforce?

Information of workforce refers to a situation whereby the proportion of workforce in the informal sector to total workforce increases.

8. Are the following workers – a beggar, a thief, a smuggler, a gambler? Why?

No, they are not workers because they are not doing any productive activity.

9. Compared to urban women, more rural women are found working. Why?

More rural women are found working because of their poor economic condition as compared to urban women.

10. Why does rural work force migrate to urban areas during some part of the year?

People in rural areas are engaged mostly in agriculture, which is a seasonal activity. So, rural workforce migrates to urban areas during some part of the year.

11. Why are regular salaried employees more in urban areas than in rural areas?

Regular salaried employees are more in urban areas as considerable section of urban people are able to study in various educational institution and it enables them to look for an appropriate job to suit their qualifications and skills. However, in rural areas, most of the people are illiterate and lack skills, which are needed for regular employment.

12. What is meant by Employment?

Employment is an activity which enables a person to earn means of living.

13. Who is a Casual Wage Labourer?

Workers who are not hired by their Employers on a regular or permanent basis (i.e. do not have job security) and do not get social security benefits, are termed as casual wage labour.

14. Define jobless growth?

Jobless growth refers to a situation when the Economy is able to produce more goods and service without a proportionate increase in Employment opportunities.

15. Who are regular workers?

Workers who are hired by their employers on a permanent basis and also get social security benefits (like pension, provident fund, etc.) are higher in regular workers.

16. Why is the Self-employed work force higher in rural areas?

In case of rural areas, Self Employed Workers are greater as majority of rural people are engaged in farming on their own plots and land.

17. What is meant by Casualisation of work force?

The process of moving from Self-Employment and regular salaried employment to casual wage work is known as Casualisation of workforce.

18. Name the two kinds of urban unemployment?

1. Industrial unemployment
2. Educated unemployment

19. What do you mean by industrial unemployment?

It refers to the unemployment among the illiterates who wish to work in industrial establishment

20. Give the meaning of educated unemployment.

Educated unemployment refers to the unemployment among the Educated people.

21. What is mean by wage employment?

An arrangement in which a worker sells his labour and earns wages in return.

22. Men are found in greater proportion than women in regular salaried employment. Why?

Rural unemployment is of two types :

1. Disguised unemployment
2. Seasonal unemployment

23. What is mean by seasonal unemployment?

Unemployment that occurs at certain seasons of the year is known as Seasonal unemployment.

24. Give the meaning of disguised unemployment?

Disguised unemployment refers to a state in which more people are engaged in work than are really needed.

25. What do you mean by full unemployment?

Full employment refers to a situation in which all the workers who are capable of working and willing to work get an Employment in prevailing wage rates.

26. Why do we differentiate between economic activity and production activity?

We differentiate between Economic activity and production activity to calculate the number of workers. People engaged only in production Economic activities are to be included in the category of workers.

27. Give the meaning of self-employment.

An arrangement in which a worker used his own resources, to make a living is known as self-employment.

28. What do you mean by formal sector establishment?

All the public enterprises and private establishments, which employ 10 or more hired workers are called formal sector establishments.

29. What do you mean by Informal sector Establishment?

All those private enterprises which hire less than 10 workers are called Informal sectors.

Eg. Workers who work in farms, owners of Small Enterprises, Agriculture labourers. Here they do not get regular income. No protection or regulation by government can be dismissed at any time. Live in slums, use outdated technology, do not maintain accounts.

30. What is meant by frictional unemployment?

Temporary unemployment, which exists during the period, wherein. Workers leave one role and join some other, are called frictional unemployment.

People those who are not working and are neither seeking nor available for work are considered to be outside the labour force.

Labour force = Person's working + Persons seeking & available for work.

After 66 years & below 15 years not included labour force. A handicapped person not included. People those who are not interested not included. People are not available not included.

SUSTAINABLE ECONOMIC DEVELOPMENT

1. What is meant by Environment?

Environment is defined as the total planetary inheritance and the totality of all resources.

2. What does Environment Includes?

Environment includes all the biotic and abiotic factors that influence each other.

