

OUR PATRONS

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ECONOMICS
CLASS - XII (2023-24)

Theory: 80 Marks

3 Hours

Project: 20 Marks

Part A: Introductory Macroeconomics	Marks	Periods
➤ National Income and Related Aggregates	10	30
➤ Money and Banking	6	15
➤ Determination of Income and Employment	12	30
➤ Government Budget and the Economy	6	17
➤ Balance of Payments	6	18
	40	
Part B: Indian Economic Development		
➤ Development Experience (1947-90) and Economic Reforms since 1991: <ul style="list-style-type: none"> • Indian Economy on the eve of Independence • 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 	12	28
➤ Current challenges facing Indian Economy <ul style="list-style-type: none"> • Human Capital Formation • Rural development • Employment • Sustainable Economic Development 	20	50
➤ Development Experience of India	8	12
Theory Paper (40+40 = 80 Marks)	40	
		200
Part C : Project Work		
➤ Project Work	20	20
	100	

Part A: Introductory Macroeconomics

Unit 1: National Income and Related Aggregates

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 Deflator, GDP and Welfare

Unit 2: Money and Banking

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, Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), Repo Rate and Reverse Repo Rate, Open Market Operations, Margin requirement.

Unit 3: Determination of Income and Employment

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

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 deficit.

Unit 5: Balance of Payments

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:

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

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:

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

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UNIT - 1

National Income and Related Aggregates

□ Macroeconomics: समष्टि अर्थशास्त्र

It studies the behaviour of the economy as a whole. It studies national aggregates like Aggregate Demand, Aggregate Supply, National Income etc. It also studies national economic problems like inflation, unemployment, poverty and the issues connected with economic growth and economic development.

- Main tools of Macroeconomics are aggregate demand and aggregate supply (macroeconomic variables)
- Main subject matter of Macroeconomics is to determine income and employment level of the economy.
- Examples of Macroeconomic studies – Estimation of national income, Determination of income and employment level of the economy, Government budget etc.

यह समग्र रूप से अर्थव्यवस्था के व्यवहार का अध्ययन करता है। यह समग्र मांग, समग्र आपूर्ति, राष्ट्रीय आय आदि जैसे राष्ट्रीय समुच्चय का अध्ययन करता है। यह राष्ट्रीय आर्थिक समस्याओं जैसे मुद्रास्फीति, बेरोजगारी, गरीबी और आर्थिक वृद्धि और आर्थिक विकास से जुड़े मुद्दों का भी अध्ययन करता है।

- समष्टि अर्थशास्त्र के मुख्य उपकरण समग्र मांग और समग्र आपूर्ति (समष्टि आर्थिक चर) हैं
- समष्टि अर्थशास्त्र का मुख्य विषय अर्थव्यवस्था की आय और रोजगार स्तर का निर्धारण करना है।
- व्यापक आर्थिक अध्ययन के उदाहरण - राष्ट्रीय आय का अनुमान, अर्थव्यवस्था की आय और रोजगार स्तर का निर्धारण, सरकारी बजट आदि।

□ National income and related aggregates:

National income and related aggregates are basically measures of production activity. Production activity of the production units located within the **economic territory** is domestic product. Gross domestic product, net domestic product are some examples. Whereas Production activity of the **residents** of a country is national product. GNP, NNP, are some examples.

राष्ट्रीय आय और संबंधित समुच्चय मूलतः उत्पादन गतिविधि के माप हैं। आर्थिक क्षेत्र के भीतर स्थित उत्पादन इकाइयों की उत्पादन गतिविधि घरेलू उत्पाद है। सकल घरेलू उत्पाद, शुद्ध घरेलू उत्पाद इसके कुछ उदाहरण हैं। जबकि किसी देश के निवासियों की उत्पादन गतिविधि राष्ट्रीय उत्पाद है। जीएनपी, एनएनपी, कुछ उदाहरण हैं।

(i) ECONOMIC TERRITORY

Economic (or Domestic) territory is the geographical territory administered by a government within which persons, goods and capital circulate freely.

आर्थिक (या घरेलू) क्षेत्र सरकार द्वारा प्रशासित भौगोलिक क्षेत्र है जिसके भीतर व्यक्ति, सामान और पूंजी स्वतंत्र रूप से प्रसारित होती है।

It is clear that those parts of the political frontiers of a country where the person, goods and capital of country does not enjoy the 'freedom of circulation' are not to be included in economic territory of that country. One example is embassies.

The U.S. embassy in India is a part of economic territory of the U.S.A. Similarly, the Indian embassy in Washington is a part of economic territory of India.

यह स्पष्ट है कि किसी देश की राजनीतिक सीमाओं के वे हिस्से जहां देश के व्यक्ति, सामान और पूंजी को 'परिसंचरण की स्वतंत्रता' का आनंद नहीं मिलता है, उन्हें उस देश के आर्थिक क्षेत्र में शामिल नहीं किया जाना चाहिए। एक उदाहरण दूतावास है।

भारत में अमेरिकी दूतावास संयुक्त राज्य अमेरिका के आर्थिक क्षेत्र का एक हिस्सा है। इसी तरह, वाशिंगटन में भारतीय दूतावास भारत के आर्थिक क्षेत्र का एक हिस्सा है।

Scope

Based on 'freedom of circulation' criterion, the scope of economic territory is defined to cover:

- (i) Political frontiers including territorial waters and air space.
 - (ii) Embassies, consulates, military bases, etc. located abroad, but excluding those located within the political frontiers.
 - (iii) Ships, aircrafts etc. operated by the residents between two or more countries
 - (iv) Fishing vessels, oil and natural gas rigs, etc. operated by the residents in the international waters or other areas over which the country enjoys the exclusive rights
- 'संचलन की स्वतंत्रता' मानदंड के आधार पर, आर्थिक क्षेत्र का दायरा निम्नलिखित को कवर करने के लिए परिभाषित किया गया है:

- (i) क्षेत्रीय जल और हवाई क्षेत्र सहित राजनीतिक सीमाएँ।
- (ii) विदेशों में स्थित दूतावास, वाणिज्य दूतावास, सैन्य अड्डे आदि, लेकिन राजनीतिक सीमाओं के भीतर स्थित को छोड़कर।
- (iii) दो या दो से अधिक देशों के बीच निवासियों द्वारा संचालित जहाज, विमान आदि
- (iv) अंतर्राष्ट्रीय जल या अन्य क्षेत्रों में निवासियों द्वारा संचालित मछली पकड़ने के जहाज, तेल और प्राकृतिक गैस रिग आदि, जिन पर देश को विशेष अधिकार प्राप्त है।

(ii) RESIDENT

Resident Vs. Citizen (निवासी बनाम. नागरिक)

Citizen (or national) and resident are two different terms. This does not mean that a citizen is not a resident, and a resident not a citizen. A person can be a citizen as well as a resident, but it is not necessary that a citizen of a country is necessarily the resident of that country. A person can be a citizen of one country and at the same time a resident of another country.

For example, non-resident Indian (NRI) is citizen of India but a resident of the country in which he lives.

नागरिक (या राष्ट्रीय) और निवासी दो अलग-अलग शब्द हैं। इसका मतलब यह नहीं है कि एक नागरिक निवासी नहीं है, और एक निवासी नागरिक नहीं है। कोई व्यक्ति नागरिक भी हो सकता है और निवासी भी, लेकिन यह आवश्यक नहीं है कि किसी देश का नागरिक आवश्यक रूप से उस देश का निवासी हो। एक व्यक्ति एक देश का नागरिक होने के साथ-साथ दूसरे देश का निवासी भी हो सकता है।

उदाहरण के लिए, अनिवासी भारतीय (एनआरआई) भारत का नागरिक है लेकिन उस देश का निवासी है जिसमें वह रहता है

Definition

A resident is defined as follows:

A resident, whether a person or an institution, is one whose centre of economic interest lies in the economic territory of the country in which he lives or is located.

एक निवासी, चाहे वह व्यक्ति हो या संस्था, वह होता है जिसके आर्थिक हित का केंद्र उस देश के आर्थिक क्षेत्र में होता है जिसमें वह रहता है या स्थित है।

The 'centre of economic interest' implies two things:

- (i) the resident lives within the economic territory for more than one year and
- (ii) the resident carries out the basic economic activities of earnings, spending and accumulation from that location.

'आर्थिक हित का केंद्र' दो बातें दर्शाता है:

- (i) निवासी एक वर्ष से अधिक समय से आर्थिक क्षेत्र के भीतर रहता है
- (ii) निवासी उस स्थान से कमाई, खर्च और संचय की बुनियादी आर्थिक गतिविधियाँ करता है।

Implications:

National product includes production activities of residents irrespective of whether performed within the economic territory or outside. In comparison, Domestic product includes production activity of the production units located within the economic territory irrespective of whether it is carried out by the residents or non-residents.

राष्ट्रीय उत्पाद में निवासियों की उत्पादन गतिविधियाँ शामिल होती हैं, भले ही वे आर्थिक क्षेत्र के भीतर या बाहर की जाती हों। इसकी तुलना में, घरेलू उत्पाद में आर्थिक क्षेत्र के भीतर स्थित उत्पादन इकाइयों की उत्पादन गतिविधि शामिल होती है, भले ही यह निवासियों या गैर-निवासियों द्वारा की जाती है।

From Domestic Product to National Product

National product is derived in the following way:

राष्ट्रीय उत्पाद निम्नलिखित प्रकार से प्राप्त किया जाता है:

In practical estimates the 'residents' contribution outside the economic territory is called 'factor income received from abroad'. The 'non-residents' contribution inside the economic territory is called 'factor income paid to abroad'. Therefore,

व्यावहारिक अनुमानों में आर्थिक क्षेत्र के बाहर 'निवासियों' के योगदान को 'विदेश से प्राप्त कारक आय' कहा जाता है। आर्थिक क्षेत्र के अंदर 'अनिवासियों' के योगदान को 'विदेश में भुगतान की जाने वाली कारक आय' कहा जाता है। इसलिए,

National product = Domestic product
+ Factor income received from abroad
- Factor income paid to abroad.

By subtracting 'factor income paid' from 'factor income received' from abroad, we get a net figure '**Net factor income from abroad**' popularly abbreviated as **NFIA**.

विदेश से प्राप्त 'कारक आय' में से 'भुगतान किए गए कारक आय' को घटाने पर, हमें एक शुद्ध आंकड़ा 'विदेश से प्राप्त शुद्ध कारक आय' प्राप्त होता है, जिसे लोकप्रिय रूप से एनएफआईए के रूप में संक्षिप्त किया जाता है।

National product = Domestic product + Net factor income from abroad
= Domestic product + NFIA

Net Factor Income from Abroad (NFIA):

It refers to the difference between factor income earned by the normal residents of the country from the rest of the world in the form of wages and salaries, rent, interest and profits and similar payments made to the normal residents of other countries (i.e. non-residents) within the domestic territory.

यह देश के सामान्य निवासियों द्वारा दुनिया के बाकी हिस्सों से मजदूरी और वेतन, किराया, ब्याज और मुनाफे के रूप में अर्जित कारक आय और अन्य देशों के सामान्य निवासियों (यानी गैर-) को किए गए समान भुगतान के बीच अंतर को संदर्भित करता है। निवासी) घरेलू क्षेत्र के भीतर।

$$\text{Net Factor Income from Abroad} = \text{Factor Income from Abroad} - \text{Factor Income paid Abroad}$$

Components of NFIA: There are three components of NFIA –

$$\text{NFIA} = \begin{aligned} & \text{Net compensation of employees} \\ & + \text{Net income from property and entrepreneurship} \\ & + \text{Net retained earnings of resident companies abroad} \end{aligned}$$

Significance of NFIA: It is the difference between the national aggregates and the domestic aggregates. The national concept is inclusive of NFIA whereas the domestic concept excludes it.

एनएफआई का महत्व: यह राष्ट्रीय समुच्चय और घरेलू समुच्चय के बीच का अंतर है। राष्ट्रीय अवधारणा में एनएफआई शामिल है जबकि घरेलू अवधारणा में यह शामिल नहीं है

$$\text{National Income} = \text{Domestic Income} + \text{NFIA}$$

□ Difference between Domestic Income and National Income:

Domestic Income घरेलू आय	National Income राष्ट्रीय आय
It refers to the sum of factor incomes generated by all the production units located within the domestic territory of a country during an accounting year. यह एक लेखांकन वर्ष के दौरान किसी देश के घरेलू क्षेत्र के भीतर स्थित सभी उत्पादन इकाइयों द्वारा उत्पन्न कारक आय के योग को संदर्भित करता है।	It refers to the sum of factor incomes earned by the normal residents of the country within or outside the domestic territory of a country during an accounting year. यह एक लेखांकन वर्ष के दौरान देश के घरेलू क्षेत्र के भीतर या बाहर देश के सामान्य निवासियों द्वारा अर्जित कारक आय के योग को संदर्भित करता है।
NDPFC = NNPFC - NFIA	NNPFC = NDPFC + NFIA
It does not include NFIA. इसमें एनएफआई शामिल नहीं है।	It includes NFIA. इसमें एनएफआई भी शामिल है।

Intermediate Products and Final Products

Goods and services purchased by a production unit from other production units with the purpose of reselling or with the purpose of using them to produce some other things are called **intermediate products**. The expenditure on them is called **intermediate cost or intermediate**

consumption.

Goods and services purchased for consumption, i.e., for satisfaction of wants, and for investment are called **final products**. Expenditure on them is called **final expenditure**.

किसी उत्पादन इकाई द्वारा अन्य उत्पादन इकाइयों से पुनर्विक्रय के उद्देश्य से या उनका उपयोग किसी अन्य वस्तु के उत्पादन में करने के उद्देश्य से खरीदी गई वस्तुएँ और सेवाएँ मध्यवर्ती उत्पाद कहलाती हैं। इन पर होने वाले व्यय को मध्यवर्ती लागत या मध्यवर्ती उपभोग कहा जाता है।

उपभोग के लिए अर्थात् आवश्यकताओं की संतुष्टि के लिए और निवेश के लिए खरीदी गई वस्तुएँ और सेवाएँ अंतिम उत्पाद कहलाती हैं। इन पर किया गया व्यय अंतिम व्यय कहलाता है।

□ Difference between Final Goods and Intermediate Goods:

Final Goods अंतिम वस्तुएं	Intermediate Goods सहायक सामग्री
These are those goods and services which are used either for consumption by the consumers or for investment by the firms. ये वे वस्तुएँ और सेवाएँ हैं जिनका उपयोग या तो उपभोक्ताओं द्वारा उपभोग के लिए या फर्मों द्वारा निवेश के लिए किया जाता है।	These are those goods and services which are purchased during the year by one production unit from other production units for to produce some other things or resold, during the same year. ये वे वस्तुएँ और सेवाएँ हैं जो वर्ष के दौरान एक उत्पादन इकाई द्वारा अन्य उत्पादन इकाइयों से कुछ अन्य चीजों का उत्पादन करने के लिए खरीदी जाती हैं या उसी वर्ष के दौरान दोबारा बेची जाती हैं।
They do not undergo any further transformation in the production process वे उत्पादन प्रक्रिया में किसी और परिवर्तन से नहीं गुजरते हैं	They undergo transformation in the production process. वे उत्पादन प्रक्रिया में परिवर्तन से गुजरते हैं।
They are included in the estimation of the national income. इन्हें राष्ट्रीय आय के आकलन में शामिल किया जाता है।	They are not included in the estimation of the national income. इन्हें राष्ट्रीय आय के आकलन में शामिल नहीं किया जाता है।
E.g.: Milk purchased by a consumer for immediate consumption, Machine purchased by a firm. जैसे: उपभोक्ता द्वारा तत्काल उपभोग के लिए खरीदा गया दूध, एक फर्म द्वारा खरीदी गई मशीन.	E.g.: Coal used in factory for further production, Milk purchased by dairy shop for Resale जैसे: आगे के उत्पादन के लिए कारखाने में उपयोग किया जाने वाला कोयला, पुनर्विक्रय के लिए डेयरी दुकान द्वारा खरीदा गया दूध

□ Difference between Consumption/ Consumer Goods and Capital Goods:

Consumption Goods	Capital Goods
These are those final goods and services which are used for the satisfaction of wants by the consumers. ये अंतिम वस्तुएँ और सेवाएँ हैं	These are those final goods and services which are used for producing other goods and services. ये वे अंतिम वस्तुएँ और सेवाएँ हैं जिनका उपयोग अन्य वस्तुओं और सेवाओं के

□

जिनका उपयोग उपभोक्ताओं की आवश्यकताओं की संतुष्टि के लिए किया जाता है।	उत्पादन के लिए किया जाता है।
They may be in durable use. E.g.: Washing Machin. They may be non-durable. E.g.: food items वे टिकाऊ उपयोग में हो सकते हैं। जैसे: वाशिंग मशीन। वे गैर-टिकाऊ हो सकते हैं। जैसे: खाद्य पदार्थ	These are usually durable in nature E.g.: buildings, machinery etc. ये आमतौर पर प्रकृति में टिकाऊ होते हैं जैसे: भवन, मशीनरी आदि।
E.g.: Car purchased by a consumer. उदाहरण: उपभोक्ता द्वारा खरीदी गई कार।	E.g.: Car purchased by a taxi driver or travelagency (firm). उदाहरण: टैक्सी ड्राइवर या ट्रैवल एजेंसी (फर्म) द्वारा खरीदी गई कार।

Important Facts:

- **The same good can be a consumption good and capital good depending upon the end (ultimate) use of the good.** For example: Car purchased by a household is a consumption good since it is purchased for the direct satisfaction of wants by the consumer whereas car purchased by a taxi driver/ firm is a capital good since it is purchased for the production (investment) purpose.
- **All capital goods are producer goods but all producer goods are not capital goods.** Single use producer goods like raw materials, coal, wood etc. which are completely used up in production process are known as intermediate goods whereas durable use producer goods like plant, machinery etc. which are repeatedly used in the production process for several years are called capital goods.
- **A commodity can be an intermediate as well as final good depending upon its nature of use (purpose for use).** If good is used for either consumption or investment, it is a final good. However, if it is used for resale or 'used up' for further production in the same year, it is an intermediate good.
*For example: Bread purchased by a household is a final (consumption) good as it is used for consumption purpose whereas bread purchased by a restaurant owner to make sandwiches is treated as an intermediate good as it is completely used up in the production process.
If the same bread is purchased by a bakery shop for further sale to the consumers, then also it is treated as an intermediate good as it is used for resale in the same year.*
- **Not all purchases by production unit from other production units are intermediate products** because not all of them are either completely used up or resold in the same year. For example, machines, tools vehicles, buildings etc. purchased are not intermediate goods. They are durable use producer goods purchased by production units for own use i.e. for investments.
- **Government services (education, health etc.) are treated as final goods** and therefore included in the estimation of national income.
- **All goods and services acquired by consumers for their own use are treated as final goods. Similarly, all durable goods acquired by producers are also treated as final producer goods/ capital goods.**
- **Durable goods like trucks, aircrafts, weapons of destruction like tanks purchased by the government for military purposes are treated as raw materials i.e. intermediate goods, used for providing defense services.**

• वस्तु के अंतिम (अंतिम) उपयोग के आधार पर वही वस्तु उपभोग वस्तु और पूंजीगत वस्तु हो सकती है। उदाहरण के लिए: एक परिवार द्वारा खरीदी गई कार एक उपभोग वस्तु है क्योंकि इसे उपभोक्ता की जरूरतों की प्रत्यक्ष संतुष्टि के लिए खरीदा जाता है, जबकि टैक्सी ड्राइवर/फर्म द्वारा खरीदी गई कार एक पूंजीगत वस्तु है क्योंकि इसे उत्पादन (निवेश) उद्देश्य के लिए खरीदा जाता है।

• सभी पूंजीगत वस्तुएं उत्पादक वस्तुएं हैं लेकिन सभी उत्पादक वस्तुएं पूंजीगत वस्तुएं नहीं हैं।

एकल उपयोग वाली उत्पादक वस्तुएँ जैसे कच्चा माल, कोयला, लकड़ी आदि जो पूरी तरह से उत्पादन प्रक्रिया में उपयोग हो जाती हैं, मध्यवर्ती वस्तुएँ कहलाती हैं जबकि टिकाऊ उपयोग वाली उत्पादक वस्तुएँ जैसे संयंत्र, मशीनरी आदि जो कई वर्षों तक उत्पादन प्रक्रिया में बार-बार उपयोग की जाती हैं, मध्यवर्ती वस्तुएँ कहलाती हैं। पूंजीगत माल।

• एक वस्तु उसके उपयोग की प्रकृति (उपयोग के उद्देश्य) के आधार पर मध्यवर्ती और अंतिम वस्तु भी हो सकती है। यदि वस्तु का उपयोग उपभोग या निवेश के लिए किया जाता है, तो यह अंतिम वस्तु है। हालाँकि, यदि इसका उपयोग पुनर्विक्रय के लिए किया जाता है या उसी वर्ष आगे के उत्पादन के लिए 'उपयोग' किया जाता है, तो यह एक मध्यवर्ती वस्तु है।

उदाहरण के लिए: एक परिवार द्वारा खरीदी गई ब्रेड अंतिम (खपत) वस्तु है क्योंकि इसका उपयोग उपभोग के उद्देश्य से किया जाता है जबकि एक रेस्तरां मालिक द्वारा सैंडविच बनाने के लिए खरीदी गई ब्रेड को मध्यवर्ती वस्तु माना जाता है क्योंकि यह पूरी तरह से उत्पादन प्रक्रिया में उपयोग की जाती है।

यदि वही ब्रेड किसी बेकरी की दुकान द्वारा उपभोक्ताओं को आगे बेचने के लिए खरीदी जाती है, तो भी इसे मध्यवर्ती वस्तु के रूप में माना जाता है क्योंकि इसका उपयोग उसी वर्ष पुनर्विक्रय के लिए किया जाता है।

• उत्पादन इकाई द्वारा अन्य उत्पादन इकाइयों से की गई सभी खरीद मध्यवर्ती उत्पाद नहीं हैं क्योंकि उनमें से सभी या तो पूरी तरह से उपयोग नहीं किए जाते हैं या एक ही वर्ष में दोबारा नहीं बेचे जाते हैं। उदाहरण के लिए, खरीदी गई मशीनें, उपकरण, वाहन, भवन आदि मध्यवर्ती वस्तुएँ नहीं हैं। वे टिकाऊ उपयोग वाले उत्पादक सामान हैं जो उत्पादन इकाइयों द्वारा स्वयं के उपयोग यानी निवेश के लिए खरीदे जाते हैं।

• सरकारी सेवाओं (शिक्षा, स्वास्थ्य आदि) को अंतिम वस्तु माना जाता है और इसलिए इसे राष्ट्रीय आय के आकलन में शामिल किया जाता है।

• उपभोक्ताओं द्वारा अपने स्वयं के उपयोग के लिए प्राप्त की गई सभी वस्तुओं और सेवाओं को अंतिम वस्तु माना जाता है। इसी प्रकार, उत्पादकों द्वारा अर्जित सभी टिकाऊ वस्तुओं को भी अंतिम उत्पादक वस्तुओं/पूंजीगत वस्तुओं के रूप में माना जाता है।

• सरकार द्वारा सैन्य उद्देश्यों के लिए खरीदे गए टिकाऊ सामान जैसे ट्रक, हवाई जहाज, विनाश के हथियार जैसे टैंक को कच्चे माल यानी मध्यवर्ती सामान के रूप में माना जाता है, जिसका उपयोग रक्षा सेवाएं प्रदान करने के लिए किया जाता है।

□ Difference between Stocks and Flows:

Stocks	Flows
It refers to that variable whose magnitude is measured at a particular point of time. यह उस चर को संदर्भित करता है जिसका परिमाण किसी विशेष समय बिंदु पर मापा जाता है।	It refers to that variable whose magnitude is measured over a period of time. यह उस चर को संदर्भित करता है जिसका परिमाण समय की अवधि में मापा जाता है।
It is a static concept which does not have time dimension. यह उस चर को संदर्भित करता है जिसका	It is a dynamic concept which have a time dimension. यह एक गतिशील अवधारणा है जिसका

परिमाण समय की अवधि में मापा जाता है।	एक समय आयाम है।
E.g.: Capital, Money supply, Inventory, National wealth etc. जैसे: पूंजी, धन आपूर्ति, इन्वेंटरी, राष्ट्रीय संपदा आदि	E.g.: National Income. Investment, Savings, Capital formation, Change in inventories etc. जैसे: राष्ट्रीय आय। निवेश, बचत, पूंजी निर्माण, इन्वेंट्री में बदलाव आदि।

□ **Difference between Factor Income and Transfer Income:**

Factor Income	Transfer Income
It refers to the income received by the factors of production for rendering factor services in production process. It is bilateral in nature. यह उत्पादन प्रक्रिया में कारक सेवाएं प्रदान करने के लिए उत्पादन के कारकों द्वारा प्राप्त आय को संदर्भित करता है। यह प्रकृति में द्विपक्षीय है।	It refers to the income received by recipients without rendering any productive services. It is unilateral in nature. यह किसी भी उत्पादक सेवा प्रदान किए बिना प्राप्तकर्ताओं द्वारा प्राप्त आय को संदर्भित करता है। यह प्रकृति में एकपक्षीय है।
It is included in the estimation of the national income. इसे राष्ट्रीय आय के आकलन में शामिल किया जाता है।	It is not included in the estimation of the national income इसे राष्ट्रीय आय के आकलन में शामिल नहीं किया जाता है
E.g.: Wages, Rent, Interest and Profit जैसे: मजदूरी, किराया, ब्याज और लाभ	E.g.: Scholarships, Old age pension (not retirement pension), Subsidies, Unemployment allowances, Taxed paid by households and enterprises etc. जैसे: छात्रवृत्ति, वृद्धावस्था पेंशन (सेवानिवृत्ति पेंशन नहीं), सब्सिडी, बेरोजगारी भत्ते, घरों और उद्यमों द्वारा भुगतान किया गया कर आदि।

Investment or Capital formation:

It refers to the addition made to the stock of capital of the economy during a period of time.

Components of Investment: There are two components of investment:

(i) Investment in fixed capital i.e. durable producer goods is called **fixed investment** and (ii) Investment in stocks of raw materials, semi-finished goods and finished goods (inventories) is called **inventory investment**, also called change in stock. For example:

यह एक समयावधि के दौरान अर्थव्यवस्था की पूंजी के स्टॉक में की गई वृद्धि को संदर्भित करता है।

निवेश के घटक: निवेश के दो घटक हैं:

(i) स्थिर पूंजी यानी टिकाऊ उत्पादक वस्तुओं में निवेश को निश्चित निवेश कहा जाता है और (ii) कच्चे माल, अर्ध-तैयार माल और तैयार माल (इन्वेंट्री) के स्टॉक में निवेश को इन्वेंट्री निवेश कहा जाता है, इसे स्टॉक में बदलाव भी कहा जाता है। उदाहरण के लिए:

$$\text{Gross Investment} = \text{Gross fixed investment} + \text{Inventory investment/ Change in stock}$$

Investment can be looked up in two forms: (i) Gross Investment and (ii) Net Investment.

$$\begin{aligned} \text{Change in stock (Change in Inventories)} &= \text{Closing stock} - \text{Opening stock} \\ \text{Gross Investment} - \text{Net Investment} &= \text{Depreciation} \end{aligned}$$

A distinction is made between Gross Investment and Net Investment on the basis of depreciation.

निवेश को दो रूपों में देखा जा सकता है: (i) सकल निवेश और (ii) शुद्ध निवेश।

मूल्यहास के आधार पर सकल निवेश और शुद्ध निवेश के बीच अंतर किया जाता है।

Depreciation or Consumption of fixed capital or Replacement cost of fixed assets –

It refers to fall in the value of fixed assets due to normal wear and tear, passage of time and foreseen (expected) obsolescence.

- By normal wear and tear, we mean, fall in the value of fixed assets due to normal use in production resulting in decrease in the production capacity of fixed assets.
- The value of fixed assets also decreases with passage of time, even if they are not being put to use in the business. Natural factors like rain, wind, weather etc. contribute to fall in their value.
- The value of fixed assets decreases due to expected obsolescence i.e. due to change in technology or change in demand for goods and services.

Significance of Depreciation: It is used to differentiate between gross and net value of the same aggregates. The term gross is inclusive of depreciation whereas the term net excludes it.

यह सामान्य टूट-फूट, समय बीतने और अनुमानित (अपेक्षित) अप्रचलन के कारण अचल संपत्तियों के मूल्य में गिरावट को संदर्भित करता है।

- सामान्य टूट-फूट से हमारा तात्पर्य उत्पादन में सामान्य उपयोग के कारण अचल संपत्तियों के मूल्य में गिरावट से है, जिसके परिणामस्वरूप अचल संपत्तियों की उत्पादन क्षमता में कमी आती है।
- समय के साथ अचल संपत्तियों का मूल्य भी घटता जाता है, भले ही उनका व्यवसाय में उपयोग नहीं किया जा रहा हो। बारिश, हवा, मौसम आदि जैसे प्राकृतिक कारक इनके मूल्य में गिरावट में योगदान करते हैं।
- अचल संपत्तियों का मूल्य अपेक्षित अप्रचलन के कारण घट जाता है अर्थात् प्रौद्योगिकी में परिवर्तन या वस्तुओं और सेवाओं की मांग में परिवर्तन के कारण।

मूल्यहास का महत्व: इसका उपयोग समान समुच्चय के सकल और शुद्ध मूल्य के बीच अंतर करने के लिए किया जाता है। सकल शब्द में मूल्यहास शामिल है जबकि शुद्ध शब्द में यह शामिल नहीं है।

$$\text{Gross value} = \text{Net value} + \text{Depreciation}$$

For example:

$$\text{GDPMP} - \text{Depreciation} = \text{NDPMP}$$

$$\text{Value of Depreciation} = \frac{(\text{Value of fixed asset} - \text{Scrap value})}{\text{Expected life span of fixed years (No. of years)}}$$

Capital loss: It refers to loss in value of fixed assets due to unforeseen obsolescence, natural calamities (like floods, earthquakes), thefts, accidents etc. No such provision is made in case of capital loss as it is an unexpected loss. It hampers the production process.

पूँजी हानि: यह अप्रत्याशित अप्रचलन, प्राकृतिक आपदाओं (जैसे बाढ़, भूकंप), चोरी, दुर्घटना आदि के कारण अचल संपत्तियों के मूल्य में हानि को संदर्भित करता है। पूँजी हानि के मामले में ऐसा कोई प्रावधान नहीं किया गया है क्योंकि यह एक अप्रत्याशित हानि है। इससे उत्पादन प्रक्रिया बाधित होती है।

Gross vs. Net Investment

(i) **Gross Investment:** It refers to the total addition to the existing stock of capital during a given period of time. It includes depreciation

(ii) **Net Investment:** It refers to the net addition to the capital stock of an economy during a given period of time. It excludes depreciation

(i) सकल निवेश: यह एक निश्चित अवधि के दौरान पूँजी के मौजूदा स्टॉक में कुल वृद्धि को संदर्भित करता है। इसमें मूल्यहास शामिल है

(ii) शुद्ध निवेश: यह एक निश्चित अवधि के दौरान किसी अर्थव्यवस्था के पूँजी स्टॉक में शुद्ध वृद्धि को संदर्भित करता है। इसमें मूल्यहास शामिल नहीं है

Net Indirect Taxes (NIT):

It is the difference between Indirect taxes paid by the producers and subsidies received by them from the government.

$$\text{NIT} = \text{Indirect Tax} - \text{Subsidies}$$

यह उत्पादकों द्वारा चुकाए गए अप्रत्यक्ष करों और उन्हें सरकार से प्राप्त सब्सिडी के बीच का अंतर है।

Indirect Taxes: It refers to those taxes which are imposed by the government on production and sale of goods and services. For example: GST. It increases the market price of goods.

Subsidies: These are the financial assistance given by the government to the firms/ enterprises on the production of certain commodities. It reduces the market price of goods.