3. What do you mean by biotic elements?

All living elements like birds, animals and plants, forests, fisheries etc. are biotic elements.

4. Give the meaning of Renewable Resources.

These are those resources which can be used without the possibility of being exhausted, such as trees, fishes etc.

5. What do you mean by non-renewable resources?

These are those resources which get exhausted with extraction and use such as coal, gas etc.

6. What is included under abiotic elements?

It includes non-living elements like air, water, land etc.

7. What happens when the rate of resource extraction exceeds that of their re-generation?

When the rate of resources extraction exceeds that of their re-generation then environment fails to perform its vital function of life substance and it leads to the situation of Environmental Crisis.

8. What do you mean by the Carrying capacity of environment?

Carrying capacity of the environment implies that the resources extraction is not above the rate of regeneration of the resources and the wastes generated are within the assimilating capacity of the environment.

9. How the opportunity cost negative Environmental impact are high?

Increased financial commitments of the Government due to Global warming and Ozone depletion and rise in expenditure on health due to decline in air and water quality shows that opportunity cost of the negative environment impact on high.

10. What do you mean by Pollution?

Pollution is the Introduction of contaminates into an environment, that causes instability disorder, harm or discomfort to the ecosystem.

11. What is Global Warming?

Global warming is the observed and projected increase in the average temperature of earth's atmosphere and oceans.

12. What has caused Global Warming?

The Global warming is due to increase in the Green-house gas concentrations, like water vapour, carbon-dioxide, methane and ozone in the atmosphere.

13. Give the meaning of air pollution.

Air pollution is the presence of materials in air such concentration, which are harmful to man and his environment.

14. Mention any I measure to control air pollution in vehicles.

Promotion of cleaner fuels, like use of CNG instead of petrol or diesel.

15. What is Sustainable development?

It is the development, which will allow all future generations to have a potential average quality of life, that is at least as high, which is being enjoyed by the current generation.

16. What is meant by Bio diversity?

Bio diversity is defined as the variability among living organisms from all sources, including terrestrial, marine and other aquatic ecosystem and the ecological complexes of which they are a part.

17. What do you mean by ozone depletion?

It refers to destruction of ozone in the ozone layer, due to presence of chlorine from manmade chlorofluorocarbons and other forces.

18. What has lead to depletion of ozone layer?

The problem of ozone depletion is cost by high levels of chlorine and bromine compounds in the stratosphere.

19. Why have some resources become extinct?

Some resources have become extinct because their extinction has been above the rate of regeneration.

20. How has the supply – demand relationship lead to degradation of environment?

The demand for resources has gone beyond the rate of regeneration (supply). It has increased the pressure on the absorption capacity of the environment and such several of the supply – demand relationship has lead to degradation of the environment.

21. What has lead to the Air pollution in urban areas?

Increasing number of motor vehicles and concentration of industries in urban areas and has lead to air pollution in urban areas.

22. State the 2 major environmental issues that the world is facing today?

(i) Depletion of natural resources (ii) Environmental degradation.

Explain Strategies for Sustainable Development

The following strategies should be adhered to, for sustainable development.

1. **Use of Non-conventional Source of Energy** – India is mostly dependent on thermal and hydropower plants which have adverse environmental impact. Non-conventional sources like wind and solar says

are cleaner and greener technologies, which can be effectively used to replace thermal and hydropower.

2. **Use of cleaner fuels** - Use of Compressed Natural Gas (CNG) is being promoted to be used as fuel. In Delhi, the use of CNG as fuel in public transport system has lowered air pollution and the air has become cleaner. The use of LPG and Gobar Gas is being promoted which reduces air pollution.
3. **Establishment of Mini-Hydel plants** – Mountain regions and streams are used to generate electricity through mini Hydel plants. These are environmental friendly.
4. **Traditional Knowledge and Practices** – Traditionally all practices relating to agriculture system, health care system, housing, transport etc. used to be environment friendly. The shift from the traditional system has caused large scale damage to the environment as our social heritage.
5. **Use of Bio-compost** – The use of chemical fertilizers to increase the Agriculture production has not only adversely affected the large areas of productive land but also contaminate the water bodies. Increases in demand for organic food demand for dung are in increased use which is an important fertilizer and soil conditioner.
6. **Control of Bio pest**
7. **Change in unsustainable patterns of consumption and production** – India has taken large number of steps for sustainable development.