अप्रत्यक्ष कर: यह उन करों को संदर्भित करता है जो सरकार द्वारा वस्तुओं और सेवाओं के उत्पादन और बिक्री पर लगाए जाते हैं। उदाहरण के लिए: जीएसटी। इससे वस्तुओं का बाजार मूल्य बढ़ जाता है।

सब्सिडी: ये सरकार द्वारा फर्मों/उद्यमों को कुछ वस्तुओं के उत्पादन पर दी जाने वाली वित्तीय सहायता है। इससे वस्तुओं का बाजार मूल्य कम हो जाता है।

Significance of NIT:

NIT is the difference between Factor Cost and Market Price. Aggregates expressed in market price are converted into their factor cost by deducting NIT from it and vice-versa.

एनआईटी कारक लागत और बाजार मूल्य के बीच का अंतर है। बाजार मूल्य में व्यक्त कुल राशि को आईटी से घटाकर उनकी कारक लागत में परिवर्तित कर दिया जाता है और इसके विपरीत

$$\text{GDP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{Net Indirect Taxes}$$

Market Price Vs Factor Cost:

Market Price refers to the price at which product is actually sold in the market. It includes the indirect taxes and excludes the subsidies.

Factor Cost refers to the amount paid to factors of production for their contribution in the production process.

बाज़ार मूल्य से तात्पर्य उस कीमत से है जिस पर उत्पाद वास्तव में बाज़ार में बेचा जाता है। इसमें अप्रत्यक्ष कर शामिल हैं और सब्सिडी शामिल नहीं है।

कारक लागत से तात्पर्य उत्पादन प्रक्रिया में उनके योगदान के लिए उत्पादन के कारकों को भुगतान की गई राशि से है।

$$\text{Market Price} = \text{Factor Cost} + \text{Indirect Tax} - \text{Subsidies}$$

$$\text{GDP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{Indirect Tax} + \text{Subsidies}$$

□ **Indirect tax is subtracted from and subsidies are added to the domestic product at market price to arrive at domestic product at factor cost**

• कारक लागत पर घरेलू उत्पाद प्राप्त करने के लिए बाजार मूल्य पर घरेलू उत्पाद में से अप्रत्यक्ष कर घटाया जाता है और सब्सिडी जोड़ी जाती है

Net Exports (Exports – Imports):

It refers to the difference between exports and imports of goods and services.

- Exports are included in the estimation of National Income because it is an expenditure on domestic product of a country by foreigners.
- Imports are the expenditure on domestic products of foreign countries. Private Final Consumption Expenditure, Government Final Consumption Expenditure, Gross Domestic Capital Formation, all contain import components (a portion each of these expenditures consist of imports). Since it is not possible to identify expenditure on imports in these components individually. Therefore, a single estimate of imports by the country as a whole is deducted from exports.

यह वस्तुओं और सेवाओं के निर्यात और आयात के बीच अंतर को संदर्भित करता है।

- निर्यात को राष्ट्रीय आय के आकलन में शामिल किया जाता है क्योंकि यह विदेशियों द्वारा किसी देश के घरेलू उत्पाद पर किया गया व्यय है।
- आयात विदेशी देशों के घरेलू उत्पादों पर होने वाला व्यय है। निजी अंतिम उपभोग व्यय, सरकारी अंतिम उपभोग व्यय, सकल घरेलू पूंजी निर्माण, सभी में आयात घटक शामिल हैं (इनमें से प्रत्येक व्यय का एक हिस्सा आयात से बना है)। चूँकि इन घटकों में आयात पर व्यय की अलग-अलग पहचान करना संभव नहीं है। इसलिए, समग्र रूप से देश द्वारा आयात का एकल अनुमान निर्यात से घटा दिया जाता है।

National Income Aggregates

There are many aggregates in national income accounting. Definition of these are as follows-

राष्ट्रीय आय लेखांकन में कई समुच्चय होते हैं। इनकी परिभाषा इस प्रकार है-

1. **GDP_{MP}** - It is the Gross Market Value of all final goods and services produced by all producers within domestic territory of a country in a financial year
2. **NDP_{MP}** - It is the Net Market Value of all final goods and services produced by all producers within domestic territory of a country in a financial year

3. GNP_{MP}- It is the Gross Market Value of all final goods and services produced by Normal Residents of a country within or outside domestic territory in a financial year

4. NNP_{MP} - It is the Net Market Value of all final goods and services produced by Normal Residents of a country within or outside domestic territory in a financial year

5. Domestic Income (NDP_{FC}) - It is the Net factor Income earned by all the factors of production within domestic territory of a country in a financial year

6. GDP_{FC}-It is the Gross factor Income earned by all the factors of production within domestic territory of a country in a financial year

7. GNP_{FC}-It is the Gross factor Income earned by (all the factors of production owned by) Normal Residents of a country within or outside domestic territory in a financial year

8. National Income (NNP_{fc})- It is the Net factor Income earned by (all the factors of production owned by) Normal Residents of a country within or outside domestic territory in a financial year.

Note: The basic among these is Gross Domestic Product at Market Price (GDPMP). By making adjustments in GDPMP, we can derive other aggregates.

1. जीडीपीएमपी - यह एक वित्तीय वर्ष में किसी देश के घरेलू क्षेत्र के भीतर सभी उत्पादकों द्वारा उत्पादित सभी अंतिम वस्तुओं और सेवाओं का सकल बाजार मूल्य है
2. एनडीपीएमपी- यह एक वित्तीय वर्ष में किसी देश के घरेलू क्षेत्र के भीतर सभी उत्पादकों द्वारा उत्पादित सभी अंतिम वस्तुओं और सेवाओं का शुद्ध बाजार मूल्य है।
3. जीएनपीएमपी- यह एक वित्तीय वर्ष में घरेलू क्षेत्र के भीतर या बाहर किसी देश के सामान्य निवासियों द्वारा उत्पादित सभी अंतिम वस्तुओं और सेवाओं का सकल बाजार मूल्य है।
4. एनएनपीएमपी - यह एक वित्तीय वर्ष में घरेलू क्षेत्र के भीतर या बाहर किसी देश के सामान्य निवासियों द्वारा उत्पादित सभी अंतिम वस्तुओं और सेवाओं का शुद्ध बाजार मूल्य है।
5. घरेलू आय (एनडीपीएफसी) - यह एक वित्तीय वर्ष में किसी देश के घरेलू क्षेत्र के भीतर उत्पादन के सभी कारकों द्वारा अर्जित शुद्ध कारक आय है।
6. जीडीपीएफसी-यह एक वित्तीय वर्ष में किसी देश के घरेलू क्षेत्र के भीतर उत्पादन के सभी कारकों द्वारा अर्जित सकल कारक आय है
7. जीएनपीएफसी-यह एक वित्तीय वर्ष में घरेलू क्षेत्र के भीतर या बाहर किसी देश के सामान्य निवासियों (उत्पादन के सभी कारकों के स्वामित्व वाले) द्वारा अर्जित सकल कारक आय है।
8. राष्ट्रीय आय (एनएनपीएफसी) - यह एक वित्तीय वर्ष में घरेलू क्षेत्र के भीतर या बाहर किसी देश के सामान्य निवासियों (उत्पादन के सभी कारकों के स्वामित्व वाले) द्वारा अर्जित शुद्ध कारक आय है।

नोट: इनमें से मूल है बाजार मूल्य पर सकल घरेलू उत्पाद (जीडीपीएमपी)। जीडीपीएमपी में समायोजन करके, हम अन्य समुच्चय प्राप्त कर सकते हैं।

Net Domestic Product at Market Price बाजार मूल्य पर शुद्ध घरेलू उत्पाद

If depreciation is deducted from the GDP_{MP}, it becomes Net Domestic Product (NDP_{MP}).

यदि जीडीपीएमपी से मूल्यहास घटा दिया जाता है, तो यह शुद्ध घरेलू उत्पाद (एनडीपीएमपी) बन जाता है।

$$\text{GDP}_{\text{MP}} - \text{Depreciation} = \text{NDP}_{\text{MP}}$$

Domestic product at Factor Cost कारक लागत पर घरेलू उत्पाद

By making adjustment of indirect tax and subsidies we derive GDP at factor cost (GDP_{FC}) from GDP_{MP}. After deducting NIT from GDP_{MP} we can get GDP_{FC}.

अप्रत्यक्ष कर और सब्सिडी का समायोजन करके हम जीडीपीएमपी से कारक लागत पर जीडीपी (जीडीपीएफसी) प्राप्त करते हैं। जीडीपीएमपी से एनआईटी घटाने के बाद हम जीडीपीएफसी प्राप्त कर सकते हैं।

$$\text{GDP}_{\text{MP}} - \text{Indirect Tax} + \text{Subsidies} = \text{GDP}_{\text{FC}}$$

or
$$\text{GDP} - \text{Net Indirect Tax} = \text{GDP}_{\text{FC}}$$

Net Domestic Product at Factor Cost कारक लागत पर शुद्ध घरेलू उत्पाद

If we make adjustment of both the NIT and depreciation (also called consumption of fixed capital) we get one more aggregate called Net Domestic Product at Factor Cost (NDP_{FC}).

यदि हम एनआईटी और मूल्यहास (जिसे निश्चित पूंजी की खपत भी कहा जाता है) दोनों का समायोजन करते हैं तो हमें एक और समुच्चय प्राप्त होता है जिसे कारक लागत पर शुद्ध घरेलू उत्पाद (एनडीपीएफसी) कहा जाता है।

$$\text{GDP}_{\text{MP}} - \text{Indirect Tax} + \text{Subsidies} - \text{Depreciation} = \text{NDP}_{\text{FC}}$$

or

$$\text{NDP}_{\text{FC}} + \text{Indirect Tax} - \text{Subsidies} + \text{Depreciation} = \text{GDP}_{\text{MP}}$$

Net National Product at Factor Cost (NNP_{FC}) or National Income

Net factor income from abroad (NFIA) provides the link between NDP and NNP. Therefore, विदेश से कारक आय (एनएफआई) एनडीपी और एनएनपी के बीच लिंक प्रदान करती है। इसलिए,

$$\text{NDP}_{\text{FC}} + \text{NFIA} = \text{NNP}_{\text{FC}}$$

or

$$\text{NNP}_{\text{FC}} - \text{NFIA} = \text{NDP}_{\text{FC}}$$

Similarly,

$$\text{NDP}_{\text{MP}} + \text{NFIA} = \text{NNP}_{\text{MP}}$$

$$\text{GDP}_{\text{MP}} + \text{NFIA} = \text{GNP}_{\text{MP}}$$

Summing up

The three crucial adjustments required for deriving one aggregate from the other are:

- Gross - Depreciation = Net
- Market price - NIT (Indirect Tax - Subsidies) = Factor cost

- Domestic + NFIA = National

उपसंहार:

एक समुच्चय को दूसरे से प्राप्त करने के लिए आवश्यक तीन महत्वपूर्ण समायोजन हैं:

- सकल - मूल्यहास = शुद्ध
- बाजार मूल्य - एनआईटी (अप्रत्यक्ष कर - सब्सिडी) = कारक लागत
- घरेलू + एनएफआईए = राष्ट्रीय

□ Circular Flow of Income आय का चक्रीय प्रवाह

It refers to cycle of generation of income in the production process, its distribution among the factors of production and finally, its circulation from households to firms in the form of consumption expenditure on goods and services by firms.

यह उत्पादन प्रक्रिया में आय के सृजन के चक्र, उत्पादन के कारकों के बीच इसके वितरण और अंत में, फर्मों द्वारा वस्तुओं और सेवाओं पर उपभोग व्यय के रूप में घरों से फर्मों तक इसके संचलन को संदर्भित करता है।

Circular Flow of Income in a Two Sector Economy:

- Two sector model consists of production sector/ firms and household sector. Households are the owners of factors of production and supply factor services to firms. The firms in return make factor payments, So, factor payments flow from firms to households.

दो सेक्टर मॉडल में उत्पादन क्षेत्र/फर्म और घरेलू क्षेत्र शामिल हैं। परिवार उत्पादन के कारकों और फर्मों को आपूर्ति कारक सेवाओं के मालिक हैं। बदले में कंपनियां कारक भुगतान करती हैं, इसलिए, कारक भुगतान फर्मों से परिवारों तक प्रवाहित होता है।

- Household spend the entire income on purchase of goods and services produced by firms. Thus, consumption expenditure flows from households to firms, completing the circular flow of income.

•परिवार अपनी पूरी आय फर्मों द्वारा उत्पादित वस्तुओं और सेवाओं की खरीद पर खर्च करता है। इस प्रकार, उपभोग व्यय घरों से फर्मों की ओर प्रवाहित होता है, जिससे आय का चक्रीय प्रवाह पूरा होता है।

□ Types of Circular Flows:

- Real Flow (Physical/ Product flow):** It refers to flow of factor services from households to firms and the corresponding flow of goods and services from firms to households.
- Money Flow (Income/ Nominal flow):** It refers to flow of money in the form of factor payments from firms to households and the corresponding flow of consumption expenditure from households to firms for purchase of goods and services produced by the firms.

(i) वास्तविक प्रवाह (भौतिक/उत्पाद प्रवाह): यह घरों से फर्मों तक कारक सेवाओं के प्रवाह और फर्मों से घरों तक वस्तुओं और सेवाओं के तदनुसूची प्रवाह को संदर्भित करता है।

(ii) धन प्रवाह (आय/नाममात्र प्रवाह): यह फर्मों से परिवारों तक कारक भुगतान के रूप में धन के प्रवाह और फर्मों द्वारा उत्पादित वस्तुओं और सेवाओं की खरीद के लिए घरों से फर्मों तक उपभोग व्यय के तदनुसूची प्रवाह को संदर्भित करता है।

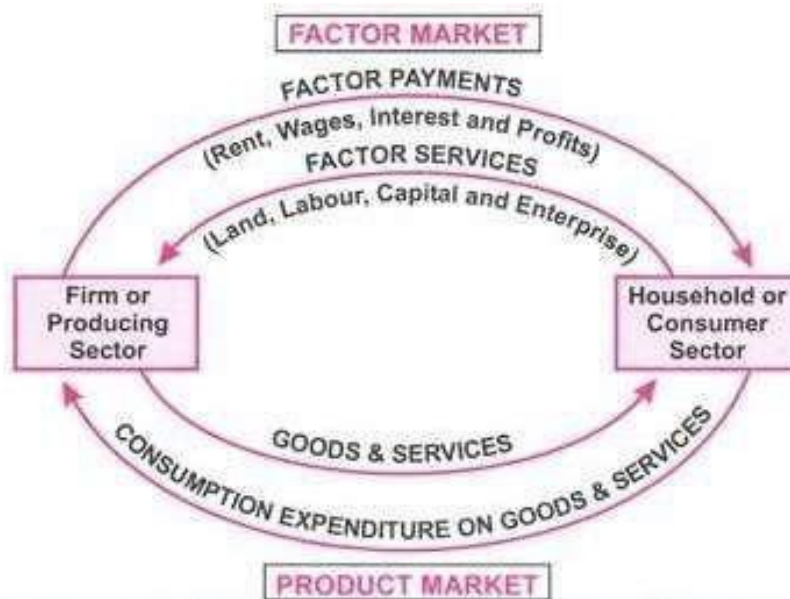
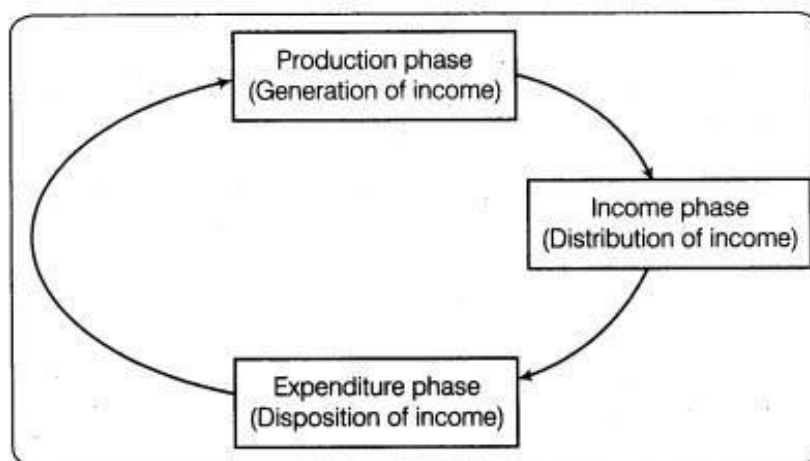


Diagram showing real flows (inner arrows) and money flows (outer arrows)

- **Leakages** refer to withdrawal of money from the circular flow. For e.g. Savings, Taxes imposed by the government, Imports etc.
लीकेज का तात्पर्य सर्कुलर फ्लो से पैसे निकालने से है। उदाहरण के लिए बचत, सरकार द्वारा लगाए गए कर, आयात आदि।
- **Injections** refer to the introduction of income into the circular flow. For e.g. Investments, Government expenditure, Exports etc.
इंजेक्शन का तात्पर्य परिपत्र प्रवाह में आय की शुरुआत से है। उदाहरण के लिए निवेश, सरकारी व्यय, निर्यात आदि।
- **Phases of Circular Flow of National Income:**
There are three phases (Production, Distribution and Expenditure) in the circular flow of income.
आय के चक्रीय प्रवाह में तीन चरण (उत्पादन, वितरण और व्यय) होते हैं।



Different phases of circular flow of income

In Production (Income Generation Phase): Production of goods and services by firms causes generation of income.

उत्पादन में (आय सृजन चरण): फर्मों द्वारा वस्तुओं और सेवाओं का उत्पादन आय सृजन का कारण बनता है।

In Income Distribution Phase, factor income (wages, rent, interest and profits) flow from firms to households according to their contribution to production.

आय वितरण चरण में, कारक आय (मजदूरी, किराया, ब्याज और मुनाफा) उत्पादन में उनके योगदान के अनुसार फर्मों से परिवारों तक प्रवाहित होती है।

In Expenditure Phase, the income received by factors of production is spent on the goods and services produced by firms.

व्यय चरण में, उत्पादन के कारकों द्वारा प्राप्त आय को फर्मों द्वारा उत्पादित वस्तुओं और सेवाओं पर खर्च किया जाता है।

Conclusion: *Value of output produced = Value of income distributed = Value of expenditure incurred in the economy.*

Accordingly, there are three methods of estimating National Income: Value added method, Income method and Expenditure method

निष्कर्ष: उत्पादित उत्पादन का मूल्य = वितरित आय का मूल्य = अर्थव्यवस्था में किए गए व्यय का मूल्य।

तदनुसार, राष्ट्रीय आय का अनुमान लगाने की तीन विधियाँ हैं: मूल्य वर्धित विधि, आय विधि और व्यय विधि

METHODS OF ESTIMATION OF NATIONAL INCOME (NNPFC) AND OTHER RELATED AGGREGATES (राष्ट्रीय आय (एनएनपीएफसी) और अन्य संबंधित समुच्चय के आकलन के तरीके)

Production Method (Value Added Method): It refers to the sum total of valued added by Primary sector, Secondary sector and Tertiary sector. Value added refers to the difference between the total value of output of a firm and the value of intermediate consumption.

उत्पादन विधि (मूल्य वर्धित विधि): यह प्राथमिक क्षेत्र, द्वितीयक क्षेत्र और तृतीयक क्षेत्र द्वारा जोड़े गए मूल्य के कुल योग को संदर्भित करता है। जोड़ा गया मूल्य किसी फर्म के उत्पादन के कुल मूल्य और मध्यवर्ती खपत के मूल्य के बीच के अंतर को संदर्भित करता है।

Value Added = Value of Output – Intermediate Consumption

जोड़ा गया मूल्य = आउटपुट का मूल्य - मध्यवर्ती खपत

In this method we first find out Gross Value Added at Market Price (GVAMP) in each sector and then take their sum to arrive at GDPMP.

इस पद्धति में हम पहले प्रत्येक क्षेत्र में बाजार मूल्य पर सकल मूल्य वर्धित (जीवीएएमपी) का पता लगाते हैं और फिर जीडीपीएमपी पर पहुंचने के लिए उनका योग लेते हैं।

Value of Output = Sales + Change in Stock

$GVA_{MP} = \text{Gross Value of Output at Market Price} - \text{Intermediate Consumption}$

Sum total of GVA_{MP} by all the sectors = GDP_{MP}

Then we make adjustments to arrive at national income or NNPFC

फिर हम राष्ट्रीय आय या एनएनपीएफसी पर पहुंचने के लिए समायोजन करते हैं

□ GDPMP - Consumption of fixed capital = NDPMP

□ NDPMP – Indirect Tax + Subsidies = NDPFC

□ NDPFC + NFIA = NNPFC

Problem of Double Counting (दोहरी गणना की समस्या)

The problem of double counting arises when the value of intermediate goods is counted in the estimation of national income along with the value of final goods and services.

It results in the overestimation of national income. For example: In the table given below the final good is bread, which passes through various stages of production before it is purchased by the consumer for final consumption.

दोहरी गणना की समस्या तब उत्पन्न होती है जब राष्ट्रीय आय के आकलन में मध्यवर्ती वस्तुओं के मूल्य को अंतिम वस्तुओं और सेवाओं के मूल्य के साथ गिना जाता है।

इसके परिणामस्वरूप राष्ट्रीय आय का अधिक आकलन होता है। उदाहरण के लिए: नीचे दी गई तालिका में अंतिम वस्तु ब्रेड है, जो अंतिम उपभोग के लिए उपभोक्ता द्वारा खरीदे जाने से पहले उत्पादन के विभिन्न चरणों से गुजरती है।

Stages of production (1)	Value of output (2)	Value of intermediate consumption (3)	Value added (4) = (2 – 3)
Farmer (sells wheat to) ↓	400	0	400
Miller (sells flour to) ↓	600	400	200
Baker (sells bread to) ↓	800	600	200
Shopkeeper (sells to consumer)	900	800	100
Total	2700	1800	900

It is clear from the above table that Gross value of output is Rs. 2700 (= 400 + 600 + 800 + 900). This is not the actual value of physical output because in this the value of wheat, value of services of miller and value of baker services is counted more than once. The value of final good i.e. bread is Rs. 900.

उपरोक्त तालिका से यह स्पष्ट है कि उत्पादन का सकल मूल्य रु. 2700 (=400 + 600 + 800 + 900). यह भौतिक उत्पादन का वास्तविक मूल्य नहीं है क्योंकि इसमें गेहूं का मूल्य, मिलर की सेवाओं का मूल्य और बेकर सेवाओं का मूल्य एक से अधिक बार गिना जाता है। अंतिम वस्तु अर्थात ब्रेड का मूल्य रु. 900.

Two ways to avoid the problem of double counting –

- Consider only the value of final goods and services
- Consider the value added instead of value of total output

डबल काउंटिंग की समस्या से बचने के दो तरीके -

क) केवल अंतिम वस्तुओं और सेवाओं के मूल्य पर विचार करें

ख) कुल उत्पादन के मूल्य के बजाय जोड़े गए मूल्य पर विचार करें

Precautions to be taken while estimating national income using Value added method

मूल्य वर्धित पद्धति का उपयोग करके राष्ट्रीय आय का आकलन करते समय बरती जाने वाली सावधानियाँ

- (i) Value of intermediate goods should not be included in the estimation of national income because value of these goods is already included in the value of final goods.
- (ii) Own account production means output produced self-consumption and investment should be included. For example, output produced by farmers for self-consumption. Imputed value of production of goods for self-consumption should be included as they contribute to the current output.
- (iii) Imputed rent of the owner-occupied houses should be included in national income because all houses have rental value, no matter they are self-occupied or rented one.
- (iv) Imputed value of free services produced by general government and private non-profit institutions serving households must be taken into account.
- (v) Production of services for self-consumption (domestic services) like services of house wife, kitchen gardening etc. are not included in the national income since it is difficult to measure their market value.
- (vi) Sale and purchase of second-hand goods and property should not be included because they were included in the year in which they were produced. However, any commission or brokerage on sale or purchase of such goods will be included in the national income as it is a productive service.

(i) मध्यवर्ती वस्तुओं के मूल्य को राष्ट्रीय आय के आकलन में शामिल नहीं किया जाना चाहिए क्योंकि इन वस्तुओं का मूल्य पहले से ही अंतिम वस्तुओं के मूल्य में शामिल है।

(ii) स्वयं के खाते के उत्पादन का अर्थ है उत्पादित उत्पादन में स्वयं की खपत और निवेश को शामिल किया जाना चाहिए। उदाहरण के लिए, किसानों द्वारा स्वयं उपभोग के लिए उत्पादित उत्पादन। स्व-उपभोग के लिए वस्तुओं के उत्पादन के अनुमानित मूल्य को शामिल किया जाना चाहिए क्योंकि वे वर्तमान उत्पादन में योगदान करते हैं।

(iii) मालिक के कब्जे वाले घरों का अनुमानित किराया राष्ट्रीय आय में शामिल किया जाना चाहिए क्योंकि सभी घरों का किराये का मूल्य होता है, चाहे वे स्व-कब्जे वाले हों या किराए पर हों।

(iv) सामान्य सरकार और घरों में सेवा देने वाले निजी गैर-लाभकारी संस्थानों द्वारा उत्पादित मुफ्त सेवाओं के अनुमानित मूल्य को ध्यान में रखा जाना चाहिए।

(v) स्व-उपभोग के लिए सेवाओं (घरेलू सेवाओं) जैसे गृहिणी की सेवाएं, किचन गार्डनिंग आदि का उत्पादन राष्ट्रीय आय में शामिल नहीं किया जाता है क्योंकि उनके बाजार मूल्य को मापना मुश्किल है।

(vi) सेकेंड-हैंड सामान और संपत्ति की बिक्री और खरीद को शामिल नहीं किया जाना चाहिए क्योंकि वे उस वर्ष में शामिल किए गए थे जिसमें उनका उत्पादन किया गया था। हालाँकि, ऐसे सामान की बिक्री या खरीद पर कोई भी कमीशन या दलाली राष्ट्रीय आय में शामिल की जाएगी क्योंकि यह एक उत्पादक सेवा है।

2) Income Distribution Method (आय वितरण विधि)

In this method we first estimate factor incomes paid out (i.e., distributed) to the owners of factors of production by the various industrial sectors. The sum of such factor payments equals Net Domestic product at Factor Cost (NDPFC). The components of NDPFC are:

इस पद्धति में हम पहले विभिन्न औद्योगिक क्षेत्रों द्वारा उत्पादन के कारकों के मालिकों को भुगतान की गई (अर्थात् वितरित) कारक आय का अनुमान लगाते हैं। ऐसे कारक भुगतानों का योग कारक लागत पर शुद्ध घरेलू उत्पाद (एनडीपीएफसी) के बराबर होता है। एनडीपीएफसी के घटक हैं:

- (i) **Compensation of employees (COE):** It is defined as the total remuneration in cash or in kind, payable by an enterprise to an employee in return for work done.

कर्मचारियों का मुआवजा (सीओई): इसे नकद या वस्तु के रूप में कुल पारिश्रमिक के रूप में परिभाषित किया गया है, जो किसी उद्यम द्वारा किसी कर्मचारी को किए गए काम के बदले में देय होता है।

The main components of compensation of employees are:

- a) **Wages and salaries in cash**
- b) **Salaries in kind:** include goods and services provided by the employers to employees for satisfaction of wants of employees and their families like rent free accommodation, vehicles for personal use, imputed interest of interest free loans etc.
- c) **Social security contributions by the employers** like casualty insurance, provident fund, gratuity and pension provisions etc.

कर्मचारियों के मुआवजे के मुख्य घटक हैं:

क) वेतन और वेतन नकद में

बी) वेतन और वस्तु के रूप में वेतन: इसमें कर्मचारियों और उनके परिवारों की जरूरतों की संतुष्टि के लिए नियोक्ताओं द्वारा कर्मचारियों को प्रदान की जाने वाली वस्तुएं और सेवाएं शामिल हैं जैसे किराया मुक्त आवास, व्यक्तिगत उपयोग के लिए वाहन, ब्याज मुक्त ऋण पर आरोपित ब्याज आदि।

ग) नियोक्ताओं द्वारा सामाजिक सुरक्षा योगदान जैसे दुर्घटना बीमा, भविष्य निधि, ग्रेच्युटी और पेंशन प्रावधान आदि।

(ii) **Rent** किराया

(iii) **Royalty** रॉयल्टी

(iv) **Interest** is defined as the amount payable by a production unit to the owners of financial assets in the production unit.

ब्याज को उत्पादन इकाई द्वारा उत्पादन इकाई में वित्तीय परिसंपत्तियों के मालिकों को देय राशि के रूप में परिभाषित किया गया है।

(v) **Profit** is the reward to the entrepreneur for his contribution to the production of goods and services. It has three components. (i) Corporate tax, (ii) Dividend and (iii) Retained earnings/ Undistributed Profits.

लाभ उद्यमी को वस्तुओं और सेवाओं के उत्पादन में उसके योगदान के लिए दिया जाने वाला पुरस्कार है। इसके तीन घटक हैं. (i) कॉर्पोरेट टैक्स, (ii) लाभांश और (iii) बरकरार रखी गई कमाई/अवितरित लाभ।

$$\text{Profits} = \text{Corporation Tax} + \text{Dividends} + \text{Retained earnings}$$

(vi) **Mixed income of self-employed** –Mixed income arises for productive services of self-employed persons, whose income includes wages, rent, interest and profit and these elements cannot be separated from each other.

स्व-रोज़गार की मिश्रित आय-स्व-रोज़गार वाले व्यक्तियों की उत्पादक सेवाओं के लिए मिश्रित आय उत्पन्न होती है, जिनकी आय में वेतन, किराया, ब्याज और लाभ शामिल होते हैं और इन तत्वों को एक दूसरे से अलग नहीं किया जा सकता है।

$$\text{NDP}_{FC} = \text{Compensation of employees} + \text{Rent and royalty} + \text{Interest} + \text{Profit} + \text{Mixed income (if any)}$$

There is another term used in factor payments. It is '**operating surplus**'. It is defined as the sum of rent and royalty, interest and profits. In that case:

कारक भुगतान में एक और शब्द का उपयोग किया जाता है। यह 'ऑपरेटिंग सरप्लस' है। इसे किराया और रॉयल्टी, ब्याज और मुनाफे के योग के रूप में परिभाषित किया गया है। उस मामले में:-

$$NDP_{FC} = \text{Compensation of employees} + \text{Operating surplus} + \text{Mixed income of self employed}$$

Once we estimate NDP FC, we can find NNP FC or national income, by adding NFIA to it.

एक बार जब हम एनडीपी एफसी का अनुमान लगाते हैं, तो हम इसमें एनएफआई जोड़कर एनएनपी एफसी या राष्ट्रीय आय पा सकते हैं।

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

Precautions to be taken while estimating national income using Income method

आय पद्धति का उपयोग करके राष्ट्रीय आय का आकलन करते समय बरती जाने वाली सावधानियाँ

- (i) Since transfers (Gifts, donations, charities etc.) are not a reward for production activity it should not be included in national income.
- (ii) Capital gain refers to the income from the sale of second-hand goods like old cars, old house, machinery, buildings etc. are not included in national income as they do not add to the current flow of goods and services in the economy.
- (iii) Income arising from the sale of financial assets like shares, bonds, debentures, government securities etc. will not be included as these transactions are not related to the production of goods and services.
- (iv) Imputed value of services provided by owners of production units will be included. Imputed value of owner-occupied houses, interest on own capital, production for self-consumption, etc. will be included as these are productive activities and add to the flow of goods and services.
- (v) Windfall gains (like income from lotteries, horse race, etc.) are not included as there is no productive activity connected with them.
- (i) चूंकि स्थानांतरण (उपहार, दान, दान आदि) उत्पादन गतिविधि के लिए पुरस्कार नहीं हैं, इसलिए इसे राष्ट्रीय आय में शामिल नहीं किया जाना चाहिए।
- (ii) पूंजीगत लाभ से तात्पर्य पुरानी कारों, पुराने घर, मशीनरी, भवनों आदि जैसी सेकेंड-हैंड वस्तुओं की बिक्री से होने वाली आय से है, जिन्हें राष्ट्रीय आय में शामिल नहीं किया जाता है क्योंकि वे वस्तुओं और सेवाओं के वर्तमान प्रवाह में नहीं जुड़ते हैं। अर्थव्यवस्था।
- (iii) शेयर, बांड, डिबेंचर, सरकारी प्रतिभूतियां आदि जैसी वित्तीय संपत्तियों की बिक्री से उत्पन्न आय शामिल नहीं की जाएगी क्योंकि ये लेनदेन वस्तुओं और सेवाओं के उत्पादन से संबंधित नहीं हैं।
- (iv) उत्पादन इकाइयों के मालिकों द्वारा प्रदान की गई सेवाओं का अनुमानित मूल्य शामिल किया जाएगा। मालिक के कब्जे वाले घरों का मूल्यांकित मूल्य, स्वयं की पूंजी पर ब्याज, स्वयं-उपभोग के लिए उत्पादन, आदि को शामिल किया जाएगा क्योंकि ये उत्पादक गतिविधियां हैं और वस्तुओं और सेवाओं के प्रवाह में जुड़ती हैं।
- (v) अप्रत्याशित लाभ (जैसे लॉटरी, घुड़दौड़ आदि से आय) शामिल नहीं हैं क्योंकि उनके साथ कोई उत्पादक गतिविधि नहीं जुड़ी है।

(3) Expenditure Method व्यय विधि

This method measures national income as sum total of final expenditures incurred by all the four sectors of the economy in the form of consumption and investment. This sum equals GDPMP.