DEVELOPMENT EXPERIENCE OF INDIA

1. Compare between India, China & Pakistan in terms of GDP growth rate.

After the Independence in 1947, India & Pakistan adopted planned development programmes which relied on public sector to spearhead the process of growth and development.

- China adopted more rigorous model of growth in 1949 and it decided to bring all critical areas of production activity under government control.
- The great leap forward (GLF) campaign was launched in 1958, focusing on widespread industrialization of the Economy. People were encouraged to launch household Industry in the country yards.
- China adopted Commune system of agricultural production which was a system of collective cultivation.
- Great Proletarian Cultural revolution launched in 1965 and making it mandatory for the students and professionals to go the country side to work and learn from the countryside.
- Chinas Export driven manufacturing is the key parameter of its success story in economic growth.
- Till about 1980, the economics of India, China, & Pakistan did not show much divergence in the GDP growth rate and it was around 4% annually.
- It was around early 1980s in China, mid 80's in Pakistan, 90's in India that the breakthrough in GDP Growth rate was recorded.
- In 2005, India & Pakistan both recorded GDP growth of 6 to 8 percent, where as china recorded GDP growth of about 10% per annum.

2. Compare the structure of growth between India, China and Pakistan.

Sector	% Share in GDP			% share in employment		
	India	Pakistan	China	India	Pakistan	China
Primary	17	25	9	50	43	28
Secondary	30	21	43	21	23	29
Tertiary	53	54	48	29	34	43

China has succeeded in placing greater reliance on Industrial sector compared to India & Pakistan. It is due to (i) GLF, a campaign launched in China in 1958 focusing on widespread Industrialization of the Country.

(ii) policy of reform and opening up launched in 1978 which gave big push to China's manufacturing exports.

4. What is the important implication of the one child norm in China?

One Child norm in China has successfully reduced the growth rate of population.

- After few decades in china there will be more elderly people in proportion to young people.
- This will force China to take steps to provide social security measures with fewer workers.

5. Compare the Demographic profile of India, China and Pakistan.

One child policy in china adopted since 1979 has reduced the growth rate of population from 1.33 percent in 1979 to 0.64% in 2005.

i. Growth rate of Population

Country	Growth rate Population
China	0.5
India	1.2
Pakistan	2.1

ii. Low Density of Population

Country	Person per square kilometer
China	146
India	441
Pakistan	245

iii. Urbanization

Country	% of Population
China	56%
India	33%
Pakistan	39%

iv. Sex ratio

Country	Female per 1000 male
China	941
India	929
Pakistan	847

6. Compare between the parameter of Human development

iii. HDI Ranking

Country	Ranking in the world
China	91
India	131
Pakistan	148

ii. INFANT MORTALITY RATE

Country	Per thousand
China	9
India	38
Pakistan	66

iii. Material Mortality Rate

Country	% of Population
China	56
India	540
Pakistan	500

iv. Improved Sanitation

Country	of Population
China	77
India	40
Pakistan	64

v. Safe Drinking water facility

Country	% of Population
China	96
India	94
Pakistan	91

vi. Below Poverty Line

Country	% of Population
China	32
India	37
Pakistan	44

7. Mention the common success story of India & Pakistan

- i. A Substantial rise in GDP per capita.
- ii. Self Sufficiency in food production.
- iii. Dualistic nature of the economy is gradually declining
- iv. Considerable increase in the incidence of poverty.

8. Mention the common failures of India and Pakistan.

- i. Relatively slow pace of GDP growth rate as Compared to china.
- ii. Poor performance in HDI ranking.
- iii. Poor fiscal management.
- v. Lack of political interest for social prosperity.

9. Mention the areas in which India has an edge over Pakistan.

- i. Skilled manpower
- ii. Investment in Education
- iii. Health facilities.

10. Mention the areas in which Pakistan has an edge over India.

- i. Urbanization
- ii. Less percentage of population below poverty line
- iii. More percentage of population having access to improved water sources

12. Mention the areas where China has an edge over India.

- i. China has successfully focused on Pro-poor reforms
- ii. Agrarian reforms have been effectively carried out.
- iv. Export driven manufacturing has significantly grown, adding to the pace of GDP Growth.
- v. SEZ policy has proved to be a boon for FDI flow in India.

CLASS:-XII
SUBJECT: - ECONOMICS
2022-23

S.No.	Unit Name	Very Short Qs (1 Marks)	Short Qs (3 Marks)	Short Qs (4 Marks)	Long Qs (6 Marks)	Total
1.	National Income and Related Aggregates.	1(1)	1(3)		1(6)	10
2.	Money and Banking	2(1)	–	1(4)	–	6
3.	Determination of Income and Employment	2(1)	-	1(4)	1(6)	12
4.	Government Budget and the Economy	2(1)	–	1(4)	–	6
5.	Balance of Payments	3(1)	1(3)	–	–	6
6.	Development Experience (1947-90) and Economic Reforms since 1991	4(1)		2(4)	–	12
7.	Current Challenges facing Indian Economy	2(1)	2(3)	–	2(6)	20
8.	Development experience of India-A comparison with neighbors	4(1)	–	1(4)		08
	Sub Total	20(1)=20	4(3)=12	6(4)=24	4(6)=24	80

Question Paper

CLASS-XII
TIME-3:00 HOURS

SUBJECT- ECONOMICS
M.M.:80MARKS

GENERAL INSTRUCTIONS

- i. All questions in both the sections are compulsory.
- ii. Question Nos. 1-10 and 18-27 are very short-answer questions carrying 1 mark each. They are required to be answered in one sentence each.
- iii. Question Nos. 11- 12 and 28- 29 are short-answer questions carrying 3 marks each. Answer to them should not normally exceed 60 words each.
- iv. Question Nos. 13- 15 and 30 - 32 are also short-answer questions carrying 4 marks each. Answer to them should not normally exceed 70 words each.
- v. Question Nos. 16-17 and 33 -34 are long-answer questions carrying 6 marks each. Answer to them should not normally exceed 150 words each.
- vi. Answers should be brief and to the point and the above word limit be adhered to as far as possible.

SECTION 'A'

1	In India, paper notes are_-----legal tender & -----legal tender . (Fill in the blanks with the correct answers)	1
2	During COVID-19 the present government, provided monetary relief to daily wage workers to meet their basic needs. While estimating National Income, how shall you treat this payment? It will be _____ (included/ not included) in the National income. (Choose the correct alternative)	1
3	A company located abroad gives loan to a company located in India . How will this transaction be recorded in India's balance of payments account? (Choose the correct alternative) (a) Credit side of current account (b) Debit side of current account (c) Credit side of capital account (d) Credit side of capital account OR An Indian company located in India invests in a company located abroad. This transaction is entered in India's balance of payments account on: (Choose the correct alternative) (a) Credit side of current account (b) Debit side of current account (c) Credit side of capital account (d) Debit side of capital account	1
4	Choose one of the correct alternatives from the given Assertion & Reason: Assertion(A): At Break-even point, Consumption=National Income. Reason(R): APC falls continuously with increase in income as proportion of income spent on consumption keeps on decreasing. a) Both Assertion(A) & Reason(R) are true and R is the correct explanation of A. b) Both Assertion(A) & Reason(R) are true and R is not the correct explanation of A. c) Assertion(A) is true but Reason(R) is false. d) Assertion(A) is false but Reason(R) is true.	1