- (i) **Private final consumption expenditure (PFCE):** This is the sum of final consumption expenditure by households and private non-profit institutions serving households.
- (ii) **Government final consumption expenditure (GFCE):** This equals the imputed value of services produced and provided by general government free to the people.

- (iii) **Gross domestic capital formation (GDCF):** This equals the expenditure incurred on acquiring goods for investment by production units located within the domestic territory.
- (iv) **Net Exports (X-M):** This is the difference between export and imports of goods and services.

यह विधि अर्थव्यवस्था के सभी चार क्षेत्रों द्वारा उपभोग और निवेश के रूप में किए गए अंतिम व्यय के योग के रूप में राष्ट्रीय आय को मापती है। यह राशि जीडीपीएमपी के बराबर है।

- (i) **निजी अंतिम उपभोग व्यय (पीएफसीई):** यह परिवारों और परिवारों की सेवा करने वाले निजी गैर-लाभकारी संस्थानों द्वारा अंतिम उपभोग व्यय का योग है।
- (ii) **सरकारी अंतिम उपभोग व्यय (जीएफसीई):** यह सामान्य सरकार द्वारा लोगों को मुफ्त में उत्पादित और प्रदान की गई सेवाओं के अनुमानित मूल्य के बराबर है।
- (iii) **सकल घरेलू पूंजी निर्माण (जीडीसीएफ):** यह घरेलू क्षेत्र के भीतर स्थित उत्पादन इकाइयों द्वारा निवेश के लिए सामान प्राप्त करने पर किए गए व्यय के बराबर है।
- (iv) **शुद्ध निर्यात (एक्स-एम):** यह वस्तुओं और सेवाओं के निर्यात और आयात के बीच का अंतर है।

$$\text{Gross domestic capital formation} = \text{Gross domestic fixed capital formation} + \text{Change in stocks}$$

GDPMP is calculated as:

$$\begin{aligned} \text{GDP}_{\text{MP}} = & \text{Private final consumption expenditure (PFCE)} \\ & + \text{Government final consumption expenditure (GFCE)} \\ & + \text{Gross domestic capital formation (GDCF)} \\ & + \text{Net exports (X-M)} \end{aligned}$$

By making the usual adjustments we can arrive at national income:

सामान्य समायोजन करके हम राष्ट्रीय आय पर पहुँच सकते हैं:

$$\text{NNP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{Consumption of fixed capital} - \text{Indirect Tax} + \text{Subsidies} + \text{NFIA}$$

Precautions to be taken while estimating national income using Expenditure method

व्यय विधि द्वारा राष्ट्रीय आय का आकलन करते समय बरती जाने वाली सावधानियाँ

- (i) Intermediate expenditure is already a part of final expenditures. So expenditure on intermediate products is necessary to exclude from estimation.
- (ii) Expenditure on second hand goods should not be included as they have already been accounted during the period of their production. However, any commission or brokerage paid in such transactions are treated as final expenditure because it is a payment for the services purchased.
- (iii) Expenditure on financial assets in the form of expenditure on buying shares, bonds, debentures, government securities etc. will not be included as they are simply paper claims. But any brokerage or service charged or paid in buying financial assets is treated as expenditure on buying services.
- (iv) Imputed expenditure on own account output like self-consumed output by farmers etc. and imputed rent of self-occupied house must be counted as final expenditure and hence included.
- (v) A transfer payment is unilateral transfer against which no goods or service is rendered. For example: payment of gifts charities, donations, scholarships, taxes, old age pension, unemployment allowances etc. Such an expenditure is not concerned with production activity hence not included.
- (i) मध्यवर्ती व्यय पहले से ही अंतिम व्यय का एक हिस्सा है। इसलिए मध्यवर्ती उत्पादों पर व्यय को अनुमान

से बाहर करना आवश्यक है।

(ii) सेकेंड हैंड वस्तुओं पर होने वाले व्यय को शामिल नहीं किया जाना चाहिए क्योंकि उनका लेखा उनके उत्पादन की अवधि के दौरान पहले ही किया जा चुका है। हालाँकि, ऐसे लेनदेन में भुगतान किए गए किसी भी कमीशन या ब्रोकरेज को अंतिम व्यय माना जाता है क्योंकि यह खरीदी गई सेवाओं के लिए भुगतान है।

(iii) शेयर, बांड, डिबेंचर, सरकारी प्रतिभूतियां आदि खरीदने पर व्यय के रूप में वित्तीय परिसंपत्तियों पर व्यय शामिल नहीं किया जाएगा क्योंकि वे केवल कागजी दावे हैं। लेकिन वित्तीय परिसंपत्तियों को खरीदने में लगाए गए या भुगतान किए गए किसी भी ब्रोकरेज या सेवा को सेवाओं को खरीदने पर व्यय के रूप में माना जाता है।

(iv) किसानों द्वारा स्व-उपभोग किए गए उत्पादन आदि जैसे स्वयं के खाते के उत्पादन पर व्यय और स्व-कब्जे वाले घर का आरोपित किराया अंतिम व्यय के रूप में गिना जाना चाहिए और इसलिए शामिल किया जाना चाहिए।

(v) स्थानांतरण भुगतान एकतरफा हस्तांतरण है जिसके विरुद्ध कोई सामान या सेवा प्रदान नहीं की जाती है। उदाहरण के लिए: उपहार दान, दान, छात्रवृत्ति, कर, वृद्धावस्था पेंशन, बेरोजगारी भत्ते आदि का भुगतान। ऐसा व्यय उत्पादन गतिविधि से संबंधित नहीं है इसलिए इसे शामिल नहीं किया गया है।

- **Difference between Nominal GDP (or GDP at Current Prices) and Real GDP (or GDP at Constant Prices):** • नोमिनल जीडीपी (या मौजूदा कीमतों पर जीडीपी) और वास्तविक जीडीपी (या स्थिर कीमतों पर जीडीपी) के बीच अंतर:

Nominal GDP	Real GDP
<p>It refers to the market value of all final goods and services produced within the domestic territory of a country in a year and measured at current year prices.</p> <p>यह एक वर्ष में किसी देश के घरेलू क्षेत्र के भीतर उत्पादित सभी अंतिम वस्तुओं और सेवाओं के बाजार मूल्य को संदर्भित करता है और चालू वर्ष की कीमतों पर मापा जाता है।</p> <p>Nominal GDP = \sum Current Year Quantity (Q1) x Current Year Price (P1)</p>	<p>It refers to the market value of all final goods and services produced within the domestic territory of a country in a year and measured at the base year prices.</p> <p>यह एक वर्ष में किसी देश के घरेलू क्षेत्र के भीतर उत्पादित सभी अंतिम वस्तुओं और सेवाओं के बाजार मूल्य को संदर्भित करता है और आधार वर्ष की कीमतों पर मापा जाता है।</p> <p>Real GDP = \sum Current Year Quantity (Q1) x Base Year Price (P0)</p>
<p>The value of Nominal GDP changes when either the physical output or prices changes or both changes simultaneously.</p> <p>नॉमिनल जीडीपी का मूल्य तब बदलता है जब या तो भौतिक उत्पादन या कीमतें बदलती हैं या दोनों एक साथ बदलते हैं।</p>	<p>The value of Real GDP changes when only the volume of physical output changes.</p> <p>वास्तविक जीडीपी का मूल्य तब बदलता है जब केवल भौतिक उत्पादन की मात्रा बदलती है।</p>
<p>It is not a good measure of economic growth of a country as it is affected by both change in physical output as well as price.</p> <p>यह किसी देश की आर्थिक वृद्धि का अच्छा माप नहीं है क्योंकि यह भौतिक उत्पादन के साथ-साथ कीमत दोनों में परिवर्तन से</p>	<p>It is a better measure of economic growth of a country as it is affected by change in physical output only.</p> <p>यह किसी देश की आर्थिक वृद्धि का बेहतर माप है क्योंकि यह केवल भौतिक उत्पादन में परिवर्तन से प्रभावित होता है।</p>

प्रभावित होता है।	
It is not useful for making periodic comparisons यह समय-समय पर तुलना करने के लिए उपयोगी नहीं है	It is a better measure to make periodic comparisons. समय-समय पर तुलना करना एक बेहतर उपाय है।

- **Determination of Nominal GDP and Real GDP:** Nominal GDP and Real GDP can be determined in the following manner

नामिनल जीडीपी और वास्तविक जीडीपी का निर्धारण: नामिनल जीडीपी और वास्तविक जीडीपी का निर्धारण निम्नलिखित तरीके से किया जा सकता है

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

Or,

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

- **GDP Deflator:** It is used to eliminate the effect of price changes and determine the real change in physical output.

जीडीपी डिफ्लेटर: इसका उपयोग मूल्य परिवर्तन के प्रभाव को खत्म करने और भौतिक उत्पादन में वास्तविक परिवर्तन निर्धारित करने के लिए किया जाता है।

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100 = \frac{\sum P_1 Q_1}{\sum P_0 Q_1} \times 100 \quad (\text{where 1 refers to current year and 0 refers to base year})$$

Or,

$$\text{Current Price Index (GDP Deflator)} = \frac{\text{National Income at Current Prices}}{\text{National Income at Constant Prices}} \times 100$$

GDP and Welfare: GDP (Real GDP) is used as an index of **welfare of the people**. Welfare means sense of material well-being among the people. Higher GDP is generally taken as greater welfare of the people. However, GDP may not be taken as a satisfactory measure of economic welfare due to certain limitations. These are:

जीडीपी और कल्याण: जीडीपी (वास्तविक जीडीपी) का उपयोग लोगों के कल्याण के सूचकांक के रूप में किया जाता है। कल्याण का अर्थ है लोगों के बीच भौतिक कल्याण की भावना। उच्च जीडीपी को आम तौर पर लोगों के बेहतर कल्याण के रूप में लिया जाता है। हालाँकि, कुछ सीमाओं के कारण जीडीपी को आर्थिक कल्याण का संतोषजनक उपाय नहीं माना जा सकता है। ये हैं:

1. **Does not include the rate of growth of population:** Real GDP indicates overall performance of the country. But **Real GDP does not consider the changes in the**

population of a country. If rate of growth of population is higher than the rate of growth of real GDP, then it will decrease the per capita availability of goods and services, which will adversely affect the economic welfare.

2. **Does not reflect distribution of GDP:** GDP does not take into account the changes in inequalities in the distribution of income. Though GDP is rising but If rich becoming richer and poor becoming poorer, then it may lead to decline in welfare.
3. **Does not include non-economic or non-monetary exchanges:** There are many goods and services which contribute to economic welfare but are not included in the GDP as no price is attached to them, although they contribute to economic welfare. **example: services of housewives and other family members (leisure time activities) etc. These are non-monetary exchanges**

Does not include externalities: Externalities refers to benefits or harms accompanying the production process for which no payment is made or received. They are excluded from the estimation of GDP. There are two types of externalities:

a) **Positive externalities** - They are not included in GDP although they result in increase in welfare. For example, construction of flyovers or highways reduces transport cost and journey time.

b) **Negative externalities**- These are the negative effects which accompany the production process and decrease the welfare of the people for which they are not penalized. For example: environmental pollution caused by industrial plants.

4. **Composition of GDP:** Extent of economic welfare depends on the types of goods and services produced and not simply how much is produced. Some of products contribute more to the welfare of the people like food, clothes etc. whereas other products like police services and military services etc. may comparatively contribute less.

1. **इसमें जनसंख्या की वृद्धि दर शामिल नहीं है:** वास्तविक सकल घरेलू उत्पाद देश के समग्र प्रदर्शन को दर्शाता है। लेकिन वास्तविक जीडीपी किसी देश की जनसंख्या में परिवर्तन पर विचार नहीं करती है। यदि जनसंख्या की वृद्धि दर वास्तविक सकल घरेलू उत्पाद की वृद्धि दर से अधिक है, तो इससे प्रति व्यक्ति वस्तुओं और सेवाओं की उपलब्धता में कमी आएगी, जिससे आर्थिक कल्याण पर प्रतिकूल प्रभाव पड़ेगा।

2. **जीडीपी के वितरण को प्रतिबिंबित नहीं करता:** जीडीपी आय के वितरण में असमानताओं में बदलाव को ध्यान में नहीं रखता है। हालाँकि सकल घरेलू उत्पाद बढ़ रहा है, लेकिन अगर अमीर और अमीर होता जा रहा है और गरीब और गरीब होता जा रहा है, तो इससे कल्याण में गिरावट आ सकती है।

3. **इसमें गैर-आर्थिक या गैर-मौद्रिक आदान-प्रदान शामिल नहीं है:** कई वस्तुएं और सेवाएं हैं जो आर्थिक कल्याण में योगदान देती हैं लेकिन जीडीपी में शामिल नहीं हैं क्योंकि उनके साथ कोई कीमत जुड़ी नहीं है, हालांकि वे आर्थिक कल्याण में योगदान करते हैं। उदाहरण: गृहिणियों और परिवार के अन्य सदस्यों की सेवाएँ (खाली समय की गतिविधियाँ) आदि। ये गैर-मौद्रिक आदान-प्रदान हैं

इसमें बाह्यताएँ शामिल नहीं हैं: बाह्यताएँ उत्पादन प्रक्रिया से जुड़े लाभ या हानि को संदर्भित करती हैं जिसके लिए कोई भुगतान नहीं किया जाता है या प्राप्त नहीं किया जाता है। इन्हें जीडीपी के आकलन से बाहर रखा गया है. बाह्यताएँ दो प्रकार की होती हैं:

क) सकारात्मक बाह्यताएँ - इन्हें सकल घरेलू उत्पाद में शामिल नहीं किया जाता है, हालांकि इनके

परिणामस्वरूप कल्याण में वृद्धि होती है। उदाहरण के लिए, फ्लाईओवर या राजमार्गों के निर्माण से परिवहन लागत और यात्रा का समय कम हो जाता है।

ख) नकारात्मक बाह्यताएँ— ये वे नकारात्मक प्रभाव हैं जो उत्पादन प्रक्रिया के साथ होते हैं और लोगों के कल्याण को कम करते हैं जिसके लिए उन्हें दंडित नहीं किया जाता है। उदाहरण के लिए: औद्योगिक संयंत्रों के कारण होने वाला पर्यावरण प्रदूषण।

4. सकल घरेलू उत्पाद की संरचना: आर्थिक कल्याण की सीमा उत्पादित वस्तुओं और सेवाओं के प्रकार पर निर्भर करती है, न कि केवल कितना उत्पादन किया जाता है। कुछ उत्पाद लोगों के कल्याण में अधिक योगदान देते हैं जैसे भोजन, कपड़े आदि जबकि अन्य उत्पाद जैसे पुलिस सेवाएँ और सैन्य सेवाएँ आदि तुलनात्मक रूप से कम योगदान दे सकते हैं।

□ **Important Conversions**

- a) Gross $\xrightarrow{- \text{depreciation}}$ Net
 $\xleftarrow{+ \text{depreciation}}$
- b) National $\xrightarrow{- \text{NFIA}}$ Domestic
 $\xleftarrow{+ \text{NFIA}}$
- c) Market price $\xrightarrow{- \text{NIT}}$ Factor cost
 $\xleftarrow{+ \text{NIT}}$

• **Three methods of measuring National Income**

<u>Value Added Method</u>	<u>Income Method</u>	<u>Expenditure Method</u>
GVAMP of Primary Sector + GVAMP of Secondary Sector + GVAMP of Tertiary Sector ↓ Gross Domestic Product at Market Price (GDPMP) - Depreciation ↓ NVA MP or NDPMP - NIT ↓ NDP FC + NFIA ↓ NNP FC	Compensation of Employees + Operating surplus + Mixed Income of Self Employed ↓ NDP FC + NFIA ↓ NNP FC	Pvt. Final Consumption Expenditure + Govt. Final Consumption + Gross Domestic Capital Formation + Net Exports ↓ GDPMP - Depreciation ↓ NDPMP - NIT ↓ NDP FC + NFIA ↓

		NNP FC
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- **Important formulas for solving numericals**

- a) **Value Added** = Value of Output – Intermediate Consumption
- b) **Value of Output** = Total Sales + Changes in Stocks (If the entire output is not sold)
- c) **Value of Output** = Sales (If the entire output is sold)
- d) **Total Sales** = Domestic Sales + Exports
- e) **Changes in Stocks** = Closing stock - Opening Stock
- f) **Value of Output** = Price x Quantity of output
- g) **Net Domestic Capital Formation** = Net Domestic Fixed Capital Formation + Changes in stocks
- h) **Gross Domestic Capital Formation** = Gross Domestic Fixed Capital Formation + Changes in stocks
- i) **Compensation of Employees** = Wages and Salaries in Cash and Kind + Employer's contribution to social security schemes
- j) **Operating Surplus** = Rent + Royalty + Interest + Profits
- k) **Profits** = Corporation Tax + Dividends + Undistributed Profits/ Retained Earnings/ Corporate Savings
- l) **Net Exports** = Exports – Imports

ASSINGMENTS

Some Numericals :

1. When Nominal GDP is Rs. 840 crores and Price Index is 120, then the Real GDP will be _____(CBSE 2020) (Ans. $RGDP = \frac{NGDP}{PI} * 100 = 700$)

(a) Rs.700 crores (b) Rs.900 crores (c) Rs.800 crores (d) Rs.500 crores

2. When Nominal GDP is Rs. 850 crores and price Index is 170, Real GDP will be _____ (2020) (Ans. $RGDP = \frac{NGDP}{PI} * 100 = 500$)

3. Calculate Net value added at factor cost from the following data.

S.No	Items	Rs. In lakh
I	Purchases of raw materials	300
li	Import duty	20
lii	Excise duty	30
Iv	Net addition to stock	50
V	Value of output	500
Vi	Depreciation	10

Ans:- Net value added at factor cost = Value of output - Purchases of raw materials - Depreciation - Import duty - Excise duty

= Rs. 500 – 300 - 10 – 20 – 30 lakh = Rs. 140 Laks

Net value added at factor cost = Rs. 140 Laks

4. Calculate 'sales' from the following data:

	ITEMS	Rs in lakh
A	Intermediate cost	240
B	consumption of fixed capital	40
C	Change in stock	(-)60
D	Indirect tax	30
E	Net value added at factor cost	300

Ans. Sales= Net value added at FC- changes in stock + intermediate costs + consumption of fixed capital + Net Indirect tax

= Rs. 300 – (-) 60 + 240 + 40 + (30 – 0) = Rs. 670 lakh

Sales = Rs. 670 lakh

5. From the following data calculate National Income from a) Income method b) Expenditure Method

S.no	Items	Rs(in crore)
1	Private final consumption expenditure	2,000
2	Net Domestic capital formation	400

3	Change in stock	50
4	Compensation of employees	1,900
5	Rent	200
6	Interest	150
7	Operating surplus	720
8	Net indirect tax	400
9	Contribution by employers towards social security schemes	100
10	Net Exports	20
11	Net Factor income from abroad	(-20)
12	Government final consumption expenditure	600
13	Consumption of fixed capital	100

Ans: Income method

NNPFC = Compensation of employees + Operating surplus + Net Factor income from abroad

$$= 1900 + 720 + (-20) = 2620 - 20 = \text{Rs } 2600 \text{ Crore}$$

Expenditure Method

NNPFC = Private final consumption expenditure+ Net Domestic capital formation+ Government final consumption expenditure+ Net Exports + Net Factor income from abroad - Net indirect tax

$$\text{NNPFC} = 2000 + 400 + 600 + 20 + (-20) - 400 = \text{Rs } 2600 \text{ crores}$$

VERY SHORT QUESTIONS (1 MARK)

1. What is meant by circular flow of income?
2. What are the three phases of circular flow of income?
3. Out of factor income and transfer income which one is a unilateral concept?
4. What is the meaning of final goods?
5. What is meant by intermediate goods?
6. What is meant by consumption goods?
7. Define capital goods.
8. Give an example of a person who is staying abroad for a period more than one year and still he is treated as normal resident of India.

MULTIPLE CHOICE QUESTIONS (1 Mark)

9. Transfer payments refer to payments which are made:
 - (a) **Without any exchange of goods and services.**
 - (b) To workers on transfer from one job to another.
 - (c) As compensation to employees.
 - (d) None of these
10. Which one of the following items comes under consumption goods?
 - (a) Durable goods
 - (b) Semi-durable goods

(c) Non-durable goods

(d) All of these.

11. Service of a teacher:

(a) Capital goods

(b) Consumption goods

(c) Intermediate goods / Services

(d) Can be Consumption goods and intermediate goods

12. In a circular flow of income, we have:

(a) Production (b) Distribution

(c) Disposition **(d) All of them**

13. Who is considered as agents of factor of production,

(a) Households

(b) Government

(c) Rest of the world

(d) All of these

14. Which among the following are the features of capitalist economy?

(a) Private ownership of Land and Capital.

(b) Profit is the only motive.

(c) Free Play of market forces of demand and supply.

(d) All of these

15. Flow of Goods & services and factors of production across different sectors in a barter economy is known as:

(a) Circular flow **(b) Real flow**

(c) Monetary Flow (d) Capital Flow

GIVE REASONS (1 MARK)

Giving reasons, classify the following into intermediate goods or final goods.

1. Machines purchased by a dealer of machines.
2. A car purchased by a household.
3. Furniture purchased by a school.
4. Chalks, dusters, etc. purchased by a school.
5. Computers installed in an office.
6. Mobile sets purchased by a mobile dealer.
7. Expenditure on maintenance of an office building.
8. Expenditure on improvement of a machine in a factory.
9. Purchase of furniture by a firm.
10. Expenditure on maintenance by a firm.
11. Paper purchased by a publisher.
12. Milk purchased by households.
13. Purchase of rice by a grocery shop.
14. Coal used by manufacturing firms.
15. Coal used by consumer households.

Giving reasons state whether the following are included or excluded in/from domestic territory.

1. An Indian Company in America
2. Microsoft Office in India
3. Company in India owned by an American

4. Office of Tata in New York
5. Branch of Foreign Bank in India
6. Indian Embassy in China
7. Branch of Punjab National Bank in America
8. Russian Embassy in India
9. Reliance Industries rented its building to Microsoft in America.

Classify the following into durable, non-durable, semi-durable or services Stating proper reason

10. Refrigerator
11. Clothes
12. Edible oil
13. Tuition given by a teacher
14. Visit of a physician
15. Washing soaps

Classify the following into consumer, intermediate or capital goods.

16. Milk used by a manufacturer of sweets.
17. Cycle purchased by a consumer household
18. Textile machinery
19. Construction of a house
20. Bread and butter used by a consumer household.
21. Services of a private doctor purchased by a consumer household.
22. Fertilizer used by a farmer.
23. Passenger bus service used by a consumer household.

Giving reasons, classify the following into normal resident of India or not.

24. Indian officials working in the Indian Embassy in USA.
25. A Japanese tourist who stays in India for 2 months.
26. Indians going to Pakistan for watching the cricket match.
27. Indians working in the UNO office, located in America for less than 1 year.
28. Indian employees working in WHO, located in India.
29. Foreign tourists visiting India for a month to see the Taj Mahal.

TRUE OR FALSE

Giving reasons, state whether the following statements are true or false.

1. Macroeconomics deals with the problems of a consumer.
2. Money flow is also known as physical flow.
3. In a two-sector economy, total production is always equal to total consumption.
4. Circular flow of income takes place in case of open economy and close economy.
5. Capital formation is a flow.
6. Foreign remittances are a stock concept.
7. National Income of a country is a stock concept.
8. Bread is always a consumer good.
9. Television is a capital good.

10. Services of a teacher is a consumption good.
11. Books in a library are intermediate goods.
12. Use of raw material is a consumption good.
13. Can purchase of a new car be categorized as an intermediate good.
14. A good can be an intermediate goods in one case and a final goods in another case.
15. The concept of normal resident applies to individuals only.
16. In final goods, no value is to be added.
17. Transfer income is a part of factor income.

SHORT ANSWER-TYPE QUESTIONS

3-4 Marks

1. Explain the basis of classifying goods into intermediate and final goods. Give suitable examples.

Or

Distinguish between intermediate products and final products. Give examples.

2. Define consumption goods and what are its categories.
3. Define capital goods and its categories.
4. Distinguish between consumption goods and capital goods. Which of these are final goods?

HIGHER ORDER THINKING SKILLS

1. Explain that Domestic territory is bigger than the political frontiers of a country.
2. "All Producer Goods are not Capital Goods". Explain.
3. "Machine purchased is always a final good." Do you agree? Give reasons for your answer.
4. "Machine purchased is always a capital good." Do you agree? Give reasons for your answer.
5. Compensation to flood victims is a good social security measure by the government. But why is it not included in the estimation of national income?
6. The concept of domestic territory helps to estimate 'Domestic Product'. Defend or refute.
7. The concept of Normal Resident helps to estimate 'National Product'. Defend or refute.

Unit 2: Money and Banking

MONEY – ITS MEANING

Anything which acts as a medium of exchange, measure of value and store of value is called money. Example – A rupee in India is money, as it is a commonly accepted medium of exchange .

Functions of Money

1. Medium of Exchange

Money has general acceptability so, everybody is ready to accept payments in money. Thus money acts as a medium of exchange.

2. Measure of Value

The value of all Goods and Services is expressed in terms of money. So in terms of money we can maintain account of all economic transactions.

3. Store of Value

Money is an asset and can be stored for future. We can save money as cash and as bank deposits. It is easily portable from one place to another.

4. Standard for deferred payments

Deferred payments refer to payments made in future. Money as a standard of deferred payments has facilitated market transactions of buying , selling, borrowing ect.

SUPPLY OF MONEY

Money supply refers to the total quantity of money held by people in the economy at the given point of time. It is a stock concept as it is measured at a point of time.

COMPONENTS :- according to M1 measurement, money supply includes the following components
: $M_1 = C + DD + OD$

C: It refers to currency held by the public .It includes coins as well as paper notes.

DD :Net Demand deposits of the people with the commercial bank. Demand deposits are the deposits which can be withdrawn on demand by the depositors from banks

OD : Demand deposits with RBI of public financial institutions like NABARD, deposits with RBI of foreign central bank and demand deposits of international financial institutions like world bank, IMF etc.

High powered money:- the currency issued by central bank (RBI) can be held by the public or by the commercial banks.

MONEY CREATION OR CREDIT CREATION - Money creation by the commercial banks is determined by (1) The amount of the **initial 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.

PROCESS - Let the LRR be 10% and there is a fresh deposit of Rs.1,000. As required the banks keep 10% i.e. Rs 100 as cash. Suppose the banks lend the remaining Rs 900 those who borrow use this case money for making payments as assumed those who receive payments put the money back into the banks in this way banks receive fresh deposits of Rs 900. The banks again keeps 10% i.e. Rs 90 as cash and lend Rs 810 which is also 90% of the last deposit the money again comes back to the banks' lending to a fresh deposit of Rs 810. The money goes on multiplying in this way and ultimately total money creation is Rs 10000.

	Deposit	Cash Reserve 10%	Loans
Round -1	1,000	100	900
Round -2	900	90	810
Round -3	810	81	729
--	--	--	--
--	--	--	--
Total	10000	1000	9000

Money Multiplier or Credit Multiplier – It is the Number of times commercial bank can create credit of per unit of cash reserves. Money Multiplier = $1/LRR$

Money Creation = Initial Deposit /LRR,

CENTRAL BANK

The central Bank is the apex institution of a country's monetary system.

Controls the entire banking system of the country. Reserve bank of India (RBI) is the central bank of India.

FUNCTIONS OF THE CENTRAL BANK

Bank of Issue:- Central bank is of a country has the monopoly right of issuing notes, which ensures Uniformity in Note Issue.

Banker to the Government:- Central bank is a banker, agent and financial advisor to the government

- As a banker to the government, it manages accounts of the government.
- As an agent to the government, it buys and sells securities on behalf of the government.
- As an advisor to the government, it frames to policy to regulate the money market.
- It gives loan to the government.

Bankers' Bank :- As a Bankers' Bank it has almost the same relation with other banks in the country as a commercial bank has with its customers.

1. As a banker's bank :-

- Custodian of cash reserves.
- Clearing house function.
- It provides additional Fund those Bank temporary difficulties.

2. As a supervisor:-

- Periodic inspection of banks.
- Central Bank supervises, regulates and controls the commercial banks.
 - **Credit Control** – Central bank plays an important role during the times of economic fluctuations. It influences the money supply Through Bank Rate, Open Market Operations, Cash reserve Ratio, Statutory Liquidity ratio and Margin Requirements etc.

Instruments of credit control.

- **Bank Rate** It refers to the rate of interest at which the central bank lends money to commercial banks for long period. Central Bank increases the bank rate during inflation (excess demand) and reduces the same in times of deflation (deficient demand).

Repo Rate – It is the rate at which the central bank (RBI) offers short period loans to the commercial banks by buying the government securities in the open market. It is increased to control inflation.

Reverse Repo Rate – The rate at which RBI accepts deposits from the commercial banks (through government securities). It is increased to control inflation.

Cash Reserve Ratio (CRR) - It refers to the minimum percentage of a bank's total demand deposits to be Capt with the RBI.

Reserve Bank increases CRR during inflation and decreases the same during deflation.

Statutory Liquidity Ratio (SLR) - It refers to minimum percentage of net demand and time liabilities which commercial banks required to maintain with themselves in the form of specified liquid assets including cash, gold and govt. securities. SLR is increased during inflation or excess demand and decreased during deflation or deficient demand. **Margin Requirements** - It is the difference between the amount of loan and market value of the security offered by the borrower against the loan. Margin requirements are increased during inflation and decreased during deflation.

Open Market Operations - It refers to the buying and selling of securities by the Central Bank from/ to the public and commercial banks. It sells government

securities during inflation/excess demand and buys the securities during deflation/deficient demand.

ASSERTION & REASON

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.

Q1.ASSERTION (A): High powered money is money produced by the RBI and the government.

REASON (R): It consists of two things Currency held by public and Cash and Vault reserve with the banks.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

Q2.ASSERTION (A): Supply of money is a stock variable

REASON (R): Supply of money is measured over a period of time, usually a fiscal year.

Ans: (c) Assertion (A) is true but Reason (R) is false.

Q3.ASSERTION (A): Money Supply is a flow concept.

REASON (R): Money Supply is measured at a particular point of time.

Ans: (d) Assertion (A) is false but Reason (R) is true.

Q4.ASSERTION (A): Money supply does not include money held by Government and Commercial Banks.

REASON (R): Government and Commercial Banks are themselves the supplier of money.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

Statement Based Questions

Alternatives:

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

Q1. Statement 1: Fiduciary money is the money issued by order of the government

Statement 2: Fiat money is the money backed with mutual trust between the payer and payee

Q2. Statement 1: Full bodies money refers to money in terms of coins whose commodity value is equal to the money value as and when these are issued.

Statement 2: Credit money is the money of which money value is more than commodity value.

Q3. Statement 1: Credit creation inversely related to the LRR

Statement 2: Encouraging borrowing by households and businesses will adversely affect the economy as the deposits with the commercial banks will reduce.

Ans1. (b) Both the statement are false

Ans 2. a) Both the statement are true

Ans3. (c) Statement 1 is true and Statement 2 is false

CBSE BOARD EXAM.1 MARKS QUESTION

Q1. The ratio of total deposit that a commercial bank has to keep with RBI is called (2017)

- (a) Statutory liquidity ratio (c) **Cash reserve ratio (Ans c)**
(b) Deposit ratio (d) Legal reserve ratio

Q2. Demand deposits include : (2017)

- (a) Saving account deposit and fixed deposits
(b) **Saving account deposit and current account deposits (Ans.b)**
(c) current account deposits and fixed deposits
(d) All types of deposits

Q3. Repo rate is the rate at which : (2017)

- (a) Commercial bank purchase government securities from the central bank
(b) **Commercial bank can taken loans from the central bank**
(c) Commercial bank can keep their deposits with central bank
(d) Short- term loans are given by commercial bank (Ans b)

Q4. Credit creation by commercial banks is determined by: (2018)

- (a) Cash reserve ratio (c) Initial deposits
(b) Statutory liquidity ratio (d) **All the above (Ans. d)**

Q5. If legal reserve ratio is 20%, the value of money multiplier would be : (2019)

- (a) 2 (b) 3
(c) **5 (Ans c)** (d) 4

Q6. To reduce credit availability in the economy, the central bank may _____. (2020)

- (a) Buy securities in the open market (c) Reduce reserve ratio
(b) **Sell securities in the open market (Ans. b)** (d) Reduce repo rate

Q7. State, whether the following statement is true or false: (2020)

“All financial Institutions are banking institution” (2020) (Ans. False)

Q8. State, whether the following statement is true or false: (2020)

“Margin requirement is raised by the central bank to increase money supply” (False)

CASE STUDY

CASE STUDY (CBSE EXAM TERM- 1, 2021-22)

Question no 1 to 6 are to be answered on the basis of the following:

Money plays crucial role in the smooth functioning of the economy. Money supply is considered as a very important tool to control other macro economic variables

Central bank and commercial bank are the two main sources of money supply. Measurement of money supply is an important task performed by the central bank .

Statement of Money Supply

S.No	Items	Outstanding on 10 Sept.2021 Rs. in crores
1	Currency With Public	28,43,296
2	Demand Deposit with Banks	18,88,130
3	Time Deposit with Banks	1,46,21,448
4	Other Deposit with world Bank	46,722

Q1. The value of money supply in the economy is Rs. _____crores

- (a). 13078148 (b). 193399596
(c). 4778148 (d) 4731426

Q2. Money Supply is a _____ Variable, measured at a point of time,

- (a). Stock (b) Flow
(c). Both Stock and Flow (d). Neither Stock, nor Flow

Q3. Demand Deposit are _____.

- (a). Chequable deposits (b) Non- Chequable deposits (c) Fixed deposit (d) Recurring deposits .

Q4. Suppose Primary deposit are Rs. 2000 crores and reserve deposit ratio is 10%. The money created by commercial banks would be Rs. _____ crores in the economy.

- (a). 10,000 (b) 20,000 (c) 2,000 (d) 1,000

Q5. Assertion : Money supply includes money held by all financial institutions.

Reason : Money held by government does not come into circulation.

- (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.

Q6. _____ releases data on money supply in India

- (a). Government of India (b) RBI
(c) Commercial Banks (d) State Bank of India

**Ans. 1. D ,
Ans.4 B**

**Ans.2. A,
Ans 5.D**

**Ans 3. A
Ans.6. B**

MULTIPLE CHOICE QUESTIONS (MCQ) WITH ANSWERS

Q1. Banks are able to create many times more than initial deposit through _____

- (a) Secondary deposits (b) Advancing loans (c) Accepting deposits (d) Providing overdraft facility

Q2. Which of the following is the quantitative measure of credit control?

- (a)Coins (b) Currency
(c) Cash Reserve Ratio (d) Demand deposits in banks

Q3. Which of the following is the quality measure of credit control?

- (a)Margin requirement (b) Cash Reserve Ratio

(c) Bank rate operations

(d) Open market

Q4. Which of the following statements is correct ?

- (a) Supply of money refers to stock of money held by public at a point of time
- (b) Supply of money is a flow variable
- (c) Supply of money includes cash reserve of banks

(d) Supply of money refers to bank money

Q5 _____ is the rate of interest charged by the Central Bank on loans given to commercial banks.

(a) Repo rate

(b) CRR

(c) Statutory liquidity Ratio

(d) Reserve Repo Rate

Q6. In order to reduce credit in the country, Reserve Bank of India

- (a) Reduces Repo Rate
- (b) Buys securities in the open market
- (c) Sells securities in the open market
- (d) Reduces CRR

Q7. _____ is the rate of interest at which banks park their surplus fund with RBI.

(a) Cash Reserve Ratio

(b) Reverse Repo Rate

(c) Bank Rate

(d) Legal Reserve Rate

Q8. Initial deposits made by the people from their own resources are called

- (a) Time deposits
- (b) Secondary deposits
- (c) Primary deposits
- (d) None of these

Q9. To reduce the supply of money in the economy, the Central Bank (a) Raises CRR (b) Lowers the Repo rate (c) Lowers the margin (d) Buys Govt. securities from the market

Q10.. Which of the following conditions need to be fulfilled by a financial Institution to become a bank?

(a) Advancing loans

(b) Accepting deposits

(c) Both (i) and (ii)

(d) Neither (i) nor (ii)

Answer key

1	A	2	C	3	A	4	A	5	A
6	C	7	B	8	C	9	A	10	C

SHORT AND LONG ANSWER TYPE QUESTION (3,4 and 6 Marks)

Q1. State the components of money supply.

Ans. **COMPONENTS** :- according to M1 measurement, money supply includes the following components : $M_1 = C + DD + OD$

C: It refers to currency held by the public .It includes coins as well as paper notes.

DD : Demand deposits of the people with the commercial bank

OD :Other deposits with RBI of public financial institutions like NABARD, deposits with RBI of foreign central bank and demand deposits of international financial institutions like world bank, IMF.

Q2. Explain the ‘Standard for deferred payments’ Function of the Money

Ans. (a) Deferred payments refer to payments made in future .

- (b) Money as a standard of deferred payments has facilitated market transactions of buying , selling, borrowing ect.
- (c) As a long money maintains a constant value through Money makes possible the credit transactions.
- (d) Money is durable and homogeneous.

Q3. Explain the ‘Store of Value’ Function of the Money. Ans. Store of Value

- a. Now with money , savings are done in terms of money.
- b. Money is an asset and can be stored in future .
- c. Money helps people to transfer their purchasing power from present use to future use.
- d. Money is an asset and can be stored in future.
- e. It is commonly accepted measure of value

Q4. Explain banker to the Government function of the central bank’

Ans. **Bankers to the Government**:- Central bank is a banker, agent and financial Advisor to the government

- As a banker to the government, it manages accounts of the government.
- As an agent to the government, it buys and sells securities on behalf of the government.
- As an advisor to the government, it frames to policy to regulate the money market. • It gives loan to the government.

Q5.Explain how repo rate can be helpful in controlling credit creation

Ans. **Repo Rate Policy** – It is the rate at which the central bank (RBI) offers short period loans to the commercial banks by buying the government securities in the open market.

At the time of Inflation Repo rate Increased and if deflationary condition Repo rate Decreased.

Q6. Explain how margin requirements are helpful in controlling credit creation.

Ans. **Margin Requirements** - It is the difference between the amount of loan and market value of the security offered by the borrower against the loan. Margin requirements are increased during inflation and decreased during deflation.

At the time of Inflation Margin requirements Increased and if deflationary condition Margin requirements Decreased.

Q7. Define money multiplier. What role does it play in determining the credit creation power of the banking system? Use a numerical example.(CBSE 2019)

Ans. Money Multiplier or Deposit Multiplier – It measures the amount of money that the banks are able to create in the form of deposits with every unit if money it keeps as reserves

Money Creation = Initial Deposit x 1/LRR,

Money Multiplier = 1/LRR

Money Creation = Initial Deposit x Money Multiplier

Money Multiplier = 1/ (20/100), 1/0.20 = 5

Money Creation = Initial Deposit x Money Multiplier

Money Creation = 1,000 x 5 = 5,000

Credit creation inversely related to the LRR

Example 1: Initial deposit is Rs. 1000 and LRR= 20%, then

	Deposit	LRR 20%	Loans
Round -1	1,000	200	800
Round -2	800	160	640
Round -3	640	128	512
	--	--	--
	--	--	--
Total	5,000	1,000	4,000

Q8. Discuss the function of central bank as a Banker, Agent and Advisor to the government. (CBSE 2020)

Ans. Central Bank as a Banker, Agent and Advisor to the government

Bankers to the Government:- Central bank is a banker, agent and financial advisor to the government

- As a banker to the government, it manages accounts of the government.
- As an agent to the government, it buys and sells securities on behalf of the government.
- As an advisor to the government, it frames to policy to regulate the money market.
- It gives loan to the government.

Q9. Explain the “ bank of issue” function of central bank.(CBSE 2020)

Ans. Bank of Issue:- Central bank is of a country has the exclusive right (monopoly right)of issuing notes.

1. Uniformity in Note Issue.
2. Exercise a better control over money supply.

3. Saves the Economy from danger of over issue.
4. Monetary management.
5. It builds up public faith in the currency system.

UNIT – 3 Determinations of Income and Employment

Aggregate Demand: Aggregate Demand refers to total value of all final goods and services that are planned to buy by all the sectors of the economy at a given level of income during a given period. AD represents the total expenditure on goods and services in an economy during a given period.

Components of Aggregate demand

Components of Aggregate demand:

- (i) **Household (Private) consumption expenditure (C):** It refers a household's expenditure on the consumption of goods and services. These goods can be durable, semi-durable or non-durable.
Consumption of households depends upon their marginal propensity to consume (MPC) & Disposable Income.
- (ii) **Investment expenditure (I):** It comprises to the expenditure incurred by firms on the purchase of capital goods like plants, machines, equipment etc. to increase the production capacity.
Investment expenditure depends upon the relative values of marginal efficiency of investment (MEI) & Rate of Interest (ROI).
- (iii) **Govt. consumption expenditure (G):** It refers to expenditure incurred by the government on the purchase of goods (consumer and capital) to satisfy the collective wants of the society. For example–Roads, Bridges Public (parks, hospitals, education institutions) etc.
Government expenditure depends upon the priorities of the government.
- (iv) **Net export (X – M):** It is the difference between exports and imports. It reflects the net demand for a domestic product by rest of the world.
Net exports depend upon many things like Foreign Exchange Rate, Comparative Prices & Quality, Foreign Trade Policy, etc.

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

$$AD = C + I \text{ (In two sector economy)}$$

BEHAVIOUR OF Aggregate Demand (AD): AD is measured in terms of aggregate expenditure in the economy, Behaviour of AD is studied in term of the behaviour of aggregate expenditure at different levels of income (Y).

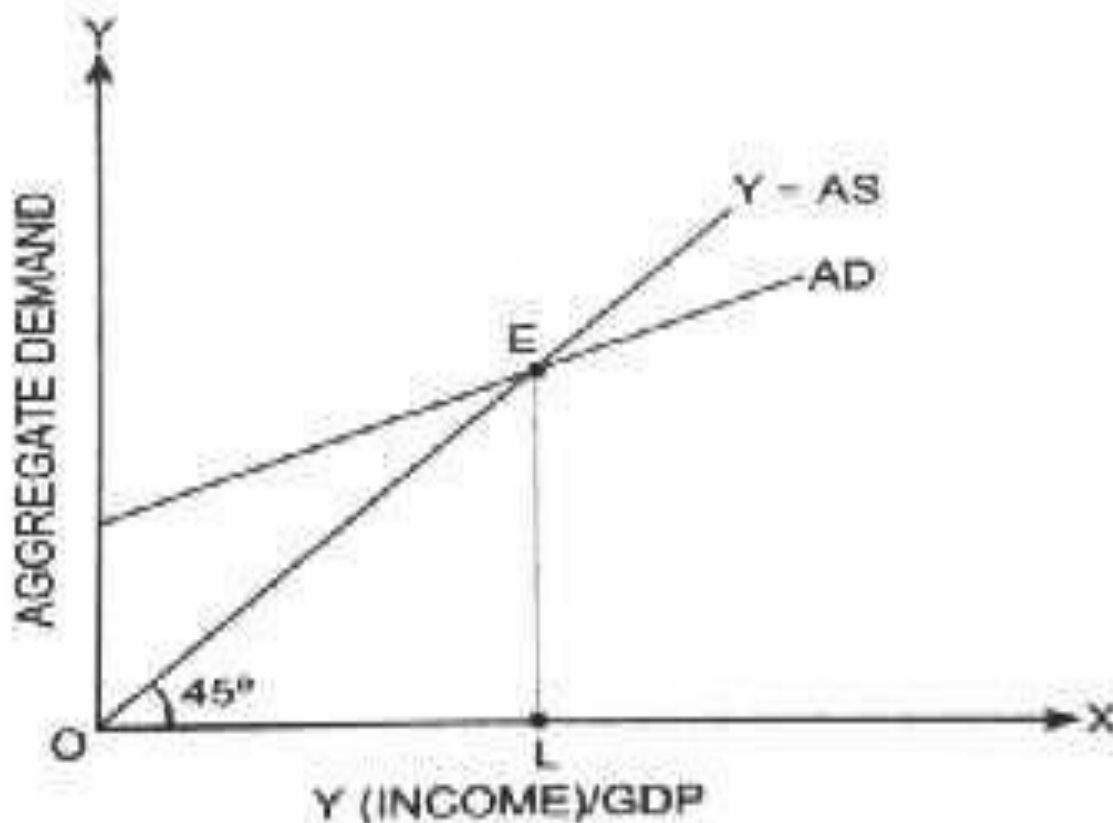
AD Schedule: - This table showing AD corresponding to different levels of Y in the economy. AD is positively related to Y.

Y (INCOME)	Aggregate Demand (AD)
0	150
100	200
200	250
300	300
400	350
500	400

OBSERVATION: - 1. There is always some minimum level of expenditure in the economy even when Y=0. Thus, AD = 150 when Y = 0 called negative saving.
2. AD increases as Y increases. Thus, AD is positively related to Y.

3. After a certain level of Y is reached, AD lags behind Y. Thus, when Y = 400, AD= 350. Thus, happens because, at higher levels of Y, people start saving a part of their income.

AD Curve: -This a diagrammatic presentation of AD schedule showing AD corresponding to different levels of Y in the economy.



CONCEPT OF AGGREGATE SUPPLY (AS): AS (Y) refers to flow of goods and services as planned by the producers during an accounting year. OR It refers to the total production of commodities in the economy at a given point of time which is measured in terms of value added or the total income generated.

It is assumed that in the short run the prices of goods do not change and the elasticity of supply is infinite. At the given price level, output can be increased till all resources are fully employed. So how much will be the aggregate output will primarily depend upon how much is the aggregate demand in the economy.

Components of Aggregate Supply (AS): $AS (Y) = C+S$

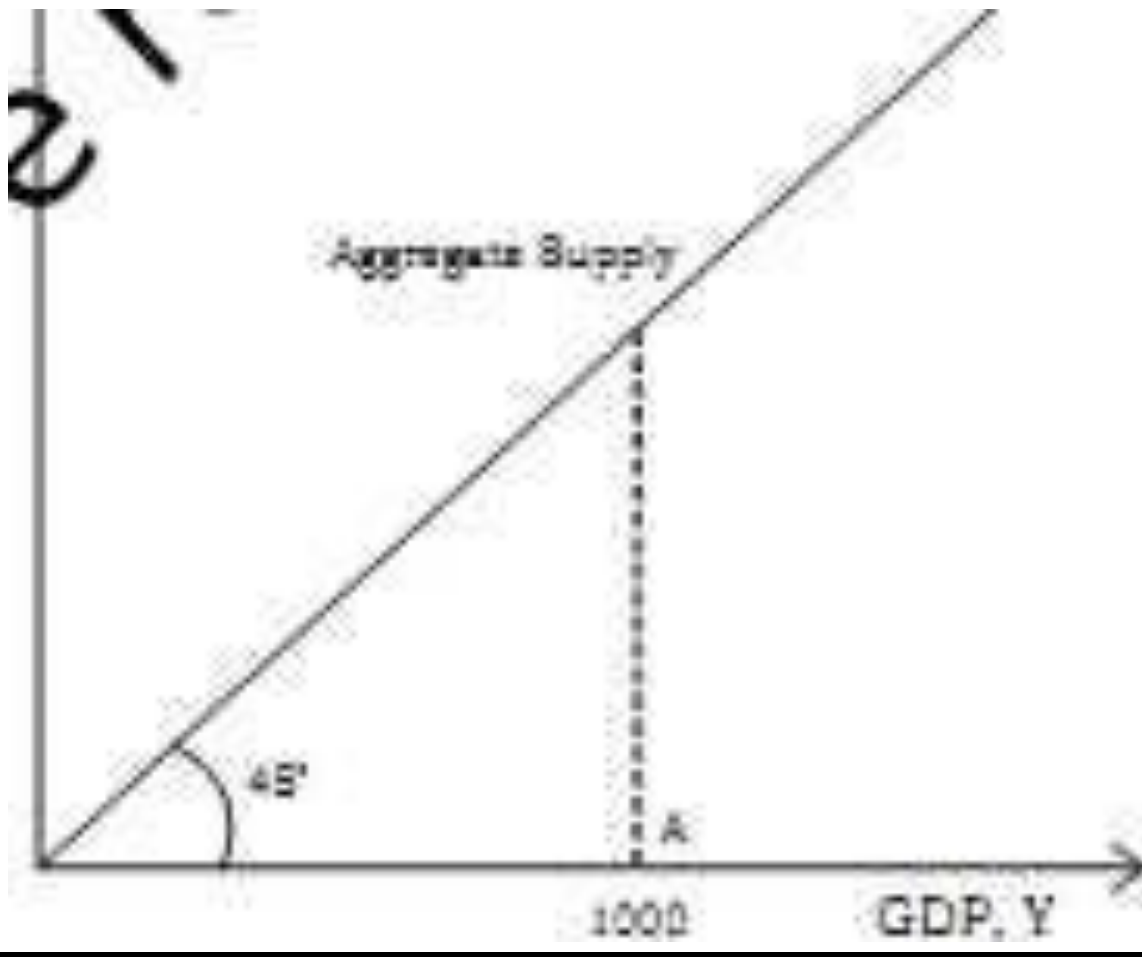
C= Consumption S= Saving

AS Schedule: - this a table showing the behaviour of AS corresponding to different levels of income in the economy.

Y (INCOME)	Aggregate Supply (AS)
0	0
100	100
200	200
300	300
400	400
500	500

Diagrammatic

Presentation of AS



The Diagram shows that aggregate supply (AS) and income (Y) are equal to each other. Therefore, AS is indicated by a 45° line from the origin.

Propensity to consume: It is a schedule that shows consumption expenditure at different levels of income in an economy. Consumption function (propensity to consume) is of two types:

- (A) Average propensity to consume (APC)
- (B) Marginal propensity to consume (MPC)

Average propensity to Consume (APC): It refers to the ratio between total consumption (C) and total income (Y) at given level of income in the economy.

$$APC = C / Y$$

Important Points about APC:

1. APC can never be zero: because even at zero level of national income, there is autonomous consumption.
2. $APC = 1$, at the break-even point, consumption is equal to national income.
3. APC is more than 1: If consumption is more than national income before the break-even point, $APC > 1$.
4. APC is less than 1: beyond the break-even point. Consumption is less than national income.
5. APC falls with increase in income.

Marginal Propensity to Consume (MPC): Marginal propensity to consume refers to the ratio of change in consumption expenditure to change in income.

$MPC = \text{Change in Consumption } (\Delta C) / \text{Change in Income } (\Delta Y)$

$$MPC = (\Delta C) / (\Delta Y)$$

Important Points about MPC:

1. Value of MPC varies between 0 and 1.
2. MPC is the slope of consumption curve and remains constant throughout in the short run.
3. Value of $APC > MPC$.
4. If the entire additional income is consumed, then $\Delta C = \Delta Y$, making $MPC = 1$.

5. However, if entire additional income is saved, then $\Delta C = 0$, making $MPC = 0$.

PROPENSITY TO SAVE: Saving function refers to the functional relationship between saving and national income.

$$S = f(Y)$$

Where S = saving, Y = National Income and f = Functional relationship.

Propensity to save is of two types.

(A) Average Propensity to Save (APS)

(B) Marginal propensity to Save (MPS)

Average Propensity to Save (APS): Average propensity to save refers to the ratio of savings to the corresponding level of income.

Average Propensity to Save (APS) = Saving / Income

$$APS = S/Y$$

Important Points about APS:

1. APS can never be 1 or more than 1: As saving can never be equal to or more than income.
2. APS can be zero: At breakeven point $C = Y$, hence $S = 0$
3. APS can be negative: At income levels which are lower than the break-even point, APS can be Negative when consumption exceeds income.
4. APS rises with increase in income.

Marginal Propensity to Save (MPS): Marginal propensity to save refers to the ratio of change in savings to change in total income.

Marginal Propensity to Save (MPS) = Change in Saving/ Change in Income

$$MPS = \Delta S / \Delta Y$$

Important Point about MPS:

1. MPS is the slope of saving curve.
2. MPS varies between 0 and 1.
3. $MPS = 1$ if the entire additional income is saved. In such a case, $\Delta S = \Delta Y$, then $MPS = 1$
4. $MPS = 0$ If the entire additional income is consumed. In such a case, $\Delta S = 0$, then $MPS = 0$
5. MPS remains constant throughout in short run.

Relationship between APC and APS: The sum of APC and APS is equal to one.

$$APC + APS = 1$$

It can be proved as under $Y = C + S$ Dividing both sides by Y, we get $APC + APS = 1$ because income is either used for consumption or for saving.

Relationship between MPC and MPS: The sum of MPC and MPS is equal to one.

$$MPC + MPS = 1$$

It can be proved as under: $MPC + MPS = 1$ We know $\Delta Y = \Delta C + \Delta S$ Dividing both sides by ΔY , we get $MPC + MPS = 1$ because total increment in income is either used for consumption or for saving.

Consumption function: Consumption function expresses functional relationship between aggregate consumption and national income. Thus, consumption (C) is a function of income (Y).

$$C = f(Y)$$

Where, C = Consumption; f= Function; Y = Disposable income

Consumption at a point of time can be measured with the equation:

$$C = c + b Y$$

Where, C= Consumption, c= Autonomous Consumption Y= National Income

Saving function: Saving function expresses functional relationship between aggregate Saving and national income.

Thus, saving (S) is a function of income (Y).

$$S = f(Y)$$

Where, S = Saving; f = Function; Y = Disposable income.

According to Keynes, as income increases consumption expenditure also increases but increase in consumption is smaller than the increase in income. This is called Keynes' Psychological law of Consumption. According to Keynes, propensity to consume of the people remains stable in the short period.

Break-even point: Break-even point refers to that point in the level of income at which consumption is just equal to income. In other words, whole of income is spent on consumption and there is no saving. Below this level of income, consumption is greater than income but above this level, income is greater than consumption.

DETERMINATION OF EQUILIBRIUM INCOME AND OUTPUT (GDP)

Two approaches to study the determination of equilibrium income and output.

- (1) Consumption plus Investment Approach (AS=AD approach)
- (2) Savings and Investment approach (S=I approach)

AD & AS Approach (Consumption plus Investment Approach)

Equilibrium level of income and output is that level of income or output at which ex-ante Aggregate demand becomes equal to ex- ante Aggregate supply'.

$$AS=AD$$

It is also called 'Effective demand'. Since $AS=Y$, therefore the economy is in equilibrium if

$$Y = AD$$

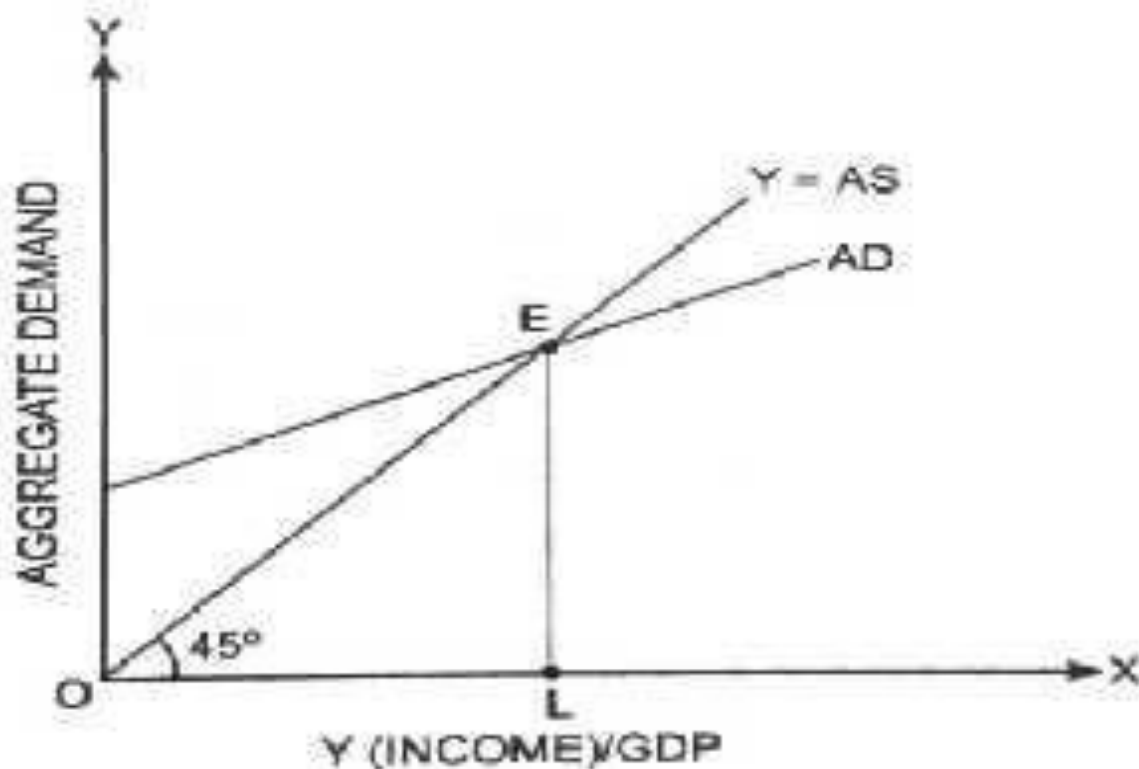
or

$$Y= C+I.$$

Effective demand: - Refers to that level of AD where $AS = AD$. Thus, effective demand always corresponds to the equilibrium level of income in the economy. It is called effective as it is this level of AD which determines the equilibrium between AS and AD. As just coincides with AD. Because AS is assumed to be perfectly elastic.

INCOME (Y)	CONSUMPTION (C)	SAVING (Y-C) (S)	INVESTMENT (I)	AD(C+I)	AS(C+S)
0	40	-40	60	100	0
100	120	-20	60	180	100
200	200	0	60	260	200
300	280	20	60	340	300
400	340	60	60	400	400
500	420	80	60	480	500
600	500	100	60	560	600

It is clear from the above schedule that, equilibrium is struck when $AS =AD =400$. Equilibrium of income of income =400.



In the diagram, AD function shows different levels of AD. But it is only at point E that AS = AD.

ADJUSTMENT MECHANISM:

- (i) AD > AS (Ex-ante AD > AS Ex-ante AS)
- (ii) AD < AS (Ex-ante AD < AS Ex-ante AS)

AD > AS (Ex-ante AD > AS Ex-ante AS): - If AD > AS, flow of goods and service in the economy tends to be less than their demand. As result:

- (i) The existing stocks of the producers would be sold out and
- (ii) The producer would suffer the loss of unfulfilled demand
- (iii) To rebuild the desired stocks and avoid the loss of unfulfilled demand.
- (iv) The producer would plan greater production. (v) AS would increase to become equal to AD.

AD < AS (Ex-ante AD < AS Ex-ante AS): - If AD < AS, flow of goods and service in the economy tends to exceed their demand. As result:

- (i) Some of the goods would remain unsold.
- (ii) To clear unwanted stocks.
- (iii) The producer would plan a cut in production.
- (iv) Consequently, AS would reduce to become equal to AD.

Savings and Investment approach (S=I approach or Planned S = Planned I)

An economy is in equilibrium at a point where ex- ante or planned saving is equal to planned investment.

This is because in equilibrium:

AS = AD Y = C+S and

AD = C+I

C+S = C+I

S=I

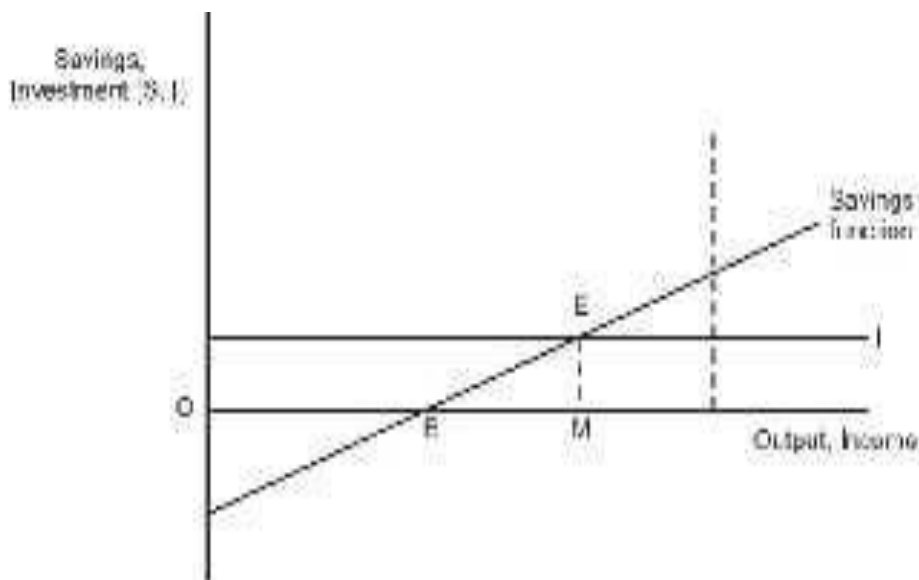
as C is common on both side of the equation) (Alternative Approach)

INCOME (Y)	CONSUMPTION (C)	SAVING(Y-C) (S)	INVESTMENT (I)
0	50	-50	100
100	100	0	100

200	150	50	100
300	200	100	100
400	250	150	100
500	300	200	100
600	350	250	100

Equilibrium is struck when:

$S = I = 100$ and equilibrium income = 300 at the level $AS = AD$ (300 each)



Equilibrium is struck at point E where S and I lines intersect each. EM is the equilibrium level of income.

ADJUSTMENT MECHANISM:

- (i) $S > I$ (Planned Saving > Planned Investment)
- (ii) $S < I$ (Planned Saving < Planned Investment)

$S > I$ (Planned Saving > Planned Investment): - In such situation, the following changes will occur.

- (i) Stock of the producer would be more than desired limit.
- (ii) Profits will start shrinking.
- (iii) Planned output for the subsequent year will fall.
- (iv) Level of income and employment will tend to shrink to the point where $S=I$.
- (v) The economy will come back to the state of equilibrium.

$S < I$ (Planned Saving < Planned Investment): In such situation, the following changes will occur.

- (i) Existing stock of the producers will not be enough to cope with the level of AD.
- (ii) Profits will not be maximum because the desired level of stock is not available.
- (iii) Producers will plan higher level of output for the subsequent years.
- (iv) Level of income and employment will rise to drive the economy to the point of equilibrium.

INVESTMENT MULTIPLIER AND ITS MECHANISM

Investment multiplier is the ratio of a change in income (ΔY) to a given change in investment (ΔI).

$$K = (\Delta Y) / (\Delta I)$$

Here:

K = Multiplier

ΔY = Change in income

ΔI = Change in investment

RELATIONSHIP BETWEEN MULTIPLIER AND MPC: - There is direct relationship

between investment multiplier and MPC. Higher the MPC, greater is the size of multiplier and vice versa. In fact, multiplier is often estimated with reference to MPC, as under:

$$K = 1 / 1 - MPC$$

$$(K = 1 / MPS)$$

This equation establishes a direct relationship between MPC and K.