5	If interest payment is Rs.40,000 cr. and total Borrowing requirements are Rs.70,000 cr. then Primary deficit is-----.	1
	When a government action causes increases in the exchange rate in a fixed exchange rate system, it is called _____. (Fill in the blank with the correct alternative) (a) Depreciation (b) Appreciation (c) Devaluation (d) Revaluation	
	----- is the “Lender of the last Resort” to the commercial banks. (Fill in the blank with correct answer)	
<p>Read the following news report and answer Question 8 and 9 on the basis of same: The Reserve Bank of India said it will conduct the first-ever purchase auction of State Development Loans (SDLs) under Open Market Operations on 22nd October. The purchase auction amount has been kept at this level considering this is the first ever OMO purchase of SDLs, RBI said. The size of the auctions may be enhanced in the subsequent auctions depending on market response. The Indian Express , October 17, 2020</p>		
8	The open market operation conducted by RBI is likely to..... (decrease /increase) the money supply in the economy .	1
9	When Reverse Repo Rate is increased , it has a -----effect on the lending capability of the commercial banks. (positive/negative)	1
10	Choose one of the correct alternatives from the given Assertion & Reason: Assertion(A): Current account transactions bring a change in the current level of country’s income. Reason(R): Current Account includes all items expressing change in stock. a) Both Assertion(A) & Reason(R) are true and R is the correct explanation of A. b) Both Assertion(A) & Reason(R) are true and R is not the correct explanation of A. c) Assertion(A) is true but Reason(R) is false. d) Assertion(A) is false but Reason(R) is true.	1
11	Which is a better indicator of growth of an economy—Nominal GDP or Real GDP? Justify your answer with valid reasons. OR How will you treat the following in the calculation of ‘Domestic Income’ & ‘National Income’ of India? Give reason for your answer. a) Retained earnings of foreign companies from India. b) Salary of residents of France working in Indian embassy in France. c) Profits of Tata Industries from its business in Australia.	3
12	Distinguish between balance of payments and balance of trade.	3
13	(a) Distinguish between Capital Receipts & Revenue Receipts. (b) Distinguish between Direct Tax & Indirect Tax.	4
14	Define Investment Multiplier. What is the range of it’s values? Bring out the relation of Investment Multiplier with MPC & MPS. OR Due to COVID-19, our industrial sector has seen a huge decline. People's sources of income have reduced on a large scale. As a result, there is a decrease in overall demand in the economy. An increase in aggregate demand is being suggested by economists. Describe any two fiscal measures to be taken by the Government of India to correct the above situation.	4
15	Describe the process of Multiple credit creation by commercial banks giving an example.	4
	Answer the following questions based on the data given below : (i) Planned level of investment = Rs.200 crores (ii) $C = 100 + 0.8 Y$ (a) Determine the equilibrium level of income. (b) Calculate the saving and consumption expenditure at equilibrium level of income.	6

16	Calculate Net National Product at Market Price(NNP at MP) from data given:	6
S.N.	Description	(Rs.cr.)
i	Mixed income of self-employed.	400
ii	Compensation of employees	500
iii	Private Final Consumption Expenditure	900
iv	Net factor income from Abroad	--(20)
V	Net Indirect Tax	100
Vi	Consumption of fixed capital	100
Vii	Net domestic capital formation	280
Viii	Net exports	--(30)
Ix	Profits	350
X	Rent	100
Xi	Interest	150
Xii	Government final consumption expenditure	450
OR		
Explain the following concepts:		
(a) Producer Goods		
(b) Real flow		
© Gross National Product at Factor cost /		

SECTION 'B'

18	A women oriented project to train the women about the latest agricultural techniques in Tamil Nadu. (a) Kudumbshree (b) Self Help Groups (c) TANWA (d) None of these	1
19	The number of people actually employed at a particular time is called------(Work force/ Labour force)	1
20	Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below: Assertion (A): In India, over the 40 years between 1973-74 and 2013- 2014, while production in all the three sectors has increased, it has increased most in tertiary sector Reason (R): Tertiary sector is the only organized sector in the economy so the government spends a lot of money for creating jobs in tertiary sector. 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.	1
21	Kamla devi owns an acre farm in which she and her elder son work together. The total production is 20 quintals due to the effort of both. The next year, her younger son who used to work in Mumbai came back home and he also started working in the field with them. But even after the	1