WORKING OF MULTIPLIER: Example Assuming that increase in investment is Rs. 1,000 crore and MPC is 0.9. Explain the working of multiplier.

Multiplier is the ratio of a change in income (ΔY) to a given change in investment (ΔI).

$$K = (\Delta Y) / (\Delta I)$$

Round	ΔI	ΔY	Change in consumption [MPC(ΔY)]	Saving
1	1,000	1,000	900 (0.9 x 1,000)	100
2			810 (0.9 x 900)	90
3			729 (0.9 x 810)	81
4			656.1 (0.9 x 720)	72.9
	$\Delta I = 1,000$	$\Delta Y = 10,000$	9,000	1,000

	$\Delta I = 1,000$	$\Delta Y = 10,000$	9,000	1,000
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$$K = 1 / 1 - MPC$$

$$= 1 / 1 - 0.9 = 1 / 0.1 = 10$$

$$\text{Given that } \Delta I = 1,000, K = 10$$

$$\Delta Y = 10 \times 1,000 = \text{Rs}$$

10,000 crore.

Investment: Investment refers to the expenditure incurred on creation of new capital assets. The investment expenditure is classified under two heads:

Induced Investment: Induced investment refers to the investment which depends on the profit expectations and is directly influenced by income level.

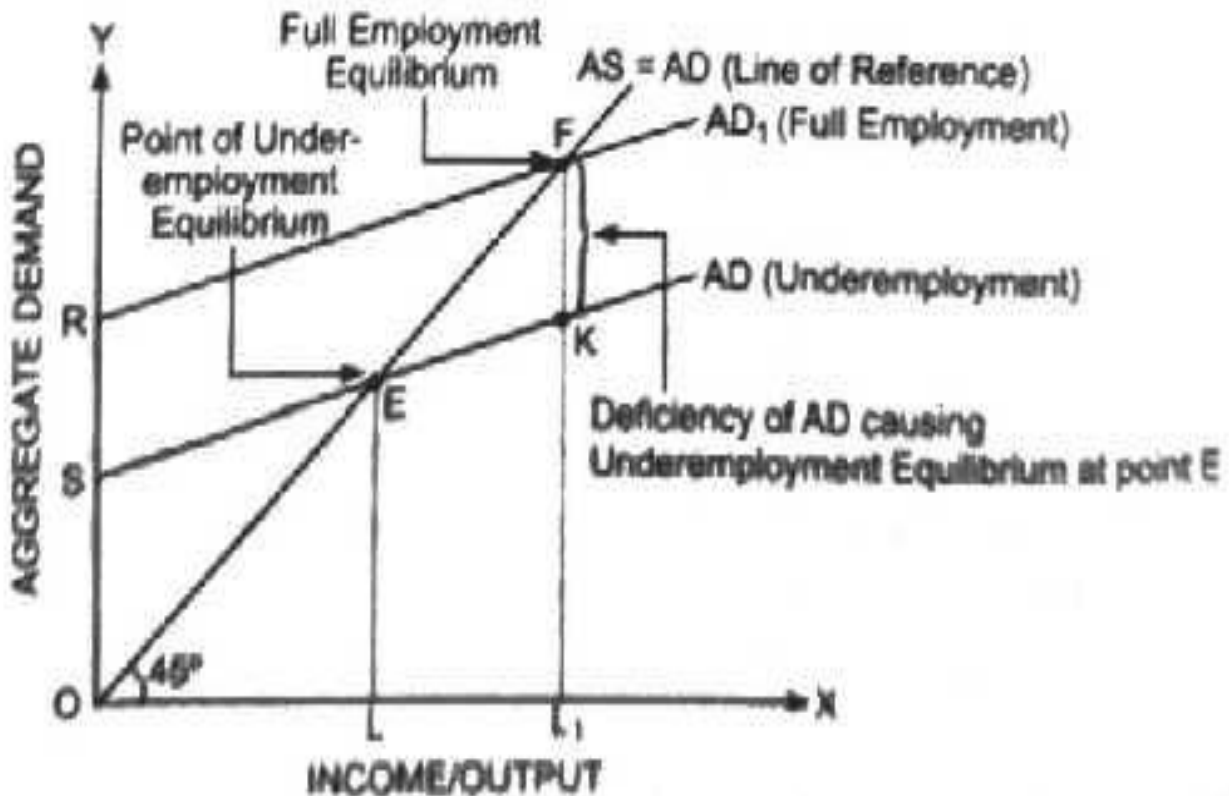
Autonomous Investment: Autonomous investment refers to the investment which is not affected by changes in the Level of income and is not induced solely by profit motive. It is income inelastic.

PROBLEM OF DEFICIENT DEMAND AND EXCESS DEMAND

SOME BASIC CONCEPTS: -

Full Employment Equilibrium: - Refers to the situation in the economy when $AS = AD$ or $S = I$ along with fuller utilization of resources. There is no excess capacity or unemployment in the economy.

Underemployment Equilibrium: - Refers to the situation in the economy when $AS = AD$ or $S = I$ but without fuller utilization of resources. Accordingly, there is unutilised capacity or excess capacity in the economy even in a state of equilibrium.



Unemployment equilibrium level of income = OL, while full employment equilibrium level of income = OL₁.

Voluntary unemployment: - When some people are not willing to work at all, or not willing to work at the existing wage rate.

Involuntary unemployment: - When some people are not getting work, even when they are willing to work at the existing wage rate. The economy fails to create enough jobs because planned output is lower than the potential output.

Frictional Unemployment: - Frictional unemployment is the unemployment associated with the changing of jobs in dynamic economy.

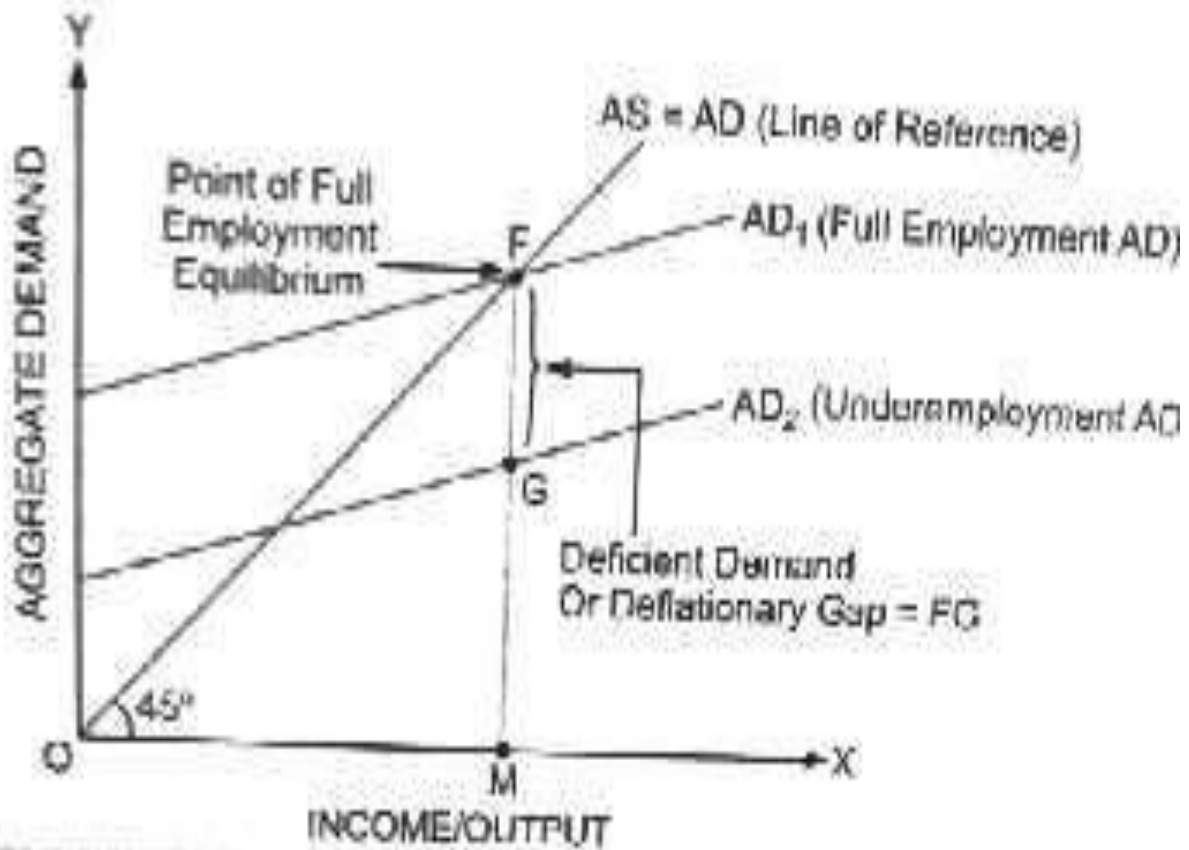
Structural unemployment: - Structural unemployment is the unemployment which is associated with structural changes in the economy, like change in technology.

Situation of Full Employment: - Full employment does not mean a situation of zero unemployment. Owing to constantly changing supply – demand parameters in the economy, there always exists some frictional and structural unemployment.

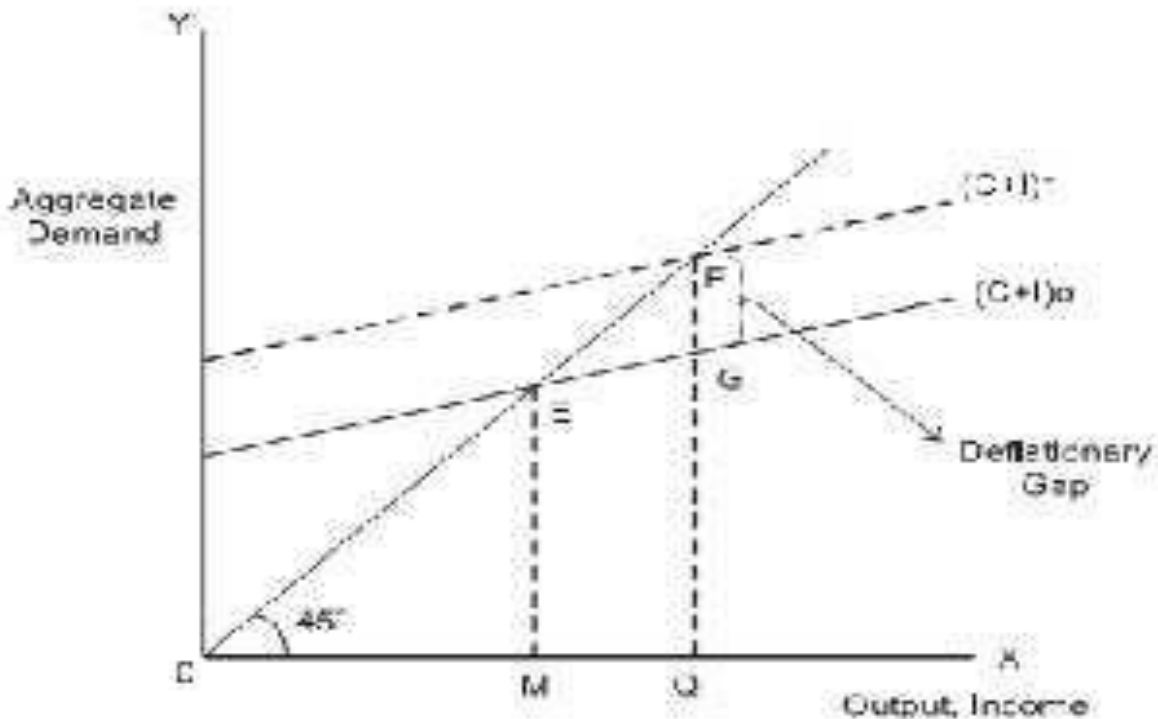
Problems of Deficient Demand and Deflationary Gap

Problems of Deficient Demand and Deflationary gap: - 'Deficient demand (Deflationary gap) refers to situation when Aggregate Demand is less than Aggregate Supply ($AD < AS$) corresponding to full employment level in the economy'

Measurement of Deficient Demand: - There is deflationary gap in the economy.



- AD1 line shows the required level of AD for full employment in the economy.
- AD2 line shows planned AD which is lower than the full employment AD.
- The vertical difference between AD1 and AD2 = FG.



- $(C+I)_1$ line shows the required level of AD for full employment in the economy.
- $(C+I)_0$ line shows planned AD which is lower than the full employment AD.
- The vertical difference between $(C+I)_1$ and $(C+I)_0 = FG$.
- FG is Deflationary gap.

Causes of Deficient Demand (Deflationary gap): In a sector closed economy, deficiency of AD occurs largely due to:

- (i) Reduction in Private Consumption Expenditure (C).
- (ii) Reduction in Private Investment Expenditure (I).
- (iii) Reduction in Government Expenditure (G).
- (iv) Decline in Exports (X).
- (v) Rise in Import (M).
- (vi) Increase in Tax Rates.

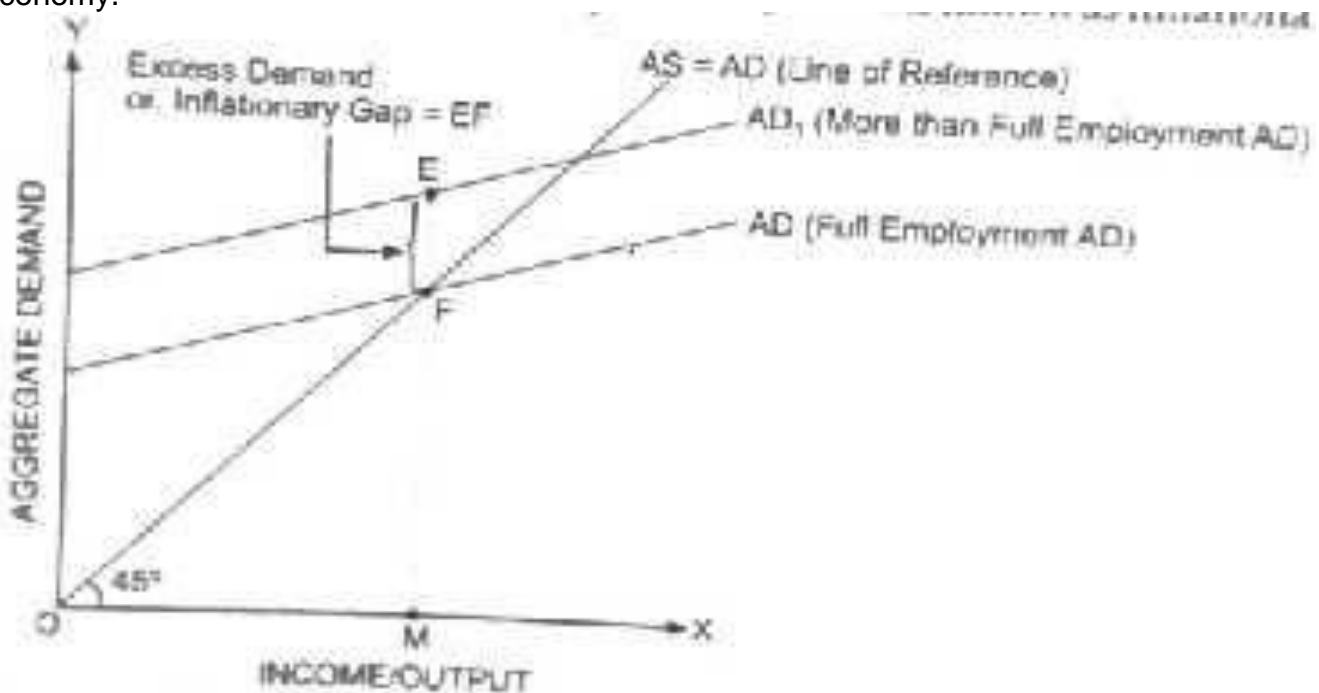
Consequences of Deficient Demand: - Deficient AD leads to four critical situations in the economy, as under.

- (i) Underemployment Equilibrium
- (ii) Deflationary Gap
- (iii) Loss of Profits
- (iv) Undesired stocks

PROBLEM OF EXCESS DEMAND (INFLATIONARY GAP)

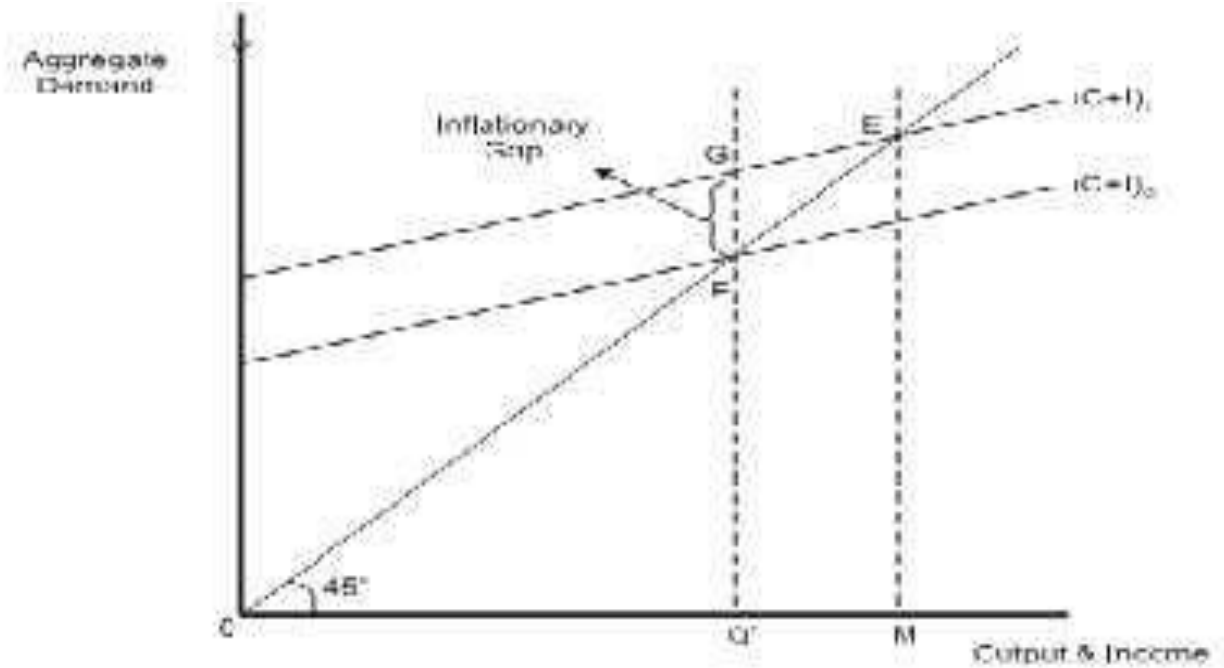
Excess demand (Inflationary gap) refers to situation when Aggregate Demand is more than Aggregate Supply (AD > AS) corresponding to full employment level in the economy'.

Measurement of Excess Demand Diagrammatic illustration: - There is Inflationary gap in the economy.



- AD (Full employment) line shows the required level AD for full employment in the economy.
- AD₁ line shows planned AD which is higher than the full employment AD.
- The vertical difference between AD₁ and AD = EF = Excess Demand.

Inflation Gap = Excess Demand



- $(C+I)_0$ (Full employment) line shows the required level AD for full employment in the economy.
- $(C+I)_1$ line shows planned AD which is higher than the full employment AD.
- The vertical difference between $(C+I)_0$ and $(C+I)_1 = GF = \text{Inflationary gap}$
- Inflation Gap = Excess Demand

Causes of Excess Demand (Inflationary gap): In a sector closed economy, excess of AD occurs largely due to:

- (i) Increase in Private Consumption Expenditure (C).
- (ii) Increase in Private Investment Expenditure (I).
- (iii) Increase in Government Expenditure (G).
- (iv) Increase in Exports (X).
- (v) Decrease in Import (M).
- (vi) A cut in tax rates leaving higher disposable income.

Consequences of Excess Demand: - Excess AD leads to three critical situations in the economy, as under.

- (i) Inflationary Gap
- (ii) Static GDP
- (iii) Excess demand and Wage- Price Spiral

Measures to correct Excess demand (Inflationary gap) & Deficient demand (Deflationary gap).

The measures can be classified into two measures viz.

1. Fiscal measures/policy;
2. Monetary measures/policy

Fiscal Measures to correct	Excess demand (Inflationary gap)	Deficient demand (Deflationary gap)
1. Government Expenditure	Reduce	Increase
2. Taxes	Increase	Reduce
3. Public borrowing (Public Debt)	Increased (steps up)	Reduced its borrowing
4. Borrowing from RBI	Reduce	Increase
Monetary Measures to correct	Excess demand (Inflationary gap)	Deficient demand (Deflationary gap)
Quantitative Methods		
1. Bank rate and Repo rate	Increase	Decrease
2. Reverse Repo rate	Increase	Decrease

3. Open Market Operation	Selling securities	Purchase of securities
4. Cash Reserve Ratio (CRR)	Increase	Decrease
5. Statutory Liquidity Ratio (SLR)	Increase	Decrease
Qualitative Measures:		
6. Margin Requirements	Raised (Increased)	Reduce
7. Moral Suasion & Direct Action	Selective and strict lending	Liberal in lending
8. Rationing of Credit	Restricts the availability of credit.	Enhance the availability of credit.

Measures to correct Excess (Inflationary gap)

Fiscal measures: These measures are formulated & implemented by the Government to control Excess demand / inflationary gap. The following tools are used to control & combat the Excess demand / inflationary situation.

- 1. Public (Government) Expenditure:** Excess demand / inflationary situation When $AD > AS$ corresponding to full employment level in the economy. During this situation general price level to rise, causing a rise in the rate of interest fall in investment and fall GDP.

Correction of Excess demand / inflationary situation:

- Cut (Reduce) government expenditure.
- Cause an overall cut in aggregate demand.
- So that excess aggregate demand is corrected.
- Excess demand / inflationary gap situation eliminated.

- 2. Taxes:** - Taxes are a compulsory payment made to government by the household.

Correction of Excess demand / inflationary situation:

- By increasing the tax burden on households.
- The government reduces their disposable income.
- Accordingly, AD is reduced and Excess demand / inflationary situation managed.

- 3. Public borrowing (Public Debt):** By borrowing from the public, the government steps up public borrowing. In the situation of Excess demand / inflationary gap AD needs to be reduced.

Correction of Excess demand / inflationary situation:

- The government steps up public borrowing by offering attractive rate of interest.
- This reduces liquidity with the people.
- Accordingly, aggregate expenditure also reduces and Excess demand / inflationary situation managed.

- 4. Borrowing from RBI (The Central Bank):** Borrowing by the government from the RBI.

Correction of Excess demand / inflationary situation:

- Reduced amount of borrowing by government.
- The amount of liquidity in the economy also reduced
- As desired to correct and Excess demand / inflationary situation.

Monetary Measures:

These measures are adopted by the Central Bank of a country to control Excess demand / inflationary gap. There are two methods or instruments of monetary policy.

- 1. Quantitative Methods or General methods:** - which refer to the control of quantity of Money supply through credit control. The following instruments are used in Quantitative method:

- (i) Bank Rate and Repo Rate Policy:** It refers to the rate of interest charged by the Central Bank on the loans & advances given to the Commercial Banks. The Bank Rate and Repo rate is determined by the Central Bank itself.

Correction of Excess demand / inflationary situation:

- (a) The RBI (CB) Raised the bank rate and Repo rate.
- (b) Which leads to rise in rate of interest.
- (c) This leads to raise the savings & reduce the demand for loans
- (d) There is a fall in purchasing power & further fall in AD and correct and Excess demand / inflationary situation.

- (ii) **Reverse repo rate:** This induces the commercial bank to park their surplus funds with the RBI for short period of time.

To Correction situation of Excess demand / inflationary gap:

- (a) Reverse repo rate is increased.
- (b) As a follow-up action, the commercial bank will be increase their deposits with the RBI (CB)
- (c) This, in turn, will reduce their ability to land money.
- (d) Consequently, consumption and investment expenditure will be reduced.
- (e) Implying a reduction in AD correct and Excess demand / inflationary situation.

- (iii) **Open Market Operations:** It refers to the process to sale & purchase of securities by the RBI (CB) in the economy.

Correction of Excess demand / inflationary situation

- (a) The RBI sells the bonds & securities in the market which is purchased by the banks, individuals, and other financial institutions of the economy.
- (b) This helps in wiping out the excess of money supply from the society. (c) There is a fall in purchasing power of the people.
- (d) Consequently, the AD falls, this helps in reducing the price level and correct and Excess demand / inflationary situation.

- (iv) **Cash Reserve Ratio:** It is indicating some percentage of demand deposits of the commercial banks to be kept as cash reserves with RBI. The CRR is an important tool which is used to correct the Excess demand / inflationary situation:

- (a) As the rise in CRR leads to fall in the lending capacity of the banks.
- (b) Leads to fall in the lending capacity of the banks.
- (c) This results in fall in money supply & further fall in AD.
- (d) The fall in AD leads to fall in price level and correct and Excess demand / inflationary situation.

- (v) **Statutory Liquidity Ratio (SLR):** SLR refers to liquid assets of the commercial banks which they are required to maintain as a minimum percentage of their total deposits. The SLR is an important tool which is used to correct the Excess demand / inflationary situation:

- (a) As the rise in SLR leads to fall in the lending capacity of the banks.
- (b) Leads to fall in the lending capacity of the banks.
- (c) This results in fall in money supply & further fall in AD.
- (d) The fall in AD leads to fall in price level and correct and Excess demand / inflationary situation.

2. QUALITATIVE METHOD

- (i) **Margin Requirements:** The margin requirements refers to the difference between current value of the security offered for loans and the value of Loans granted. In case the Excess demand / inflationary situation: (a) As the rise in the margin requirement (b) Leads to restrict the availability of credit. (c) This results in fall in money supply & further fall in AD. (d) The fall in AD leads to fall in price level and correct and Excess demand / inflationary situation.
- (ii) **Moral Suasion & Direct Action:** It refers to pressure exercised by the central bank on the commercial bank. In case the Excess demand / inflationary situation: (a) Restricts and selective availability of credit. (b) This results in fall in money supply & further fall in AD. (c) The fall in AD leads to fall in price level and correct Excess demand / inflationary situation.

- (iii) **Rationing of Credit:** It refers to fixation of credit quotas for different business activates. In case the Excess demand / inflationary situation: (a) restrict the availability of credit. (b) Accordingly, AD is lowered (c) Correct Excess demand / inflationary situation.

Measures to correct Deficient demand (Deflationary gap)

- 1. Fiscal measures:** These measures are formulated & implemented by the Government to control Deficient demand (Deflationary gap). The following tools are used to control & combat Deficient demand (Deflationary gap) situation.
- (i) **Public (Government) Expenditure:** Deficient demand (Deflationary gap) situation When $AD < AS$ corresponding to full employment level in the economy.
Correction of Deficient demand / Deflationary situation:
 (a) Government expenditure is Increased
 (b) Cause an overall Increased in aggregate demand.
 (c) So that less aggregate demand is corrected.
 (d) Deficient demand (Deflationary gap) situation eliminated.
- (ii) **Taxes:** Taxes are a compulsory payment made to government by the household. Correction of Deficient demand (Deflationary gap) situation:
 (a) By Lowering (Reduced) the tax burden on households.
 (b) The government increases their disposable income.
 (c) Accordingly, AD is raised and Deficient demand (Deflationary gap) situation managed.
- (iii) **Public borrowing (Public Debt):** By borrowing from the public, the government create public debt in the situation of Deficient demand (Deflationary gap) AD needs to be increased.
Correction of Deficient demand (Deflationary gap) situation:
 (a) The government reduces its borrowing from the public.
 (b) So that people with greater liquidity.
 (c) Accordingly, aggregate expenditure remains high and Deficient demand (Deflationary gap) situation managed.
- (iv) **Borrowing from RBI (The Central Bank):** Borrowing by the government from the RBI Correction of Deficient demand (Deflationary gap) situation:
 (a) Increased amount of borrowing by government.
 (b) Higher borrowing releases greater liquidity in the economy
 (c) As required to correct Deficient demand (Deflationary gap) situation.
- 2. Monetary Measures:** These measures are adopted by the Central Bank of a country to control Deficient demand (Deflationary gap). There are two methods or instruments of monetary policy.
- (A) Quantitative Methods or General methods:** Which refer to the control of quantity of Money supply through credit control. The following instruments are used in Quantitative method:
- (i) **Bank Rate and Repo Rate Policy:** It refers to the rate of interest charged by the Central Bank on the loans & advances given to the Commercial Banks. The Bank Rate and Repo rate is determined by the Central Bank itself.
Correction of Deficient demand (Deflationary gap) situation:
 (a) The RBI (CB) Reduced the bank rate and Repo rate.
 (b) Which leads to reduce in rate of interest.
 (c) This leads to reduce the savings & raised the demand for loans
 (d) There is increase in purchasing power & further raised in AD and correct and Deficient demand (Deflationary gap) situation.
- (2) Reverse repo rate:** This induces the commercial bank to park their surplus funds with the RBI for short period of time.
To Correction situation Deficient demand (Deflationary gap):
 (i) Reverse repo rate is Decrease.

(ii) As a follow-up action, the commercial bank will be reduce their deposits with the RBI (CB)

(iii) This, in turn, will increase their ability to land money.

(iv) Consequently, consumption and investment expenditure will be increased (v) Implying a increased in AD correct and Deficient demand (Deflationary gap) situation.

(3) **Open Market Operations:** It refers to the process to sale & purchase of securities by the RBI (CB) in the economy.

Correction Deficient demand (Deflationary gap) situation

(i) The RBI purchase the bonds & securities in the market which is sale by the banks, individuals and other financial institutions of the economy.

(ii) This helps to inject liquidity into the system

(iii) There is a increased in purchasing power of the people.

(iv) Consequently, the AD increased, this helps in Deficient demand (Deflationary gap) situation

(4) **Cash Reserve Ratio:** It is indicating some percentage of demand deposits of the commercial banks to be kept as cash reserves with RBI. The CRR is an important tool which is used to correct the Deficient demand (Deflationary gap) situation:

(i) As the Decrease in CRR leads to rise

(ii) Leads to rise in the lending capacity of the banks.

(iii) This results in rise in money supply & further rise in AD.

(iv) The rise in AD leads correct and Deficient demand (Deflationary gap) situation.

(5) **Statutory Liquidity Ratio (SLR):** SLR refers to liquid assets of the commercial banks which they are required to maintain as a minimum percentage of their total deposits. The SLR is an important tool which is used to correct the Excess demand / inflationary situation:

(i) As the Decrease in SLR leads to rise

(ii) Leads to rise in the lending capacity of the banks.

(iii) This results in rise in money supply & further rise in AD.

(iv) The rise in AD leads correct and Deficient demand (Deflationary gap) situation.

QUALITATIVE METHOD

1. Margin Requirements: - The margin requirements refer to the difference between current value of the security offered for loans and the value of Loans granted. In case the Deficient demand / deflationary situation:

(a) As the fall (lowered) in the margin requirement

(b) Leads to raise the availability of credit.

(c) This results in rise in money supply & further rise in AD.

(d) The rise in AD leads to correct and Deficient demand (Deflationary gap) situation

2. Moral Suasion & Direct Action: - It refers to pressure exercised by the central bank on the commercial bank. In case the Deficient demand / deflationary situation:

(a) Liberal availability of credit.

(b) This results in rise in money supply & further rise in AD.

(c) The rise in AD leads correct and Deficient demand (Deflationary gap) situation.

3. Rationing of Credit: It refers to fixation of credit quotas for different business activates. In case the Deficient demand / deflationary situation:

(a) Enhance the availability of credit.

(b) Accordingly, AD is increased

(c) This results in rise in money supply & further rise in AD.

(d) The rise in AD leads correct and deficient demand (Deflationary gap) situation.

UNIT - 4

GOVERNMENT BUDGET AND THE ECONOMY

Government Budget:- A government budget is an annual statement of estimated receipts expenditure of the government during a financial year.
The financial year begins (1April to 31 March)

TYPES OF BUDGET

(A). Balanced (B) Surplus (C) Deficit Budget

A) Balanced budget: A balanced budget is a budget in which government receipts are equal to government expenditures.

Balanced budget: Government Receipt = Government Expenditure

Merits of a balanced budget

- 1) A balanced budget shows that the government is not making any wasteful expenditures.
- 2) A balanced budget shows financial stability, it means the absence of inflation and deflation in an economy.

Demerits of a balanced budget :

- 1) A balanced budget doesn't give any solution to the problem of unemployment. Especially when unemployment is due to a lack of aggregate demand. It happened in most of the European countries during the 1930s.
- 2) A balanced budget is not useful for the less developed countries. For the growth of these economies, huge investment expenditure is required to be done by the government which leads to a deficit budget.

B) Surplus budget: This is a budget in which government receipts are greater than government expenditure.

Surplus budget: Government Receipt > Government Expenditure

Merits of surplus budget:

- 1) A surplus budget is useful when the economy faces inflation due to excess of AD (aggregate demand).
- 2) A surplus budget reduces the inflationary gap by reducing the level of AD.
- 3) The surplus budget increases the revenue collection of the government.
- 4) In a surplus budget government expenditure reduces.

Demerits of surplus budget :

- 1) The surplus budget is not useful during the period of deflation.
- 2) If continuous surplus budget is adopted by the government, it reduces the AD in an economy which causes unemployment in the economy.

C) Deficit budget: This is a budget in which government expenditures are greater than government receipts.

Deficit budget : Government Receipt < Government Expenditure

Merits of deficit budget :

- a. Deficit budget is a key instrument to correct the situation of deflation/depression. In the situation of depression, the level of the instrument is low therefore, the output is also low (it means unemployment exists in the economy). Deficit budget can solve the problem of depression and unemployment in the ways.
 - i. By increasing the government expenditure.
 - ii. By reducing the government income, by lowering the taxes.

Demerits of deficit budget :

- 1) Deficit budget is not desired during periods of inflation.
- 2) It is a period when the AD exceeds at full employment.
- 3) Deficit budgets increase the inflationary gap.

OBJECTIVES OF GOVERNMENT BUDGET

(1) Allocation/Reallocation of resources:- The govt. makes a proper allocation of resources through its budgetary policy so as to make a balance between the goals of profit maximization & social welfare. The government may influence the allocation of resources through :

(a) Taxation Policy:-Imposition of heavy tax Production of goods which are injurious to health like: Cigarettes,Liquor, Tobacco etc. is discouraged through heavy taxation. Subsidies and Tax concessions

On the other hand production of socially useful goods like: Khadi is encouraged through subsidies.

(b) Expenditure Policy:- There are many non-profitable economic activity which are not undertaken by the private sector either due to lack of profits or due to huge investment expenditure involved e.g. water supply, sanitation minting law and order national defiance etc. are called public goods. Therefore, government can directly produce these goods and services in the public interest in order to create social welfare.

(2) Redistribution of Income or Reduction in Income inequalities: The budget of the government shows its comprehensive exercise on the taxation and subsidies .The government uses fiscal instruments of taxation and subsidies with the view to improving the distribution of income and wealth in economy :

(a) Taxation policy:- (i) The Redistribution of income and wealth is to be achieved through progressive income tax. (ii) In which higher the income ,higher the tax rate . (iii) The government puts the higher rate of taxation on income of the rich people.(iv) Lower rate of taxation on lower income groups.(v) this will reduce the inequalities of income (vi) Giving to the poor.

(b) Expenditure policy (Transfer payment and subsidies):- (i) Providing free services like education and health to the poor. (ii) Providing essential items of food grains almost free the families living BPL. (iii) Free LPG gas connections and subsidized LPG gas to the BPL.

(3) Economic Growth (GDP Growth) :- GDP growth is the central objective of the government budgetary policy.

(a) Taxation Policy and Subsidies:- (i) If government provides tax rebates and other budgetary incentives , it will stimulate saving and investment in the economy and thus, economic growth.(ii) Tax concessions aim at reducing cost and thus, making profit.

(b) Expenditure Policy:- (i) Spending on infrastructure in the economy to promotes the production activities across different sector (ii) Government expenditure is a major factor that generates demand (iii) By inducing private investment expenditure through tax rebates and subsidies.

(c) Economic Stability :- Economic stability menace of large- scale fluctuations in general price level in the economy . Government can exercise control over price fluctuations through its taxation policy and expenditure policy.

(d) Under Inflationary Situations:- Inflationary situation emerge due to $AD > AS$.During period of inflation government: (i) Increase taxes to discourage demand. And (ii) Reducing its on expenditure (iii) This will decrease AD to correct inflationary situation.

e) Under Deflationary Situations:- During periods of recession ($AD < AS$) government : (i) Reduce taxes to encourage demand and (ii) Increase its on expenditure. (iii) Government can also use subsidies to encourage spending by people.(iv) This will raise the level of AD to correct deflationary situation.

(4) Balanced Regional Growth :- The budgetary policy places priority on the development of backward region in the country . This is achieved through :

(i) Liberal tax laws for the backward region in the country.

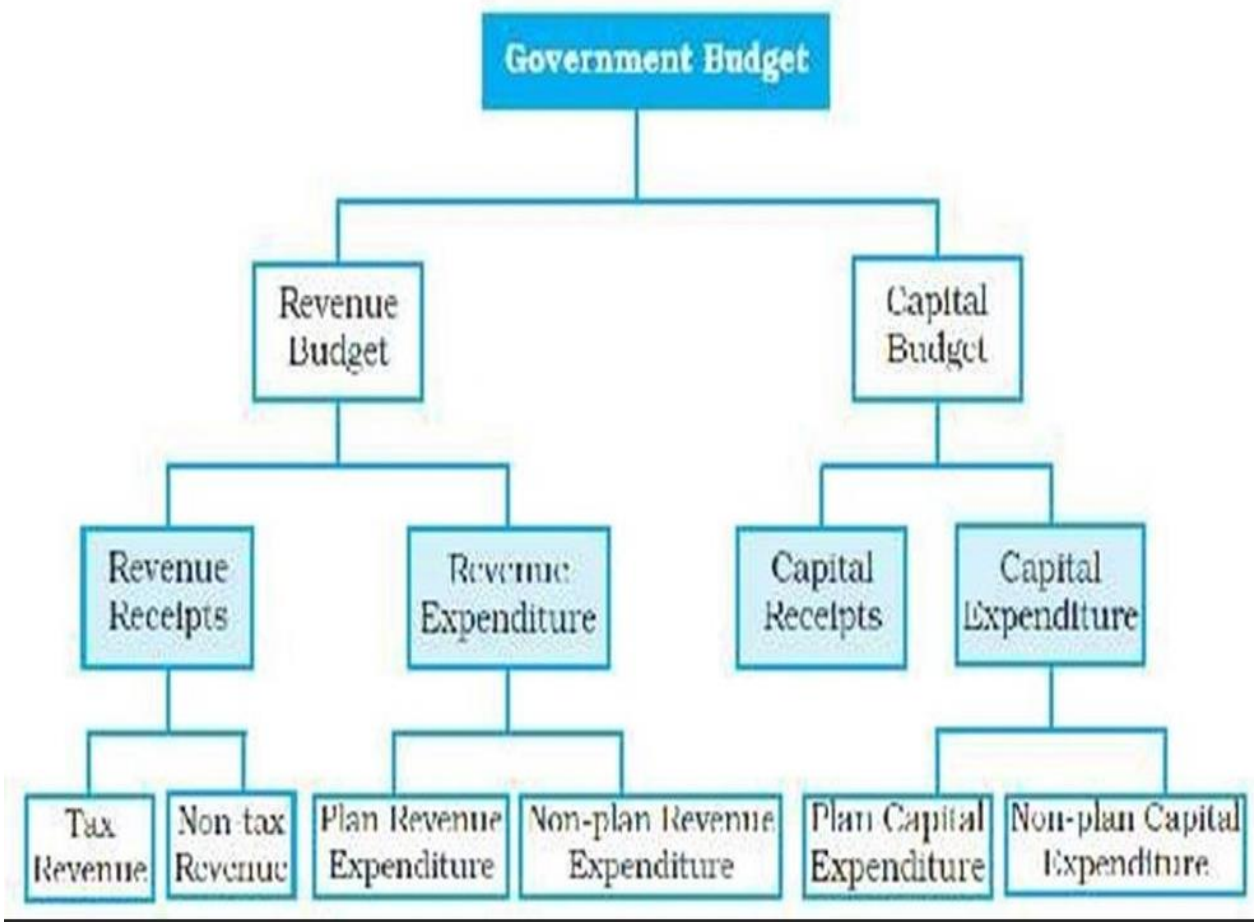
(ii) Establishment of special economic zones (SEZ) in the backward regions.

(5) Employment Opportunities:- Budgetary policy focuses on the generation of

employment opportunities through:

- (i) Investment in public enterprises.
- (ii) Budgetary provisions are made for employment schemes like MGNREGA.
- (iii) Offering employment to the poorer sections of the society.

STRUCTURE OF THE BUDGET (OR) COMPONENTS OF THE BUDGET



Two broad components of the government budget are:

- (i) **Budget Receipts:-** (a) Revenue receipts (b) Capital receipts.
- (ii) **Budget Expenditure:-** (a) Revenue expenditure (b) Capital expenditure.

Budget Receipt:- - 'Budget receipts refer to estimated money receipt of the government from all sources during the fiscal year'. Budget receipts are classified as:

(1) Revenue receipts (2) Capital receipts.

(1) Revenue Receipts:- - 'Revenue receipts are receipts that neither create any liability nor reduce any asset' (neither, nor)For the government. Tax revenue or non-tax revenue are revenue receipts as they neither create any liability nor reduce any asset.

The following two characteristics: (i) These receipts do not create any corresponding liability for the government.

(ii) 'These receipts do not cause any reduction in assets of the government'

Example: **Tax receipts:-** - Income tax Corporation tax, Gift tax, Excise duty, Customs duty, GST .

Non-tax receipts:- Fees, Fines, Grants/Donations, Income from public enterprises.

Tax Receipts:- - 'A tax is a compulsory payment to the government by the households, firms or another institution unit'.

Types of Taxes:-

- (i) **Progressive and Regressive tax**
- (ii) Value-added and Specific tax
- (iii) Direct and Indirect tax

(i) Progressive and Regressive tax

Progressive Tax:- Tax increases with an increases in income

Regressive tax:- A tax is said to be regressive when it causes a greater real burden on the poor than the rich.

(ii) Value added tax and Specific tax.

Value added tax:- Which is imposed on value added at the various stage of production it is difference between value of output and intermediate consumption.

Specific tax:- Tax is levied on a commodity on the basis of its units, size or weight.

(iii)Direct and Indirect tax

Direct Tax:- - ' A direct tax is really paid by the person on whom is legally imposed'

Indirect tax:-' An indirect tax is imposed on one person but paid partly or wholly by another'.

(2) Capital Receipts :- - 'Capital receipts are those receipts of the government which either create a liability for the government (for example - borrowings) or cause reduction in its asset (for example disinvestment of PSU)'.

The following two characteristics :- (i) These receipts create a liability for the government. For example, loans by the government are a liability.

- (iii) **These receipts cause reduction in the assets of the government.** For example, money received by the government by selling its shares would cause a reduction in the assets of the government.

Capital Receipts:-

- (i) **Recovery of loans:-** The central government offers loans to the state government to cope with financial crises. When these loans are recovered, **assets** are government reduced.
- (ii) **Borrowings and other liabilities:** - Borrowing creates liability.
- (iii) **Other receipts (Disinvestment):-** ‘Disinvestment occurs when the government sells off its shares of public sector enterprises to private sector’. It involves transfer of ownership of public sector entrepreneurs, to private entrepreneurs. It causes reduction of assets of the government.

Budget Expenditure

‘Budget expenditure refers to estimated expenditure of the government during the fiscal year’

Budget Expenditure is classified as:

- (1) Revenue Expenditure (2) Capital expenditure

(1) **Revenue Expenditure :-** Estimated expenditure of the government in a fiscal year which does not create assets or causes a reduction in liabilities. (neither creates an asset nor reduces a liability) for example interest payment, subsidies, grants given to states even if some of these may be for creation of assets.

The following two characteristics

- (I)** It does not create any asset for the government. For example: expenditure by the government on old-age pensions, salaries, scholarships.
- (II)** It does not cause any reduction in liability of the government. For example – Grants to the state government to cope with natural calamities.

Identify As Revenue or Capital receipt

- | | |
|---|----|
| 1. Loan from the IMF | CR |
| 2. Grants received from World bank. | RR |
| 3. Profit tax | RR |
| 4. Sale of shares held by government in Maruti Udyog ltd. | CR |
| 5. Borrowing from public. | CR |
| 6. Bus fare | RR |
| 7. Fee of government hospital. | RR |
| 8. Public debt. Loan from the IMF | CR |

(SELF PRACTICE)

9. Grants received from World bank.
10. Profit tax
11. Sale of shares held by government in Maruti Udyog Ltd.
12. Borrowing from public.
13. Bus fare
14. Fee of Government hospital
15. Public debt.
16. Deposits of people in public provident fund
17. National savings certificate.
18. Recovery of loans from the government of Delhi
19. Deposits of people in public provident fund and National saving certificates.
20. Recovery of loans from the government of Delhi by Government of India.

(2) **Capital expenditure:-** Capital expenditure refer to the estimated expenditure of the government in a fiscal year which creates assets or causes a reduction in liabilities (that either creates asset or reduces a liability) for example construction of school building etc, or reduces a liability for example repayment of loan.

The following two characteristics

- (i) **It creates assets for the government.** For example- Expenditure on land and building, Expenditure on machinery and equipment, purchase.
- (ii) **It causes reduction in liabilities of the government.** For example- Repayment of loans.

Identify the following as Revenue or Capital Expenditure

- | | |
|---|-----------|
| 1. Salary paid to government employment | RE |
| 2. Purchase of a machine from Korea. | CE |
| 3. Repayment of loan taken from IMF. | CE |
| 4. Interest paid on national debt. | RE |
| 5. Expenditure on construction of dams. | CE |
| 6. Social security benefits paid to retired government employees. | RE |
| 7. Construction of school buildings. | CE |
| 8. Expenditure incurred on the training of teachers of 'Sarva Shiksha Abhiyan`. | RE |
| 9. Expenditure on collection of taxes. | RE |

Developmental and Non-developmental expenditure

Expenditure of the government on essential general services like defence, administration etc, is treated as non-developmental expenditure. Expenditure of the government on agricultural, industrial development, on economic and social infrastructure, scientific research etc, is treated as developmental expenditure.

Plan and Non-plan Expenditure

Plan expenditure: - That expenditure which relates to specified plans and programs, assistance of the central government to the state government like expenditure on the construction of roads, bridges and hospitals.

Non-Plan Expenditure: - Broadly, all expenditure other than plan expenditure. It includes expenditure on such services as of law and order, defense and subsidies.

BALANCED & UNBALANCED BUDGET

Balanced Budget : It is a budget in which estimated receipts equal estimated expenditure.

Balance budget :- Government Receipts = Government

UNBALANCED BUDGET:- (i) **Surplus Budget** : It is a budget in which estimated receipts exceed estimated expenditure. **Estimated government receipts > estimated government expenditure.**

(ii) **Deficit Budget:** It is a budget in which estimated receipts fall short of estimated expenditure. **Estimated government expenditure > estimated government receipts.**

Budget Deficit

Budget deficit refers to a situation when budget expenditure of the government are greater than the budget receipts.

Budget Deficit = Total expenditure (Revenue expenditure + Capital expenditure) – Total receipts ((Revenue receipts + Capital receipts)

Types of Budget Deficit: (i) Revenue Deficit (ii) Fiscal deficit (iii) primary deficit.

(1) Revenue Deficit:- ‘Revenue deficit refers to the excess of revenue expenditure over revenue receipts’. It is the difference between the (Plan revenue expenditure and Non-Plan revenue expenditure) and (Tax revenue + Non-tax revenue).

Revenue Deficit = Revenue expenditure – Revenue receipts (RD= RE – RR, when RE > RR)

(2) Fiscal deficit:- Fiscal deficit refers to the excess of total expenditure over Total Receipts excluding borrowings.

Fiscal Deficit = total Expenditure (Revenue expenditure + Capital expenditure) – Total Receipts (Revenue receipts + Capital receipts) other than Borrowings.

FD = BE – Brother than Borrowings, when BE > BR other than borrowing.

Gross Fiscal Deficit:- Shows estimated borrowing by the government to cope with its expenditures during the year often its expressed as a percentage of GDP.

Gross Fiscal Deficit = Borrowing from RBI + Borrowing from abroad + Net borrowing at home.

Implications:- (i) A large fiscal deficit means large amount of borrowings. (ii) Fiscal deficit equals borrowing of government.(iii) Inflation (iv) National Debt (v) Erosion of government credibility.

(3) Primary deficit: - Primary deficit is the deference between fiscal deficit and interest.

$$\text{Primary Deficit} = \text{Fiscal Deficit} - \text{Interest Payments. PD} = \text{FD} - \text{IP}_$$

DIFFERENCES BETWEEN THE FOLLOWING

Difference between Capital Expenditure and Revenue Expenditure

Capital Expenditure	Revenue Expenditure
1.It creates assets for the government. Eg. Construction of roads, dams, school buildings	1.It does not create assets for the government. Eg. Student's scholarship, Old age pensions, subsidies
2. It reduces the liability of the government. Eg. Repayment of loan	2. It does not reduce the liability of the government. Eg. Interest payment on the loan.

Difference between Capital Receipt and Revenue Receipt

Capital Receipt	Revenue Receipt
1.It create liability for the government. Eg. Loan by the government	1.It do not create liability for the government. Eg. Income Tax
2.It reduce assets of the government. Eg. Selling of the government property, selling of the shares of Hindustan Petrolium.	2.It do not reduce assets of the government. Eg. Income Tax

Difference between direct taxes and indirect taxes

Direct Taxes	Indirect Taxes
1.The burden of direct tax cannot be shifted.	1.The burden of indirect tax can be shifted.
2.Imposition and incidence lies on the same Person	2.Imposition and incidence lie on different person
3.Imposed on income and wealth of people. Eg. Income tax , wealth tax	3.Imposed on goods and services. Eg. Sales tax, Service tax
4.It is progressive in nature	4.It is regressive in nature.

Competency-based questions

- identify which of the following statements is true
 - Fiscal deficit is the difference between plant revenue expenditure and plant revenue receipt
 - Fiscal deficit is the difference between total planned expenditure and total planned receipts
 - Primary deficit is the difference between total planned receipts and interest payments
 - Fiscal deficit is the sum of primary deficit and interest payment

Ans: d

- Dividends received from public sector undertakings are part of the government's

- Non-tax revenue receipts
- Tax receipts
- Capital receipts
- Capital expenditure

Ans: a

3. Which of the following is a capital receipt in the government budget?
- a. Income tax
 - b. Interest received.
 - c. Sale of shares of a public sector undertaking to x limited (private company)
 - D. Dividend from a public sector undertaking

Ans: c

4. Primary deficit in a government budget will be zero when
- a. Revenue deficit is zero
 - b. Net interest payment are zero
 - c. Fiscal deficit is zero
 - d. Fiscal deficit is equal to interest payment

Ans: d

5. Which of the following is not true about the fiscal deficit?
- a. Represents the borrowing of the government.
 - b. Is the difference between total expenditure and total receipts of the government?
 - c. Is the difference between total expenditure and total receipts other than borrowing
 - d. Increases the future liability of the government

Ans: b

6. Disinvestment of equity in public sector undertaking is aPolicy instrument.
- a. Monetary
 - b. Fiscal
 - c. Both a and b
 - d. Neither a nor b

Ans: d

7. Which one of the following statements is true?
- a. Loans from imf is a revenue receipt
 - b. Higher revenue deficit necessarily lead to higher fiscal deficit
 - c. Borrowings bi a government represents a situation of fiscal deficit
 - d. Revenue deficit is the excess of capital receipts over the revenue receipts

Ans: c

8. Which of the following sources of receipts in the government budget increases its liabilities. (choose the correct alternative.)
- a. Direct taxes
 - b. Recovery of loans
 - c. Borrowings
 - d. Dividend from public sector undertakings

Ans: c

9. The government budget of a hypothetical economy presents the following information which of the following value represents budgetary deficit? (all figures are in rupee crore)
- a. Capital receipts= 30000
 - b. Capital expenditure= 35000

- c. Revenue receipts = 20000
- d. Interest payments= 10,000
- e. Borrowings= 20000

Options-

- i) 12000
- ii) 10,000
- iii) 20000
- iv) none of the above

Ans: b

10. Fiscal deficit equals (choose the correct alternative)

- a. Interest payments
- b. Borrowings
- c. Interest payments less borrowing
- d. Borrowings less interest payments

Ans: b

11. Read the extract from the economic survey 2020- 21 and answer the questions that follow on the basis of the same.

The government will continue on its path of fiscal consolidation and intends to reach a fiscal deficit of below 4.5 % of gross domestic product by 2025- 2026, Finance Minister Nirmala Sitharaman said in her budget speech.

The government expects a fairly steady decline over the years. “we hope to achieve the consolidation first by increasing the buoyancy of tax revenue through improved compliance and secondly by increased receipts from monetization of assets including public sector enterprises and land.” Sitharaman said as she pegged the physical deficit for the current fiscal year at 89.5 percent of GDP in the revised estimate. The Centre has estimated the deficit to be at 6.8 % if the GDP next year and the gross borrowing from the market next year would be around rupee 12 lakh crore.

i).....deficit includes interest payment by the government on past loans. (fill in the blanks with the correct answer) (fiscal/ revenue/ primary)

ii) primary deficit in a government budget will be zero when(choose the correct alternative)

- a. Revenue deficit is zero
- b. Net interest payments are zero
- c. Fiscal deficit is zero
- d. Fiscal deficit is equal to interest payment

iii) disinvestment is Receipt of the government. (fill in the blanks with the correct answer) (capital/ revenue)

Ans: i) fiscal ii) b iii) capital

12. In the government of India's budget for the year 2020-21, the finance minister proposed to raise the excise duty on cigarettes. He also proposed to increase income tax on individuals earning more than one crore per annum. Identify and explain the types of taxes proposed by the finance minister. Was the objective only to earn revenue for the government? What possible welfare objectives could the government be considering?

Ans. Excise duty is an indirect tax. Indirect tax is a tax the burden of which falls on one person and the liability to pay falls on some other person. Income tax is a direct tax as the burden of such a tax and its liability falls on a single person. The objectives other than revenue behind imposing such taxes are welfare and reduction in inequalities of income and wealth. Raising excise duty on cigarettes makes them more expensive and hence consumption is discouraged. When the price of cigarettes rises its demand falls as less

is consumed. Raising tax levels on high-income earners aims at reducing inequalities of income and wealth. The revenue generated through taxes is used for the upliftment of the weaker sections of the society

13. Read the following extract carefully and answer the questions that follow:

Union finance minister Arun Jaitley presented the central government annual budget for 2018-19 in the Parliament on February 1 2018. It was the fifth and last budget amid subdued economic growth, challenging fiscal situation and farm distress.

Budget 2018-19 reflects the government firm commitment to substantially boost investment in agriculture social sector digital payments infrastructure and employment generation on the one hand and simultaneously stick to the path of fiscal rectitude by aiming for reduction of fiscal deficit by 0.2 % of GDP over RE 2017-18 this is substantiated by increase in expenditure of 224463 crores over RE 2017-18 while simultaneously keeping the fiscal deficit at 3.3 % of GDP.

- a. budget it helps to lower the level of aggregate demand in the economy. (surplus/ deficit)
- b. Primary deficit is equal to
- i) deficit less interest payment
 - ii) revenue deficit less borrowings
 - iii) borrowings less interest
 - payment iv) borrowings less fiscal deficit
- c. If, in an economy, the estimated receipts of a government during a year are less than the estimated expenditure, the budget would be called Budget (surplus or deficit)
- d. Identify which of the statements is true?
- i) fiscal deficit is difference between land revenue expenditure and planned revenue receipt
 - ii) fiscal deficit is difference between total planned expenditure and total planned receipt
 - iii) primary deficit is difference between total planned receipt and interest payment
 - iv) fiscal deficit is the sum of primary deficit and interest payment.

Ans: a) surplus b) (A) c) deficit d) d.

CBSE BOARD 01 MARKS QUESTION

- Q1. Borrowing is government budget is: (2015)
- (a) Revenue deficit
 - (b) Fiscal deficit**
 - (c) Primary deficit
 - (d) Deficit in taxes (ans. 'B' Fiscal deficit)
- Q2. The non-tax revenue in the following is : (2015)
- (a) Export duty
 - (b) Dividends**
 - (c) Import duty
 - (d) Excise (ans. ' B' Dividends)
- Q3. Primary deficit in government budget is : (2015)

- (a) Revenue expenditure – Revenue receipts
- (b) Total deficit – Total Receipts
- (c) Revenue deficit – Interest Payment

(d) Fiscal deficit - Interest Payment (Ans. D)

Q4. Direct tax is called direct because it is collected directly from : (2015)

- (a) The producers on goods produced
- (b) The buyers of goods
- (c) The sellers on goods sold

(d) The income earners (Ans. D)

Q5. Primary deficit in government budget equals : (2015, 2016)

- (a) Interest payments
- (b) **Borrowings less Interest Payment (Ans. B)**
- (c) Interest Payment less borrowing
- (d) None of the above

Q6. Which one of these is a revenue expenditure? (2015)

- (a) Purchase of shares
- (b) **Subsidies (Ans. B)**
- (c) Loans advanced
- (d) Expenditure on acquisition of land

Q7. Fiscal deficit equals : (2016)

- (a) Interest payments
- (b) **Interest Payment less borrowing Ans.B**
- (c) Borrowings
- (d) Borrowings less Interest Payment

Q8. Disinvestment by the government means : (2016)

- (a) Selling of its fixed capital assets
- (b) Selling of its buildings
- (c) **Selling of shares of public enterprises held by it (Ans. C)**
- (d) All of its buildings

Q9. Primary deficit in a government budget will zero, when _____

- (a) Revenue deficit is zero
- (b) Fiscal deficit is zero
- (c) Net interest payments are zero
- (d) **Fiscal deficit is equal to interest payment (Ans.D)**

Q10. Dividends received from public sector undertaking are a part of the government's (2019)

(a) Non-tax revenue receipts (Ans. A)

(b) Capital receipts

(c) Tax receipts

(d) Capital receipts

(CBSE Term-1 2022)

Q1 . Statement -1: A government budget is an accounting statement showing actual receipts and expenditures of the government during a fiscal year.

Statement -2: Two components of the government budget are the revenue budget and the Capital budget.

Alternatives:) (a). Both statements are true.

(b) Both the statements are false.

(c) . Statement 1 is true, but Statement 2 is false (d.) Statement 2 is true, but Statement 1 is false

Ans. (d.) Statement 2 is true, but Statement 1 is false

Q2. Fiscal deficit in the government budget indicates.

- (a) Excess of capital expenditure over capital receipts (excluding borrowings)
- (b) Excess of revenue expenditure over revenue receipts
- (c) Borrowing requirement of statement government only
- (d) Excess of total expenditure over revenue receipts and non-debt-creating capital receipts

Ans. d) Excess of total expenditure over revenue receipts and non-debt-creating capital receipts

Q3. Government of India has recently implemented various measures (like cash transfers to senior citizens and widows)

The government is trying to achieve the objective of using such measures.

- (a) Reallocation of resources
- (b) Redistribution of income
- (c) Regional equality
- (d) Economic instability.

Ans. b) Redistribution of income

Q4. From the following items in Column I and Column II choose the correct pair: (CBSE Term-1 2022)

	Column I		Column II
A	Direct Taxes	I	Goods and Services Tax
B	Indirect Tax	ii	Income Tax
C	Revenue Receipts	iii	Disinvestment
D	Capital Expenditure	iv	Construction of a school

- A-I (b) B –ii (c) C – iii (d) D- iv

Ans. (d) D-

Q 5. The expenditure on education by the government is expressed as a percentage of

- (a) Goods & Service Tax (b) Disinvestment (c). Gross Domestic Product (GDP) (d) Fiscal Deficit

Ans. (c). Gross Domestic Product (GDP)

Q6. On the basis of the following data, calculate the value of revenue deficit :

S. No	Items	Amount (in Rs. Crores)
1	Tax Receipts	2542
2	Revenue Expenditure	1927
3	Direct Tax	670
4	Non- Tax Receipts	303

Alternatives:

- (a)Rs. 1845 crores (b) Rs.82 crore (c). Rs. 100 crore (d) Rs.588 crore

Ans. (b) Rs.82 crore

ASSERTION & REASON

- (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.

Q1. ASSERTION (A):GST is an indirect tax.

REASON (R): All indirect taxes are imposed on the production and sale of goods and services

Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

Q2.ASSERTION (A) : Interest paid on National Debt is a revenue expenditure. **REASON (R):**Revenue expenditure refer to those expenditure which neither create any liability nor causes any reduction in the assets of the government.

Ans: (c) Assertion (A) is true but Reason (R) is false.

Q3/ASSERTION (A): Capital receipts of the government leads to decrease in assets or increase in liabilities.

REASON (R): Tax and non tax receipts are the two sources of capital receipts.

Ans: (c) Assertion (A) is true but Reason (R) is false.

Q4. ASSERTION (A): Fiscal deficit is greater than budgetary deficit.

REASON (R): Fiscal deficit is the borrowing from the RBI plus other liabilities of the Government to meet its expenditure.

Ans: (d) Assertion (A) is false but Reason (R) is true.

Q5.ASSERTION (A): Tax payments to the government do not provide any direct benefit to the tax payer.

REASON (R): Government spends tax receipts for common benefit of the society.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

True- False Alternatives Statement

Alternatives:

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

Q1. Statement 1: 'Revenue deficit refers to the excess of revenue expenditure over revenue receipts'

Statement 2: Fiscal deficit refers to the excess of total expenditure over Total Receipts including borrowings

Ans.1 (c) Statement 1 is true and Statement 2 is false

Q2. Statement 1: Surplus Budget is a budget in which estimated receipts exceed estimated expenditure

Statement 2: Deficit Budget is a budget in which estimated receipts fall short of estimated expenditure.

Ans2. a) Both the statements are true

Q3. Statement 1: Capital Expenditure is Estimated expenditure of the government in a fiscal year which does not create assets or causes a reduction in liabilities.

Statement 2 : Revenue expenditure is expenditure referred to the estimated expenditure of the government in a fiscal year which creates assets or causes a reduction in liabilities

Ans3. (b) Both the statements are false

CASE STUDY 1

India's fiscal deficit touched 115% of the budgeted target in the first half of 2020-21 as the Covid-19 pandemic continued to hurt government's receipts while expenditure remained close to the same level of last year. The gap between revenue and expenditure stood at Rs

9.14 lakh crore during April-September, according to data on the website of the Controller General of Accounts.

Questions:

Q1. What do you mean by Fiscal Deficit? Explain.

CASE STUDY-2

Fiscal deficit can prove inflationary if deficit is financed by printing of new currency as it will increase the money supply and purchasing power in the economy. It will further worsen the situation if new money is used to finance the current consumption expenditure of the government. However, if the increase in money supply leads to increased supply of goods and services or new money is used for infrastructural activities or other capital projects, then fiscal deficit will not prove to be inflationary.