	<p>hard work of the three people, the total production remained 20 quintals. Which unemployment is being discussed in the above paragraph?</p> <p>(a) Seasonal unemployment (b) Educational unemployment (c) Disguised unemployment (d) voluntary unemployment</p>	
22	<p>Name two prominent Indian economists who calculated Per Capita Income during the colonial period. OR During the British rule, which year is known as the 'Year of the Great Divide' in India?</p>	1
23	<p>_____ was the predecessor organisation to World Trade Organisation (WTO). (Choose the correct alternative)</p> <p>(A) International Bank for Reconstruction and Development (IBRD) (B) International Monetary Fund (IMF) (C) Reserve Bank of India (RBI) (D) General Agreement on Tariffs and Trade (GATT)</p>	
<p>Read the following news report and answer Question 24 and 25 on the basis of same:</p> <p>Prime Minister Narendra Modi on Tuesday said his government's 'historic' farm reforms will create opportunities to take farmers to entrepreneurship and added his regime is focused on increasing their income. Modi was speaking after releasing the autobiography of former Union Minister Balasaheb Vikhe Patil and renaming the Pravara Rural Education Society in Ahmednagar district after the Padma Bhushan recipient, via video conferencing. Terming the farm reforms as historic, the prime minister said, "Today opportunities are being created to take farming and farmers from the role of annadata (food provider) to entrepreneurship."</p> <p>Referring to high milk, sugar, and wheat production in Gujarat, Maharashtra, Haryana and Punjab, Modi said such models of local enterprise will take the country forward. He said there was a time after Independence when the country did not have sufficient food stock.</p> <p>"The governments priority then was to increase food production. So the entire focus was on increasing production. Farmers toiled hard to achieve the objective,"</p> <p>Modi said. "But the attention of the governments and policies, while being concerned about increasing productivity, did not go towards profitability of farmers," he said. "People forgot about income for farmers. But for the first time, this thinking has been changed," he said and listed steps the Centre has taken for the welfare of farmers.</p> <p>Modi listed measures taken by his government like implementing and increasing MSP, urea neem coating and better crop insurance for "doing away worries of farmers".</p> <p>He also spoke of direct transfer of Rs one lakh crore in the bank accounts of farmers under the Pradhan Mantri Kisan Samman Nidhi Yojana. "And there are no middlemen (involved). Not only this, there has been unprecedented work on setting up cold chains, mega food parks and agro processing infrastructure," he said.</p> <p style="text-align: right;">The Economics Times , October , 13, 2020</p>		
24	<p>From the past now the focus of government policies in relation to food production has shifted to..... (Increasing production / increasing Productivity)</p>	1
25	<p>As per above passage..... (Profitability /Productivity) concern of the farmers is being focused upon by the government for the first time.</p>	1
26	<p>The main aim of 'Great Leap Forward' (GLF) in China was to ensure rapid increase of _____.(Choose the correct alternative)</p> <p>(a) Agriculture (b) industries (c) services (d) exports</p>	
27	<p>Maternal Mortality Rate is high in _____(China/Pakistan). (Fill up the blank with correct alternative)</p>	1
28	<p>"In developed countries like USA salaries are higher than developing economies like India". Evaluate this using your knowledge of relationship between Human capital formation and Economic development.</p>	3

29	What was the two-fold motive behind the systematic deindustrialization effected by the British in pre-independent India? OR Mention three causes which were responsible for economic reforms.	3
30	“India, China and Pakistan have travelled more than seven decades of developmental path with varied results.” Explain the given statement with valid arguments.	4
31	What is Rural development? Write its major issues. OR What is Organic farming and how does it promote Sustainable development?	4
32	(a) State the names of six Indian Systems of Medicines (ISM) under AYUSH scheme of the Government of India. (b) Give the meaning of Jobless Growth.	4
33	Explain the condition of India’s Foreign Trade at the time of Independence. OR Explain the features of Industrial Policy Resolution 1956.	6
34	What is meant by sustainable development? Discuss briefly any three strategies of sustainable development.	6

Thank You