Questions:

1. Explain Fiscal deficit.

2. In a government budget revenue deficit is Rupees 50,000 crores and borrowings are

MULTIPLE CHOICE QUESTIONS (MCQ) WITH ANSWERS

1. A government budget is an annual statement of during a fiscal year.

- (A) Estimate receipts and expenditure **ANS -A**
- (B) Actual receipts and expenditure
- (C) Revenue receipts and expenditure

(D) Capital receipts and expenditures

2. Which one of the following is not an objective of government budget?

(A) Reduction of poverty and unemployment

(B) Reallocation of resources

(C) Economic growth

(D) Maintaining law and order

ANS- D

3. Direct taxes are

(A) Imposed on every member of the society

(B) Helpful in reducing inequalities of income

ANS-B

(C) Inflationary in nature

(D) Helpful in reducing consumption of harmful commodities

4. The receipts of the government which create liabilities or reduce assets are called

(A) Capital receipts

(B) Revenue receipts

(C) escheat

(D) Fees and fines

5. Which of the following is not an indirect tax?

(A) Sales tax

(B) Corporate tax

ANS-B

(C) Value added tax

(D) Excise duty

6. Which of the following is a characteristics feature of tax?

(A) Penalty for breaking traffic rules

(B) Compulsory or legal payment

ANS-B

(C) Payment for special payment

(D) Direct payment for purchase of goods

7. Fiscal deficit –interest payment =

(A) Revenue deficit

(B) Budget deficit

(C) Primary deficit

ANS-C

(D) None of these

8. Borrowings are equivalent to

(A) Primary deficit

(B) Fiscal deficit

ANS-B

(C) Revenue deficit

(D) None of these

9. What is repayment of loan? Choose one option.

(A) Capital receipt

(B) Revenue receipt

(C) Capital expenditure

ANS-C

(D) Revenue expenditure

10. Loans to state government are a part of

(A) Capital expenditure

ANS-A

(B) Revenue expenditure

(C) Revenue receipt

(D) Capital receipt

SHORT AND LONG ANSWER QUESTION (3,4 and 6 Marks)

Q1. Explain any one object of the government budget.

Ans. **Allocation/Reallocation of resources:** - The govt. makes a proper allocation of resources through its budgetary policy so as to make a balance between the goals of profit maximization & social welfare. The government may influence the allocation of resources through:

(A) **Taxation Policy:** -

The imposition of a heavy tax on the Production of goods that are injurious to health like Cigarettes, Liquor, Tobacco etc. is discouraged through heavy taxation.

Subsidies and Tax concessions: On the other hand, production of socially useful goods like Khadi is encouraged through subsidies.

(B) **Expenditure Policy:** -

There are many non-profitable economic activities which are not undertaken by the private sector either due to lack of profits or due to huge investment expenditure involved e.g. water supply, sanitation minting law and order national defiance etc. are called public goods. Therefore, government can directly produce these goods and services in public interest to create social welfare.

Q2. Distinguish between revenue expenditure and capital expenditure in the government budget. Give an example of each.

(OR)

How is capital expenditure different from revenue expenditure? Discuss briefly.

(CBSE 2019)

ANS-

Capital Expenditure	Revenue Expenditure
1.It creates assets for the government. Eg. Construction of roads, dams, school buildings	1.It does not create assets for the government. Eg. Student's scholarship, Old age pensions, subsidies
2. It reduces the liability of the government. Eg. Repayment of loan	2. It does not reduce the liability of the government. Eg. Interest payment on the loan.

Q3. Explain how the government budget can be helpful in bringing economic stabilization in the economy (CBSE2017)

Ans. **Economic Stability:** - Economic stability means large-scale fluctuations in the general price level in the economy. Government can exercise control over price fluctuations through its taxation policy and expenditure policy.

Under Inflationary Situations: - Inflationary situation emerge due to $AD > AS$. During periods of inflation government: (i) Increase taxes to discourage demand. And (ii) Reducing its expenditure (iii) This will decrease AD to correct inflationary situation.

Under Deflationary Situations:- During periods of recession ($AD < AS$) government : (i) Reduces taxes to encourage demand and (ii) Increases its expenditure. (iii) The government can also use subsidies to encourage spending by people. iv) This will raise the level of AD to correct deflationary situation

Q4. Given the following data estimate the values of (i) Revenue deficit and (ii) Fiscal deficit .

(CBSE 2019)

Items	Rs.in crore
Tax revenue	1,000
Non-tax revenue	150
Net borrowing by government	780
Disinvestment proceeds	50
Revenue expenditure	1,500
Capital expenditure	480

Ans. Revenue deficit = Revenue expenditure – Revenue Receipts (tax revenue + non-tax revenue)

$$= \text{Rs.}1500 \text{ crore} - (\text{Rs.}1000\text{crore} + 150 \text{ crore}) = \text{Rs.} 350 \text{ crore}$$

Fiscal deficit = Net borrowing by the government

$$= \text{Rs.} 780 \text{ crore}$$

Q5. Explain the basis of classifying taxes into direct and indirect taxes. Give examples. (CBSE 2017)

ANS-

Direct Taxes	Indirect Taxes
1. The burden of direct tax cannot be shifted.	1. The burden of indirect tax can be shifted.
2. Imposition and incidence lies on the same Person	2. Imposition and incidence lie in a different person
3. Imposed on income and wealth of people. Eg. Income tax , wealth tax	3. Imposed on goods and services. Eg. Sales tax, Service tax
4.It is progressive in nature	4.It is regressive in nature.

Q6. Given reasons, classify the following into revenue receipts and capital receipts: (CBSE 2017)

- (i) Recovery of loans (CAPITAL RECEIPT)
 (ii) Profit of public sector undertaking— (REVENUE RECEIPT)
 (iii) Borrowings. (CAPITAL RECEIPT)

Ans. Recovery of loans: - (i) Recovery of loans is a capital receipt . It leads to reduction in assets of the government.

(ii.) Profit of public sector undertaking: Profit of public sector undertaking are revenue receipts because they neither create any liability nor reduce any asset' (neither, nor)For the government .

(iii.) Borrowings and other liabilities: - Borrowing are capital receipts because they create liability for the government.

Q7. What is government budget? Explain its major components. (CBSE 2018)

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

STRUCTURE OF THE BUDGET (OR) COMPONENTS OF THE BUDGET

Two broad components of the government budget are:

- (i.)Budget Receipts:- (a) Revenue receipts (b) Capital receipts.
 ii.) Budget Expenditure:- (a) Revenue expenditure (b) Capital expenditure.

Budget Receipt: - 'Budget receipts refer to estimated money receipt of the government. from all sources during the fiscal year.

Budget receipts are classified as:

- (i.)Revenue receipts (ii) Capital receipts.

Budget Expenditure 'Budget expenditure refers to the estimated expenditure of the government during the fiscal year

Budget Expenditure is classified as:

- (i.) Revenue Expenditure (ii) Capital expenditure

Q8. Explain (a) allocation of resources, (CBSE 2018, 2020) and (b) economic stability as objectives of government budget. (CBSE 2018)

Ans. (a) Allocation/Reallocation of resources:- The govt. makes a proper allocation of resources through its budgetary policy so as to make a balance between the goals of profit maximization & social welfare. The government may influence the allocation of resources through: **A.TAXATION POLICY**

Imposition of heavy tax Production of goods that are injurious to health like Cigarettes, Liquor, Tobacco etc. is discouraged through heavy taxation.

Subsidies and Tax concessions: On the other hand production of socially useful goods like Khadi is encouraged through subsidies.

Expenditure Policy:- There are many non-profitable economic activities that are not undertaken by the private sector either due to lack of profits or due to huge investment expenditure involved e.g. water supply, sanitation minting law and order national defiance, etc. are called public goods. Therefore, the government can directly produce these goods and services in the public interest in order to create social welfare.

(b.) Economic Stability: - Economic stability menace of large-scale fluctuations in the general price level in the economy. Government can exercise control over price fluctuations through its taxation policy and expenditure policy.

Under Inflationary Situations: - Inflationary situation emerge due to $AD > AS$. During periods of inflation government: (i) Increase taxes to discourage demand. And (ii) Reducing its expenditure (iii) This will decrease AD to correct the inflationary situation.

Under Deflationary Situations: - During periods of recession ($AD < AS$) government : (i) Reduces taxes to encourage demand and (ii) Increase its on expenditure. (iii) The government can also use subsidies to encourage spending by people.(iv) This will

raise the level of AD to correct the deflationary situation.

Q9. Do 'disinvestment' and 'loan proceeds from abroad' constitute revenue receipts of the government? Give reason. (2019)

Ans. **Disinvestment:** No, disinvestments is treated as capital receipts, because it lead to a reduction in assets of the government.

Loan proceeds from abroad: NO, loan proceeds from abroad are treated as capital receipts, because it creates liability of the government.

Q10. State whether the following statements are true or false. Support your answer with a reason. (CBSE 2019)

(a) **Taxation** is an effective tool to reduce the inequalities of income

(OR)

'Taxation is an effective tool to reduce the inequalities of income'. Justify the given statement with valid reasons. (2020)

(b) **Revenue** deficit increases when the government fails to recover loans forwarded to different nations.

Ans. (a) Taxation is an effective tool to reduce the inequalities of income: True, to correct inequality of income Indian government focuses on the equitable distribution of income and pursues the policy of progressive taxation: Tax increases with an increase in income.

(b.) Revenue deficit increases when government fails to recover loans forwarded to different nations: False, Recovery of loans is a capital receipt. It leads to reduction in assets of the government. It duos not affect the revenue receipts

Q11. Given the following data estimate the values of (i) Revenue deficit and (ii)Fiscal deficit . (CBSE 2020)

	Items	Rs.in crore
I	Tax revenue	1,000
li	Revenue expenditure	3,821
lii	Non-tax revenue	2,000
Iv	Recovery of loans	135
V	Capital expenditure	574
Vi	Disinvestment	100
Vii	Interest payment	1,013

Ans. Revenue deficit = Revenue expenditure – Revenue Receipts (tax revenue + non- tax revenue) = Rs.3821 crore – (Rs.1000crore + 2000 crore) = Rs. 821 crore

Fiscal deficit = total expenditure (Revenue expenditure + Capital expenditure) – Total Receipts (Revenue receipts + Capital receipts) other than borrowings

= 3,821 crore + 574 crore – (1000 crore + 2000 crore) – (135 crore + 100 crore)

= 3821 crore + 574 crore – 3000 crore – 235 crore

= Rs. 4,395 crore – Rs. 3,235 crore

= Rs. 1,160 crore

(i) Revenue deficit Rs. 821 crore (ii)Fiscal deficit Rs. 3,235 crore

Q12. Given the following data estimate the values of (i) Revenue deficit and (ii)Fiscal deficit . (CBSE 2020)

	Items	Rs.in crore
I	Non-tax revenue	2,300
li	Tax revenue	1,000
lii	Recovery of loans	145
Iv	Revenue expenditure	3,500
V	Capital expenditure	580
Vi	Disinvestment	300
Vii	Interest payment	1,013

Ans. **Revenue deficit** = Revenue expenditure – Revenue Receipts (tax revenue + non- tax revenue) = Rs.3,500 crore – (Rs.1000 crore + 2,300 crore) = Rs. 200 crore

Fiscal deficit = total expenditure (Revenue expenditure + Capital expenditure) – Total Receipts (Revenue receipts + Capital receipts) other than borrowings

= 3,500 crore + 580 crore – (1000 crore + 2,300 crore) – (145 crore + 300 crore)
 = 3,500 crore + 580 crore – 3,300 crore – 445 crore
 = Rs. 4,080 crore – Rs. 3,745 crore
 = Rs. 335 crore

(i) Revenue deficit Rs. 200 crore (ii) Fiscal deficit Rs. 335 crore

FOR
SLOW ACHIEVERS TO GET MINIMUM PASS MARKS
AND
BRIGHT LEARNERS TO SCORE HIGH MARKS
GOVERNMENT BUDGET AND ECONOMY

Q. What is budget?

Ans: It refers to estimated receipts and expenditure of the government during the fiscal year.

Q. What are the main objectives of budgets? Explain it.

A. 1. Redistribution of income and wealth: -The government uses fiscal instruments of taxation and subsidies with a view to improve the distribution of income and wealth in the economy.

2. Reallocation of resources: -The government through its budgetary policy directs the allocation of resources in such a manner that there is a balance between the goals of profit maximization and social welfare.

3. Economic stability: - The government through its budgetary policy tries to prevent business fluctuations and maintain economic stability.

4 Management of public enterprises: -The government through its budgetary policy tries to increase the rate of growth through public enterprises. Often it is encouraged in the areas of natural monopolies in order to increase the social welfare.

Q. Explain the main components or structure of budget.

Ans: The main components of a budget are as under follows:-

1. Budget receipts: It refers to estimated money receipts of the government from all sources during the fiscal year. It is classified into two parts:-

(A) Revenue receipts: It refers to those money receipts which neither create a liability nor lead to reduction in assets of the government. Example -Tax & Non tax receipts.

It is classified into two parts:-

(i) Tax receipts: A tax receipt is a compulsory payment to the government by the households or firms together. Example- Income tax, Corporation tax, Gift tax, Estate duty, Custom Duty. Sales tax etc.

(ii) Nontax receipts: These are those receipts which are received from sources other than tax receipts. Example- Fees, Fines and Penalties, License and permits, Gifts and grants/donations, Escheat, Special assessment, Income from public enterprises etc.

(B) Capital Receipts: Capital receipts are those money receipts which either create liability or cause reduction in the assets of the government.

Components of capital receipts:-

(i) Recovery of loans –It causes reduction in assets

(ii) Borrowings (from - the public, RBI, rest of the world) and other liabilities – Create liability

(iii) Other receipts (like disinvestments) – Disinvestment occurs when the government sells off its shares of public sector enterprises to private sector. It causes Reduction in the assets.

2. Budget Expenditure: - It refers to estimated expenditure of the Government on its development and non-development programmes or on its plan and non plan Programmes during the fiscal year.

It is classified into two parts. -

(A) Revenue Expenditure: - It refers to estimated expenditure of the government which neither creates assets nor causes a reduction in liabilities of the govt. E.g.: Scholarship, old age pension, interest payment, expenditure on defence, subsidies, grants given by central govt to state govt & union territories etc.

(B) Capital expenditure: - It refers to the estimated expenditure of the government in a fiscal year which either creates assets or causes a reduction in liability of the govt. etc. E.g.: Expenditure on land & building, machinery and equipment, purchase of shares, loans by central govt to state govt or state corporation.

Q. What is a tax?

Ans: — A tax is a compulsory payment to the government by the households or firms together.

Q. Define (i) Budget deficit (ii) Revenue deficit (iii) Fiscal deficit (iv) Primary deficit.

Ans: - (1) **Budget deficit:** - It refers to a situation when budget expenditures of the govt. are more than the Budget receipts.

Budget deficit = BE or TE (RE + CE) - BR or TR (RR + CR) or TE > TR.

(ii) **Revenue deficit:** - Revenue deficit is the excess of revenue expenditure over revenue receipts. **RD = RE - RR OR when RE > RR**

(iii) **Fiscal deficit:** -Fiscal deficit is the excess of total expenditure (revenue + capital) over total receipts (revenue + capital) other than borrowing.

FD = TE or BE (RE + CE) - TR or BR (RR + CR) other than borrowings. OR TE (RE + CE) > TR (RR + CR) other than borrowings.

(iv) **Primary deficit:** — It is the different between fiscal deficit and interest payment.

Primary Deficit = FD - Interest Payment.

(v) **Surplus Budget:** — It is a budget in which Government receipts are greater Government expenditures.

i.e. SB = GR > GE (TR > TE)

(vi) **Deficit budget:** - It is a budget in which government expenditure are more than government receipts. **i.e. DB = GE > GR (TE > TR)**

(vi) **Balanced budget:** - It is a budget in which government expenditure are equal to government receipts. **i.e. DB = GE > GR (TE > TR)**

Q. What problem can fiscal deficit create or what are the implications of fiscal deficit? Explain it.

A. Fiscal deficit is estimated to know about the external borrowings by the government. It implies greater borrowings by the govt. from the Reserve Bank of India. It increases circular of money and causes Inflation.

Government also borrows from west of the world. It increases our dependence on other countries. Foreign borrowing is often associated with economic slavery.

Borrowing implies accumulation of financial burdens for the future generations. It is for the future generations to repay loans as well as the interest there on. Further payment of interest increase revenue expenditure of the govt. causing an increase in its revenue deficit. Thus a vicious circle sets in where in deficits multiply borrowing. In view of this alarming situation, fiscal deficit must not be encouraged. Otherwise, it will lead to Debt-trap.

Q. What are the implications of revenue deficit? Explain it.

A. High revenue deficit gives a warning to the government either to cut its expenditure or increase its tax/non-tax receipts.

Q. What are the implications of Primary deficit? Explain it.

A. While fiscal deficit shows borrowing requirement of the government inclusive of interest payment, Primary deficit shows borrowing requirement of the government exclusive of interest payment.

Payment of interest highlights the extent to which we are in already in a debt trap.

Q. Distinguish between Direct and Indirect Tax.

A. Tax receipts are classified into two categories: - Direct Tax and Indirect Tax.

DIRECT TAX	INDIRECT TAX
1 It is to be borne by the person whom it is imposed.	1. It is imposed on commodities.
2 The burden of direct tax cannot be shifted.	2. The burden of indirect tax can be shifted.
E.g. Income tax, wealth tax, corporate tax, gift tax.	E.g. custom duty, estate duty, sales tax.

UNIT 5

BALANCE OF PAYMENTS

Balance of payments (BoP): Meaning

“Balance of payments is an accounting statement that provides a systematic record of all the monetary or economic transactions, between Residents of a country and the rest of the world during a period of time, generally one year.”

Monetary or Economic Transactions

Visible Items (Merchandise trade)	Export and imports of goods
Invisible Items	Export and imports of services
Unilateral Transfers (Unrequited transfers)	Includes gifts, personal remittances and other one way transactions
Capital Transfers	Capital receipts through borrowing or sale of assets and Capital payments through capital repayments or purchase of assets

- Balance of payments accounting uses the ‘**Double Entry System**’ for recording the transactions with the rest of the world. Like a typical business account, BOP account also has two sides:
 - (i) **Credit side:** All inflows or sources of foreign exchange are recorded on the credit side.
 - (ii) **Debit side:** All outflows or uses of foreign exchange are recorded on debit side.
- In the accounting sense, BOP is always balanced like Trial Balance as it is prepared as per double entry system. However, in economic sense, BOP need not be always equal. It means, BOP can be:
 - **Balanced BOP:** receipts of foreign exchange = payments of foreign exchange.
 - **Surplus BOP:** receipts of foreign exchange > payments of foreign exchange.
 - **Deficit BOP:** receipts of foreign exchange < payments of foreign exchange.

Balance of Trade (BoT)

Balance of trade (BOT) refers to difference between the amounts of exports and imports of visible items (goods).

$$\text{Balance of Trade} = \text{Exports of goods} - \text{Imports of goods}$$

- Exports are entered as credit (positive) items in the BOP account, while imports are entered as debit (negative) items.
- BOT is just a part of BOP account and plays a crucial role in deciding the overall situation of BOP of a country.
- BOT is also known as ‘Balance of Visible Trade’ or ‘Trade Balance’.

- Balance on BOT can also be surplus (positive) or deficit (negative).

Surplus BOT: exports of goods > imports of goods

Deficit BOT: imports of goods > exports of goods

Components or Structure of Balance of Payments

BoP account includes: A. Current account B. Capital account C. Official reserves account

A. Current Account

*Current account records receipt and payment of foreign exchange on account of such transactions which do not impact asset – liability status of a country in relation to rest of the world. **Current account transactions do not give rise to ‘future claims’.***

Components

(i) Visible Items or Merchandise Transactions : A major part of transactions in foreign trade is in the form of export and import of goods (visible items). Payment for import of goods is written on the negative side (debit items) and receipt from exports is shown on the positive side (credit items).

- Balance of these visible exports and imports is known as balance of trade (or trade balance). Trade Balance can be of two types:
- **Trade Deficit:** It refers to the excess of the payments for imports of visible items over the value of receipts of exports of visible items.
 - **Trade Surplus:** It refers to the excess of the receipts of exports of visible items over the value of payments for imports of visible items.

(ii) Invisible items: In the invisible account, there are three broad categories namely:

(a) Non-factor Services: Non-factor services include Insurance, Travel, Transportation Banking and Shipping and miscellaneous services. Payments are either received or made to the other countries for use of these services. Payments for these services are recorded on the negative side and receipts on the positive side.

(b) Current Transfers (Unilateral transfers): Unilateral transfers include gifts, donations, personal remittances and other ‘one-way’ transactions. These refer to those receipts and payments, which do not involve any value in exchange. Receipt of unilateral transfers from rest of the world is shown on the credit side and unilateral transfers to rest of the world on the debit side.

(c) Income: Under income, two types of transactions are recorded namely, compensation of employees and investment income. Investment income covers receipts and payments of dividends and profits on foreign investment, and receipts and payments of interest and other income.

Balance Related to Current Account

The net value of credit and debit balance is the balance on current account.

- **Current Account Surplus (CAS)** arises when credit items are more than debit items. It indicates net inflow of foreign exchange. CAS signifies that the nation is a lender to the rest of the world.
- **Current Account Deficit (CAD)** arises when debit items are more than credit items, i.e. when foreign exchange receipts in the current account fall short of foreign exchange payments, it leads to current account deficit. It indicates net outflow of foreign exchange. CAD signifies that the nation is a borrower from rest of the world.

i. Trade Balance or Merchandise Balance

= Export - Imports

ii. Goods and Services Balance

= Trade Balance + Balance on account of non-factor services

iii. Invisible Balance

= Balance on account of non-factor services + balance on Income + balance on current transfers

iv. Current Account Balance

= Trade Balance + Invisible Balance

B. Capital Account

Capital account of BOP records all those transactions, between the residents of a country and the rest of the world, which cause a change in the assets or liabilities of the residents of the country or its government. It is related to Future claims and liabilities of financial nature.

- ⊙ *Export and import of capital goods, like plant and machinery*
Should such transactions be included in the capital account? 'No'. Export and import of all types of goods (consumer goods or capital goods) is recorded as 'merchandise' or 'visible trade' in the current account of BoP.
- Capital account is concerned with financial transfers. So, **it does not have direct effect on income, output and employment of the country.**

Components

Principal components of capital account are:

(i) Borrowing : Borrowing is split as: (a) External commercial borrowing: external commercial borrowing is available at the market rate of interest (in the international money market) (b) External assistance Components of Capital Account : external assistance is available at the concessional rate of interest.

Borrowings from rest of the world are recorded on the positive (credit) side. Borrowings of rest of the world or lending to abroad are recorded as negative or debit item.

(ii) Foreign Investment : Foreign Investment is split as (a) Portfolio Investment : Relates to foreign institutional investment (FII). It is investment by rest of the world in shares and bonds of the domestic companies. (b) Foreign Direct Investment (FDI): Relates to ownership of enterprises (in the domestic economy) by rest of the world. Example: Walmart stores in India

Other Component of capital account are :

(iii) **NRI Deposits:-** NRI deposits is also a significant constituent of capital account. Only such NRI deposits are to be considered which are made in the domestic economy. Thus, non-resident Indian should make deposit in India.

(iv) **Banking Capital (other than NRI deposits):** Banking capital Transactions includes movement in the external financial assets and liabilities of those banks (commercial banks converting their foreign assets into liquidity) which are authorized to deal in the foreign exchange.

(v) **Short- term Trade Credit:-** Short- term Trade Credit arises on account of purchases in the International market without making immediate payment. Repayment of short term debt to rest of the world leads to outflow of foreign exchange to rest of the world.

Balance related to Capital Account : Balance related to Capital Account is estimated as the net of positive and negative values.

Errors and Omissions: In addition to current account and capital account, there is one more element in BOP, known as 'Errors and Omissions'. It is the balancing item, which reflects the inability to record all international transactions accurately.

Overall Balance: In the Indian BoP accounting system , overall balance is estimated as the sum total of (i) current account balance , (ii) capital account balance, and (iii) errors and omissions (accounting for statistical discrepancies) .

C. Official Reserves Account (Indicating Reserves of Forex with the RBI)

The overall balance is finally reflected in the Official Reserves Account of the RBI . Because, RBI is the custodian of forex reserves of the country, and all forex transactions in the country are routed through the RBI .

Sometimes , **Official Reserves Account is shown as a part of the capital account BoP, rather than a separate account. If official reserves are shown as a part of the capital account BoP, then BoP always balances .**

This item in BoP accounts always shows **change in official reserves** (increase or decrease). It never shows total official reserves.

If overall balance is positive , it causes increase in official reserves ; if overall balance is negative , it causes decrease in official reserves .

Increase in official reserves is indicated by a '-' negative sign, while the decrease is indicated by a '+' positive sign .This is only then that the BoP account would reflect a perfect balance (= O).

➤ BoP always balances when official reserves account is a part of capital account.

- In case, Official Reserves are not shown as a part of the capital account, the Official Reserves Account is separately presented and classified as "Below the Line". In such situations, the current and capital accounts together may show a surplus or deficit BoP.

Equilibrium and Disequilibrium in Balance of Payments

Equilibrium in the BOP :- In a state of BoP equilibrium inward flow of foreign exchange (on account of current account and capital account transactions) is exactly equal to the outward flow of foreign exchange and there is no change in official reserves (of foreign exchange and gold) with the central bank of the country.

current account balance + capital account balance =Zero, and there is no movement (increase/decrease)of the official reserves.

Disequilibrium in the BOP:- Disequilibrium in BoP occurs when the sum total of current account balance and capital account balance is not zero instead it is either some positive number or some negative number. It causes the movement of official reserves.

Current account balance + capital account balance is NOT equal to zero and it causes the movement of official reserves

Balance of Payments Surplus:- current account balance + capital account balance is some positive number pointing to net inward flow of foreign exchange and leading to an increase in official reserves.

Balance of Payments Deficit: current account balance + capital account balance is some negative number pointing to net outward flow of foreign exchange and leading to a decrease in official reserves.

Autonomous and Accommodating Items of BoP: Items in the BOP account can be also classified into two categories viz. Autonomous or above the line items and Accommodating or below the line items

	Autonomous Items	Accommodating Items
Meaning	Autonomous items refer to those international economic transactions which take place due to some economic motive such as profit maximization.	Accommodating items refers to the transactions that are undertaken to cover deficit or surplus in autonomous transactions.
Effect on BoP account	<p>Autonomous items are cause of BOP imbalance (BoP surplus or deficit)</p> <ul style="list-style-type: none"> ➤ BoP surplus: autonomous receipts > autonomous payment ➤ BoP deficit: autonomous receipts < autonomous 	Accommodating items are compensating capital transactions which are meant to correct BoP imbalance.

	<p>payment</p> <p>Autonomous transactions are independent of the state of BoP account</p>	
Current and capital account	Autonomous transactions take place on both current and capital accounts	Accommodating transaction take place only on capital account Accommodating items relate only to the movement of official reserves with a view to correcting BoP imbalances.
Alternate names	These items are also known as above the line items	These items are also known as below the line items
Example	Merchandise exports and imports of goods, receipts and repayments of long term loans by private individuals.	Borrowing from IMF or foreign monetary authorities to cover BOP deficit and foreign exchange reserves.

FOREIGN EXCHANGE RATE

Definition: Foreign exchange rate is the price at which one currency can be converted into another.

It represents the rate at which domestic currency can be exchanged for a foreign currency. It is also called 'external value of the domestic currency'.

Example: If one U.S dollar exchanges for 70 Indian rupees or \$ 1 = 70, then the rate of exchange or the value of rupees 1 is

$$1 \text{ Rs} = 1/70 \text{ U.S. Dollar}$$

$$1 \text{ Rupees} = 0.0143 \text{ U.S. dollar.}$$

Types of Foreign Exchange Rate

1) Flexible Exchange Rate: (also called floating rate of exchange or free exchange rate)

Flexible exchange rate is that rate which is determined by forces of demand and supply of different currencies in the foreign exchange market.

- The value of currency is allowed to fluctuate freely according to changes in demand and supply of foreign exchange.
- There is no official (Government) intervention in the foreign exchange market.

Merits of flexible exchange rate system

- a) It eliminates the problem of overvaluation or undervaluation of currencies, Deficit or surplus in balance of payments is automatically corrected under this system.
- b) It frees the government from problem of balance of payments.
- c) There is no need for the government to hold any reserves.
- d) It enhances the efficiency in the economy by achieving optimum resource allocation.

Demerits of flexible exchange rate system

- a) It creates situations of instability and uncertainty. Wide fluctuations in exchange rate are possible. This hampers foreign trade and capital movements between countries.
- b) It encourages speculation which may lead to larger uncertainties and fluctuations.
- c) The uncertainty caused by currency fluctuations can discourage international trade and investment.

2. Fixed Exchange Rate

Fixed exchange rate is the rate which is officially fixed and maintained by the government or monetary authority and not determined by market forces.

The government may set it at a level higher or lower than the equilibrium exchange rate as determined by the market forces of demand and supply.

To maintain the fixed rate of exchange at a particular level government needs to keep a large stock of foreign exchange.

Merits of fixed exchange rate:

- (i) It ensures stability in exchange rate which encourages foreign trade
- (ii) It contributes to the coordination of macro policies of countries in an interdependent world economy
- (iii) Fixed exchange rate ensures that major economic disturbances in the member countries do not occur,
- (iv) It prevents capital outflow
- (v) Fixed exchange rates are more conducive to expansion of world trade because it prevents risk and uncertainty in transactions
- (vi) It prevents speculation in foreign exchange market.

Demerits of fixed exchange rate:

(i) Fear of devaluation. In a situation of excess demand, central bank uses its reserves to maintain foreign exchange rate. But when reserves are exhausted and excess demand still persists, government is compelled to devalue domestic currency. If speculators believe that exchange rate cannot be held for long, they buy foreign exchange in massive amount causing deficit in balance of payment. This may lead to larger devaluation. This is the main flaw or demerit of fixed exchange rate system

- (ii) Benefits of free markets are deprived
- (iii) There is always possibility of under-valuation or over-valuation.

Gold Standard System of Exchange Rate- An Old Variant of Fixed Exchange Rate System

Fixed exchange rate is not determined by the forces of demand and supply in the market. Such a rate of exchange has been associated with Gold Standard System during 1880-1914.

According to this system, gold was taken as the common unit of parity between currencies of different countries. According to this system, value of every currency is determined in terms of gold.

Accordingly, ratio between gold values of the two countries was fixed as exchange rate between those currencies.

For example, if UK £ (Pound) = 4 gm of gold and US \$ (Dollar) = 2 gm gold; then

$$1 \text{ UK } \pounds \text{ (Pound)} = 2 \text{ US } \$ \text{ (Dollar)}$$

Exchange ratio between UK £ and US \$ = 1:2 (two US Dollars would exchange for 1 UK Pound.)

This system of exchange was also known as '**Mint Par Value of Exchange or Mint Parity**'. Mint value of a currency implied gold value of that currency.

Bretton Woods System of Exchange Rate or Adjustable Peg System of Exchange Rate

The Bretton Woods Conference held in 1944 set up the International Monetary Fund (IMF) and the World Bank and re-established a system of fixed exchange rates.

Bretton Woods System (even when it was a fixed system of exchange rate) allowed some adjustments. So, it was called 'adjustable peg system of exchange rate'. According to this system,

(i) Different currencies were pegged (or related) to one currency, that is US dollar. (ii) US dollar was assigned gold value at a fixed price. (iii) Value of one currency in terms of US dollar ultimately implied value of that currency in terms of gold. (iv) Gold continued to be the ultimate unit of parity between any two currencies. (v) Adjustment in the parity value of a currency was possible but only if allowed by IMF {International Monetary Fund}.

3. Managed Floating Rate

Managed Floating Rate is the rate which is determined by market forces and central bank influences the exchange rate through intervention in the foreign exchange market.

Managed Floating Rate is a hybrid of a fixed exchange rate (the managed part) and a flexible exchange rate (the float part).

In this system, central bank intervenes in the foreign exchange market to restrict the fluctuations in the exchange rate within certain limits. The aim is to keep exchange rate close to desired target values. For this, central bank maintains reserves of foreign exchange to ensure that the exchange rate stays within the targeted value.

It is also known as 'Dirty Floating'.

Depreciation vs. Devaluation

Depreciation of the (domestic) currency occurs when the value of the domestic currency reduces in the international money market because of the market forces of supply and demand under flexible exchange rate system. The government plays no role whatsoever.

Devaluation of the (domestic) currency occurs when the value of the domestic currency deliberately reduced by government by raising the exchange rate fixed exchange rate system . The market forces of supply and demand plays no role whatsoever.

Common effects of Depreciation & Devaluation

- Increase in Exports
- Decrease in Imports
- Increase in National Income

Appreciation vs. Revaluation

Appreciation of the (domestic) currency occurs when the value of domestic currency rises in international money market because of the market forces of supply and demand under flexible exchange rate system. The government plays no role whatsoever.

Revaluation of the (domestic) currency occurs when the value of domestic currency is deliberately raised by the government by lowering the exchange rate under fixed exchange rate system .The market forces of supply and demand plays no role whatsoever.

Common effects of Appreciation & Revaluation

- Increase in Imports
- Decrease in Exports
- Decrease in National Income

Determination of Flexible Exchange Rate (Determination of Exchange Rate in a Free Market)

Demand for and supply of foreign exchange, are two basic determinants of flexible exchange rate.

A. Demand for foreign exchange: The demand (or outflow) of foreign exchange comes from those people who need it to make payment in foreign currency. It is demanded by the domestic residents for the following reasons:

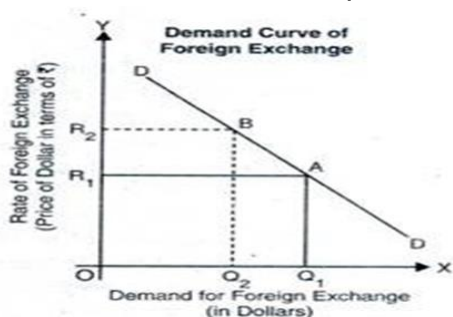
- Imports of Goods and Services:** Foreign Exchange is demanded to make the payment for imports of goods and services.
- Tourism:** Foreign exchange is needed to meet expenditure incurred in foreign tours.

- c. **Remittances or Unilateral Transfers sent abroad:** Foreign exchange is required for making unilateral transfers like sending gifts to other countries.
- d. **Purchase of Assets in Foreign Countries:** It is demanded to make payment for purchase of assets, like land, shares, bonds, etc. in the foreign countries.
- e. **Speculation:** Demand for foreign exchange arises when people want to make gains -from appreciation of currency.

Reasons for 'Rise in Demand' For Foreign Currency

- a. When price of a foreign currency falls, imports from that foreign country become cheaper. So, imports increase and hence, the demand for foreign currency rises.
For example, if price of 1 US dollar falls from Rs 50 to Rs 45, then imports from USA will increase as American goods will become relatively cheaper. It will raise the demand for US dollars.
- b. When a foreign currency becomes cheaper in terms of the domestic currency, it promotes tourism to that country. As a result, demand for foreign currency rises.
- c. When price of a foreign currency falls, its demand rises as more people want to make gains from speculative activities.

Demand Curve of Foreign Exchange: Demand curve of foreign exchange slope downwards due to inverse relationship between demand for foreign exchange and foreign exchange rate.



The negatively sloped demand curve (DD) shows that more foreign exchange (OQ1) is demanded at a low rate of exchange (OR1), whereas, demand for US dollars falls to OQ2 when the exchange rate rises to OR2.

B. Supply of Foreign Exchange : The supply (inflow) of foreign exchange comes from those people who receive it due to following reasons.

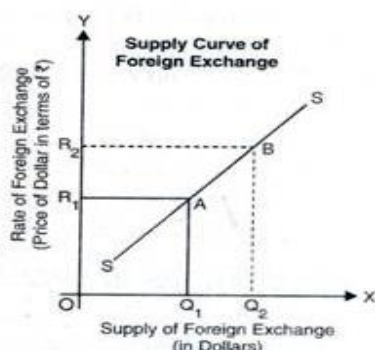
- a. **Exports of Goods and Services:** Supply of foreign exchange comes through exports of goods and services
- b. **Foreign Investment:** The amount, which foreigners invest in the home country, increases the supply of foreign exchange
- c. **Remittances (Unilateral transfers) from abroad:** Supply of foreign exchange increases in the form of gifts and other remittances from abroad.
- d. **Speculation:** Supply of foreign exchange comes from those who want to speculate on the value of foreign exchange.

Reasons for 'Rise in Supply' of Foreign Currency

- a. When price of a foreign currency rises, domestic goods become relatively cheaper. It induces the foreign country to increase their imports from the domestic country. As a result, supply of foreign currency rises.
For example, if price of 1 US dollar rises from Rs 45 to Rs 50, then exports to USA will increase as Indian goods will become relatively cheaper. It will raise the supply of US dollars.

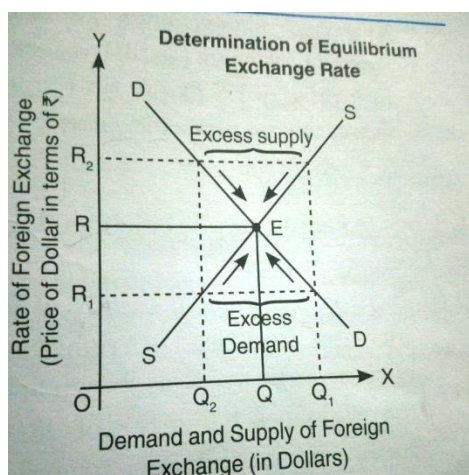
- b. When price of a foreign currency rises, supply of foreign currency rises as people want to make gains from speculative activities.

Supply Curve of Foreign Exchange : Supply curve of foreign exchange slope upwards due to positive relationship between supply of foreign exchange and foreign exchange rate.



The positively sloped supply curve (SS) shows that supply of foreign exchange rises from OQ_1 to OQ_2 when the exchange rate rises from OR_1 to OR_2 .

Determination of exchange rate : The equilibrium exchange rate is determined at a level where demand for foreign exchange is equal to the supply of foreign exchange.



DD is the downward sloping demand curve of foreign exchange and SS is the upward sloping supply curve of foreign exchange.

Both the curves intersect each other at point 'E'.

The equilibrium exchange rate is determined at OR and equilibrium quantity is determined at OQ .

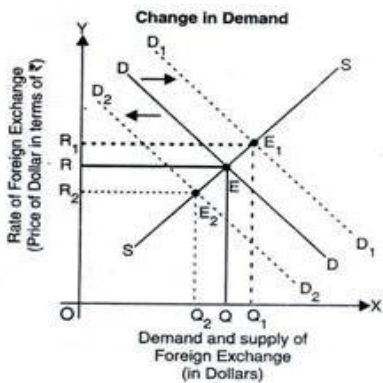
Any Exchange Rate (Other Than OR) Is Not the Equilibrium Exchange Rate

- ⊙ If the exchange rate rises to OR_2 , then demand for foreign exchange will fall to OQ_2 and supply will rise to OQ_1 . It will be a situation of excess supply. As a result, exchange rate will fall till it again reaches the equilibrium level of OR .
- ⊙ If exchange rate falls to OR_1 , then demand will rise to OQ_1 and supply will fall to OQ_2 . It will be a case of excess demand. It will push up the exchange rate till it reaches OR .

Changes in Exchange Rate : The equilibrium exchange rate will be disturbed if some changes occur in the demand or supply of foreign exchange

A. Due to Change in Demand :

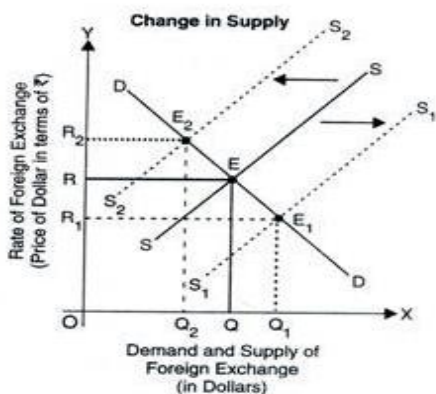
Increase in Demand: An increase in demand for foreign exchange will shift the demand curve towards right from DD to D_1D_1 . In Fig., there is an excess demand of QQ_1 at the original exchange rate of OR . As a result, the exchange rate rises to OR_1 . It shows that **per unit price of US Dollar (in terms of rupees) has increased, i.e. domestic currency has depreciated.**



Decrease in Demand: A decrease in demand will shift the demand curve towards left from DD to D2D2. It leads to deficit demand of QQ2 at the original exchange rate of OR. As a result, exchange rate will fall till it reaches OR2. Now, **per unit price of US Dollar (in terms of rupees) has decreased, i.e. domestic currency has appreciated.**

B. Due to Change in Supply: Change in supply may be either an 'Increase in Supply' or 'Decrease in Supply'.

Increase in Supply: If supply of foreign exchange increases, it will lead to a rightward shift in supply curve from SS to S1S1 as shown in Fig. Now, at the original exchange rate of OR, there is an excess supply, of QQ1. As a result, the new exchange rate moves down to OR1. This implies that **per unit price of US Dollar (in terms of rupees) has reduced, i.e. domestic currency has appreciated.**



Decrease in Supply : A decrease in supply will shift the supply curve towards left from SS to S2S2. It leads to deficit supply of QQ2 at the original exchange rate of OR. This will increase the exchange rate till it reaches OR2. So, **per unit price of US Dollar (in terms of rupees) has increased and, thus, the domestic currency has depreciated.**

Questions:

1. Name the broad categories of transactions recorded in the capital account of the balance of payment accounts.

2. Name the broad categories of transaction recorded in the current account of the balance of payments account.
3. In which sub-account and on which side of balance of payments account, will foreign investment in India be recorded? Give reason. What will be the effect of foreign investment in India on exchange rate? Explain.
4. Distinguish between autonomous items and accommodating items.
5. Differentiate between the concepts of 'demand for domestic goods and services' and 'domestic demand for goods and services'.
6. Distinguish between Current Account Deficit and Current Account Surplus.
7. Distinguish between trade deficit and current account deficit.
8. 'Recently Indian rupee has depreciated significantly. This has led to distress for Indian importers'. Defend or refute the given statement with valid reasons.
9. Explain the relationship between fall in price of US dollar and its demand.
10. Define 'Trade surplus'. How is it different from 'Current Account Surplus' ?
11. Why does demand for foreign currency fall and supply rise when its price rises? Explain.
12. Discuss briefly the meaning of :
 - i. Fixed Exchange rate
 - ii. Flexible Exchange Rate
 - iii. Managed Floating Exchange rate
13. Trade deficit must exist if a country is facing a situation of current account deficit defend or refute the statement, with valid arguments.
14. "US dollar has recorded a jump of 0.75 paise per dollar in the last one month, this situation might bring smiles and sorrows to different types of traders (exporter and importers). Justify the given statement.
15. Recently Government of India has doubled the import duty on gold. What impact is it likely to have on foreign exchange rate and how?
16. Visits to foreign countries for sightseeing etc. by the people of India is on the rise. What will be its likely impact on foreign exchange rate and how?
17. How does giving incentive for exports influence foreign exchange rate? Explain.

18. "India is taking huge leaps in the index of Ease of Doing Business, as a result many MNCs are shifting their production base to India.". In the light of the above statement ,comment upon the flow of foreign exchange and its likely impact on the Indian economy.

Reference:

- Garg Sandeep "Introductory Macroeconomics" Dhanpat Rai Publications Ltd.
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Unit 6: Development experience (1947-90) and economic reforms since 1991

KEY CONCEPTS:

1. **Economy:** Economy of a country includes all production, distribution or economic activities that relate with people and determines the standard of living.
2. **Indian Economy on the eve of independence:** On the eve of independence, Indian Economy was in a very bad condition due to the exploitative policies of British colonial rule.
3. **India's National and Per Capita Income under Colonial Rule:** There were no efforts from the part of the colonial government to measure the national and per capita income of India. Some individual attempts were made to measure such incomes but produced conflicting and inconsistent results.

The contributions of VKRV Rao and Dadabhai Naoroji are considered very significant in this context.

4. **State/Features of Agriculture Sector:** Agriculture was the main source of livelihood for most of the people of India, and about 75% Of the country's population lived mostly in villages and derived livelihood directly or indirectly from agriculture.

Indian agriculture at the time of independence was marked with the following features

- (i) Low level of productivity
 - (ii) High degree of vulnerability
5. **State/Features of Industrial Sector:** Britishers followed a policy of systematic de-industrialisation by creating circumstances conducive to the decay of handicraft industry and not taking any steps to promote modern industry and reduced India to a mere exporter of raw material and importer of finished goods. The following points bring forward the state of the industrial sector at the eve of independence:

- (i) Decay Of handicraft industry
- (ii) Slow growth of modern industry

6. **State/Features of Foreign Trade:** India has been an important trading nation, since ancient times. But when the restrictive policies of commodity production, trade and tariff were imposed by the colonial government, it adversely affected the structure, composition and volume of India's foreign trade.

Following were the reasons behind the poor growth of foreign trade

- (i) Exporter of primary products and importer of finished goods.
- (ii) Britain's monopoly control over foreign trade.

7. **State of Occupational Structure:** During the colonial period, the occupational structure of India exhibited backwardness.

The agricultural sector accounted for the largest share of the workforce which remained at a high of 70-75% Of the workforce and the manufacturing and service sectors accounted for only 10 and 15-20%, respectively.

8. **State of Infrastructure:** Infrastructure comprises of such industries which help in the growth of other industries.

Under the colonial period, basic infrastructure such as railways, ports, water, air transport, post and telegraphs were developed.

9. **Demographic Condition:** Various details about the population of British India were first collected through a census in 1881. Before 1921, India was in the first stage of demographic transition. The second stage began after 1921.

10. **Positive contribution of British rule –** (i) Commercial Outlook of the Farmers (ii) Better means of transportation, (iii) Control on famines, (iv) Shift to monetary economy, and (v) Effective administration set up.

11. **Economic System:** It is defined as an arrangement by which the central problems of an economy are solved.

The three basic central problems of an economic system are

- (i) Choice of goods to be produced
- (ii) Choice of technology of production
- (iii) Distribution of goods and services

12. **Types of Economic Systems:**

(i) **Socialist Economy:** It is an economic system in which all economic decisions are taken by the government.

In this system, the government decides what goods are to be produced in accordance with the needs of society, how goods are to be produced and how they should be distributed. Socialist economy promotes equitable distribution of income. However, it also suffers from the drawbacks of a bureaucratic set-up in the form of red-tapism and corruption. In Cuba and China, most of the economic activities are governed by the socialistic principles.

(ii) **Capitalist Economy:** It depends upon the market forces of demand and supply.

In this type of economy, only those consumer goods will be produced that have good demand in the market and yield profit to the producers. In this economy, the goods and services produced are distributed among people not on the basis of what people need but on the basis of purchasing power.

Capitalist economy is also called *laissez faire* or free market economy. It exists in North America, Japan, Australia, Western Europe, etc.

(iii) **Mixed Economy:** It is an economic system in which public sector and private sector exist side by side. In this economy, the market will provide whatever goods and services it can produce well and the government will provide essential goods and services which the market fails to provide. India follows this economic system.

13. **Economic Planning:** It is a process by which a central authority of a country defines a set of goals to be achieved within a specified period, sets out a plan to achieve those goals, keeping in view the country's resources.

14. **Five Year Plans:** In India, planning was launched as a five yearly exercise, therefore it came to be popularly known as 'five Year Plans'.

15. **Common Goals Of Five Year Plans:** All the Five Year Plans were formulated keeping the below objectives in mind

- (i) Growth
- (ii) Modernisation
- (iii) Self-reliance
- (iv) Equity

16. **Agriculture:** Equity in agriculture called for (a) land reforms which primarily refer to change in the ownership of landholdings (b) Land ceiling which means fixing the maximum size of land which could be owned by an individual.

Green revolution refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice. The spread of green revolution technology enabled India to achieve self-sufficiency in food grains, the price of food grains declined, shifts from subsistence to commercial farming, increase in crop productivity.

The portion of agricultural produce which is sold in the market by the farmers is called **marketed surplus**.

The Debate Over Subsidies:

Points in favour of agricultural subsidy:

- 1) It provides an incentive for adoption of the new HYV technology by farmers in general and small farmers in particular.
- 2) Eliminating subsidies will increase the inequality between rich and poor farmers.

17. Need for public sector:

- 1) Indian industrialists did not have the capital to undertake investment in industrial ventures.
- 2) The market was not big enough to encourage industrialists to undertake major projects.
- 3) To develop the Indian economy on socialist lines led to the policy of the government controlling the commanding heights of the economy.

18. Industrial Policy Resolution 1956 (IPR 1956):

Main features

Industries were classified into three categories:

The first category comprised industries which would be exclusively owned by the government; the second category consisted of industries in which the private sector could supplement the efforts of the public sector, the third category consisted of the remaining industries which were to be in the private sector.

The private sector was kept under state control through a system of licenses. This was to promote regional equality.

The production of a number of products was reserved for the small-scale industry

In 1955, the Village and Small-Scale Industries Committee, also called the Karve Committee, noted the possibility of using small-scale industries for promoting rural development. In 1950 a small -scale industrial unit was one which invested a maximum of rupees five lakh; at present the maximum investment allowed is rupees one crore.

Small-scale industries are more labour intensive, has locational flexibility, requires less investment.

ECONOMIC REFORMS SINCE 1991

Economic reforms refer to a set of economic policies directed to accelerate the pace of “growth and development”.

NEED FOR NEW ECONOMIC POLICY:- 1. High fiscal deficit:- fiscal deficit estimated to be 5.4 per cent of GDP in 1981-82 and its shot up to 8.4 per cent in 1990-91. It is led to a “Dept trap”

1. Adverse balance of payment: - BOP in 1980-81 was Rs. 2,214 crore and in 1990-91 it shot up to Rs. 17,367 crore. Borrowing from ROW 12% of GDP in 1980-81 shot up 23% of GDP in 1990-91 .
2. Fall in Foreign exchange reserves :- In 1990-91 , India Forex fell to such a low level that was not adequate to pay for an import bill of even 10 days.
3. Rise in price/ Inflation :- The rate of inflation was 16.7% in 1990-91
4. Poor performance of public sector undertakings
6. Inefficient management.

ELEMENTS OF NEW ECONOMIC POLICY (LPG)

Three main elements of NEP: 1.Liberalisation 2.Privatisation 3.Globalisation.

LIBERALISATION

“Freedom of the economy from the direct controls imposed by the Government”

Reform under liberalization : 1. **INDUSTRIAL SECTOR REFORMS** :- (I) Abolition of industrial licensing : Industrial licensing was abolished for almost all but product categories — alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace and drugs and

pharma-ceuticals. - (ii) Decrease in role of public sector:- The only industries which are now reserved for the public sector are a part of defense equipment, atomic energy generation and railway transport. (iii) De-reservation of production by small scale industries:- Many goods produced by small-scale industries have now been dereserved. (iv) Freedom to import capital goods (v) Expansion of production capacity (vi) In many industries, the market has been allowed to determine the prices.

2. FINANCIAL SECTOR REFORMS :- Financial sector includes (a) Banking and nonbanking financial institutions (b) Stock exchange market (c) Foreign exchange market . The various reforms are :- (i) Role of RBI :- The financial sector in India is regulated by the Reserve Bank of India (RBI). All banks and other financial institutions in India are regulated through various norms and regulations of the RBI. One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take

decisions on many matters without consulting the RBI . (ii) establishment of private sector banks :- The reform policies led to the establishment of private sector banks, Indian as well as foreign.

(iii) Foreign investment :- Foreign investment limit in banks was raised to around 50 per cent. (iv) Foreign Institutional Investors (FII):- such as merchant bankers, mutual funds and pension funds, are now allowed to invest in Indian financial markets.

3.FISCAL REFORM(Tax Reforms) :- Tax reforms are concerned with the reforms in the government's taxation and public expenditure policies, which are collectively known as its fiscal policy. (i) Reduction in direct taxes: -Since 1991, there has been a continuous reduction in the taxes on individual incomes as it was felt that high rates of income tax were an important reason for tax evasion. It is now widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income. (ii) Reform of indirect taxes (GST):Recently, the Parliament passed a law, Goods and Services Tax Act 2016, to simplify and introduce a unified indirect tax system in India. This law came into effect from July 2017.

This is expected to generate additional revenue for the government, reduce tax evasion and create 'one nation, one tax and one market'. (iii) simplification of tax- paying procedure

4. FOREIGN EXCHANGE REFORMS:- (I) Devaluation of rupee:- The first important reform in the external sector was made in the foreign exchange market. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange. (ii) Foreign exchange reforms:- markets determine exchange rates based on the demand and supply of foreign exchange. (iii)Foreign trade policy:- Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy. The aim was also to promote the efficiency of local industries and adoption of modern technologies. The trade policy reforms aimed at (i) dismantling of quantitative restrictions on imports and exports (ii) reduction of tariff rates and (iii) removal of licensing procedures for imports.

Salient features of trade policy after liberalisation :- (i) Import quotas have been abolished (ii) Import licensing has been abolished (iii) Moderation of import duty)

PRIVATISATION

"Privatisation means partial or full ownership and management of public sector enterprises by the private sector "It implies shedding of the ownership or management of a government owned enterprise. It may happen in two ways: - 1.Outright of the Govt. enterprises to the private entrepreneurs (OR) 2. Withdrawal of the Govt. ownership and management the mixed enterprise . **Disinvestment:** Privatisation of the public sector enterprises by selling off part of the

equity of PSEs to the public is known as disinvestment. The purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernisation.

NEED FOR PRIVATISATION :- Because of poor performance of PSUs note the following observations in this regard : (i) Key role to the PSUs during 2nd five year plan (ii) The IPR (1956) clearly stated the significance of PSUs in process of growth and development (iii) It was on account of the spread of PSUs that the Indian economy underwent a structural transformation (iv) Mounting losses of PSUs became unsustainable (v) In 1991, the Govt. decided to phase out public enterprises by selling its equity to the private enterprises (vi) In view of their efficient performance Navratnas were to be retained as PSUs .

NAVRATNAS : Navratnas refer to nine such profit making companies , these nine industries :- (i) IOC (ii) BPCL (iii) ONGC (iv) SAIL (v) BHEL (vi) IPCL (vii) VSNL (viii) NTPC (ix) HPCL

MAHARATNAS :- In 2009, the Govt. also started according maharatna status : (i) CIL (ii) IOC (iii) NTPC (iv) ONGC (v) SAIL (vi) BHEL (vii) GAIL (viii) BPCL **MINIRATNAS** :- Recently, yet another status called Miniratna has been created to encourage PSUs to improve efficiency . 75 PSUs have been awarded Miniratna status.

POSITIVE AND NEGATIVE IMPACT OF PRIVATISATION :- POSITIVE IMPACT :-

1. Improve the efficiency of management 2. Financial discipline 3. Reduction of deficit 4. Competitiveness 5. Diversification of production 6. Increase in foreign direct investment (FDI)

NEGATIVE IMPACT:- 1. Neglect of social interest 2 Highly priced goods 3. Monopoly control 4. Not achieving the objective of the full employment.

GLOBALISATION:"Globalisation is generally understood to mean integration of the economy of the country with the world Economy" It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration.

Outsourcing: In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country (like legal advice, computer service, advertisement, security — each provided by respective departments of the company. As a form of economic activity, outsourcing has intensified, in recent times, because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). Many of the services such as voice-based business processes (popularly known as BPO or call centres), record keeping, accountancy, banking services, music recording, film editing, book transcription, clinical advice or even teaching are being outsourced by companies in developed countries to India.

World Trade Organisation (WTO):- The WTO was founded in 1995 as the successor organisation to the General Agreement on Trade and Tariff (GATT). GATT was established in 1948 with 23 countries as the global trade organization to administer all multilateral trade agreements by providing equal opportunities to all countries in the international market for trading purposes.

POLICY STRATEGIES UNDERTAKEN PROMOTING GLOBALISATION OF

THE INDIAN ECONOMY:- 1. Long term trade policy(Removal of controls on foreign trade) – (A new 5 year foreign trade policy was announced, All restrictions and controls on foreign trade have been removed) 2. Rise in equity limit of foreign investment (equity limit of foreign capital has been raised from 40% and new range between 51 to 100%) 3. Convertibility of Indian rupee (sale and purchase of foreign currency at the price determined by the market , convertibility of Indian rupee has been allowed : export and import of goods & service ,Payment of interest) 4. Reduction of tariffs (Tariff barriers have been withdrawal most of goods traded between India and ROW)5. Devaluation of rupee (Devaluation of rupee in July 1991 by nearly 20%, to encouraged export and discouraged import) 6. Withdrawal of quantities restrictions.

INDIAN ECONOMY DURING REFORMS: AN ASSESSMENT/AN APPRAISAL OF LPG POLICE (ARGUMENTS IN FAVOUR/ MERITS OF ECONOMIC REFORMS/LPG

1. Increase in growth rate of the economy:- The growth of GDP increased from 5.6 per cent during 1980–91 to 8.2 per cent during 2007–12. During the reform period, the growth of agriculture has declined. While the industrial sector reported fluctuation, the growth of the service sector has gone up.

2. Increase foreign direct investment (FDI) and foreign institutional investment (FII): has increased from about US \$100 million in 1990-91 to US \$ 36 billion in 2016-17. There has been an increase in the foreign exchange reserves from about US \$ 6 billion in 1990-91 to about US \$ 321 billion in 2014-15. **3. A check on inflation** **4. Growth and Employment:** Though the GDP growth rate has increased in the reform period, scholars point out that the reform-led growth has not generated sufficient employment opportunities in the country.

DEMERITS OF LPG POLICY/ ECONOMIC REFORMS :- 1. Adverse effect on agriculture

2. Low level of industrial growth 3. Economic colonialism 4. Cultural erosion 5. Spread of consumerism.

CONCLUSION (Critically Examine) of ECONOMIC REFORMS: - The process of globalisation through Liberalisation and privatisation policies have produced positive, as well as, negative results both for India and other countries.

1. Some scholars argue that globalisation should be seen as an opportunity in terms of greater access to global markets, high technology and increased possibility of large industries of developing countries to become important players in the international arena. **2.** On the contrary, the critics argue that globalisation is a strategy of the developed countries to expand their markets in other countries. According to them, it has compromised the welfare and identity of people belonging to poor countries.

DEMONETISATION :- “ Demonetisation refers to withdrawal of the status of ‘ legal tender’ to the currency in circulation” (Demonetisation notes of Rs. 500 & 1000 with immediate effect on 08 Nov. 2016)

FINANCIAL INCLUSION: - 1. People could deposit Rs. 500 & 1000 banned notes in the banks 2. Millions of the people opened their bank accounts to deposit their cash transactions 3. As those who were not used to banking, started participating in the organized financial system of the country.

WAS DEMONETISATION A GOOD POLICY DECISION? / Impact on the money supply of economy: - Its pros and cons 1. It was a good move because it induced people shift to the digital mode of transactions 2. Its improved the degree of financial inclusion in the economy 3. It moves as it unearthed the stock of black money in the economy 4. Reducing levels of corruption 5. It will lead to money supply contraction in the form of cash **DEMERITS:-** 1. It led to a severe cash crunch in our cash-sensitive economy 2. Fall in production activity 3. Fall (dent) in GDP growth 3. Opportunities of employment were also deeply hurt .

GOODS AND SERVICE TAX :- GST which was implemented from 1st July 2017. “ GST is one tax replacing all indirect taxes in the economy”. Also, it is a uniform tax across all part of country ‘one tax, one nation, one market’ **TYPES OF GST IN INDIA:** - 03 types CGST,

SGST, IGST(INTEGRATED G & S inter – state trade) AND UTGST . **GST SLAB:** - 0% (zero) or exempt category, It includes items of common man consumption (three items exempted from the GST- Common salt, Health service, Educational services).

04 slabs GST :- (i) 5% GST category (This includes of mass consumption, such a medicines, tea, sugar) (ii) 12% GST category (This includes computers, processed food) (iii) 18% GST category (This includes hair oil, toothpaste, soaps, pasta, cakes) (iv) 28% GST category, This is the highest GST (This includes luxury items)

HOW GOOD IS A SYSTEM OF GST AS COMPARED TO OLD TAX SYSTEM? :-

GST is the ‘ single comprehensive indirect tax’ on supply of goods and services right from manufacturer to the consumer. **GST COMPARED TO THE OLD TAX SYSTEM**

**ONE MARK QUESTIONS AND ANSWERS:
MCQ**

1-The Indian economy on the eve of Independence was:

- (a) Developed
- (b) Underdeveloped
- (c) Stagnant
- (d) Both (b) and (c)

Answer(d) Both (b) and (c)

2- Farming which focuses on basic needs of the family is called:

- (a) Stagnant farming
- (b) Subsistence farming
- (c) Commercial farming
- (d) None of these.

Answer: (b) Subsistence farming

3- Decay of handicrafts was caused by:

- (a) British tariff Policy
- (b) Competition from machine-made products
- (c) Change in the patterns of demand
- (d) All of these.

Answer: (d)

4- On the eve of independence, India was net exporter of:

- (a) Primary products
- (b) Industrial products
- (c) Capital goods
- (d) All of these

Answer: (a)

5-Which sector was the major contributor to GDP of the country as well as the biggest employer on the eve of independence?

- (a) Agriculture
- (b) Industry
- (c) Services
- (d) Manufacturing

Answer: (a)

6-During colonial period, India's demographic profile showed:

- (a) High birth rate
- (b) High death rate
- (c) High infant mortality rate
- (d) All of these.

Answer: (d)

7-What is meant by commercialisation of Agriculture?

- (a) Production of crop for sale in the market
- (b) Production of crop for self-consumption
- (c) Production of crop for storage
- (d) Production of crop for free distribution

Answer: (b)

8- When could a zamindars lose their rights?

- (a) When the crops failed
- (b) When the farmers do not sow the seeds
- (c) When the dates for depositing specified sums of revenue failed
- (d) When the crops weren't harvested

Answer: (c)

9-When was the Tata Iron and Steel Company incorporated?

- (a) 1910
- (b) 1904
- (c) 1913
- (d) 1907

Answer: (d)

10-During British rule, more than half of India's foreign trade was restricted to

- (a) Britain
- (b) China
- (c) USA
- (d) Japan

Answer: (a)

11-Which of the following was the cause of stagnation in the agricultural sector in the colonial period?

- (a) Land Settlement

- (b) Low Level of Technology
- (c) Negligible Use of Fertilisers
- (d) All of the Above

Answer: (d)

12- Which one of the following is the long-term objective of Indian economic planning?

- (a) Human Capital Formation
- (b) Eradication of Poverty
- (c) Growth with social justice
- (d) Development of Industries

Answer: (c)

13- NITI stands for

- (a) National Institution for Transforming India
- (b) National Institute for Transforming India
- (c) National Institute for Transformation in India
- (d) National Institution for Transformation in India

Answer: (a)

14- _____ is known as Architect of Indian Economic Planning.

- (a) Dadabhai Naoroji
- (b) VKRV Rao
- (c) R.C Desai
- (d) Dr. Mahalanobis

Answer: (d)

15- NABARD stands for _____ and was set up in _____.

- (a) National Bank for agriculture, reconstruction and development, 1962
- (b) National Bank for agriculture, and rural development, 1982
- (c) National Bank for agriculture, reconstruction and development, 1972
- (d) National Bank for agriculture, and rural development, 1992

Answer: (b)

16- Which of the following does not highlight the achievement of Green Revolution?

- (a) Shift from conventional to commercial farming
- (b) Self sufficiency in food grain production
- (c) Spread of green revolution in agriculture rich states only like Punjab Haryana, Maharashtra etc.
- (d) Substantial increase in crop productivity and production.

Answer: (c)

17- Industrial Policy resolution was introduced in the year.

- (a) 1946
- (b) 1948
- (c) 1956
- (d) 1958

Answer: (c)

Matching/Chronological

1- Identify the correct sequence of alternatives given in Column II by matching them with respective items in Column I:

Column I	Column II
(a) Zamindari system of land revenue	(i) One in which per capita income is very low
(b) Stagnant economy	(ii) The distribution of working population across different sectors of the economy
(c) Backward economy	(iii) It worked through the system of middlemen
(d) Occupational structure	(iv) One which shows little or no growth in national income

Answer: (a)-(iii), (b)-(iv), (c)-(i), (d)-(ii)

2- From the set of statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
(a) Fourth Five Year Plan	(i) Self-sufficiency in foodgrain production
(b) MRTP Act	(ii) Protection of large-scale industry
(c) Objective of planning	(iii) Equitable distribution
(d) Full employment	(iv) A situation of zero unemployment

Answer: (c) Objective of planning - (iii) Equitable distribution

ASSERTION AND REASON BASED QUESTIONS

1.

Assertion (A): The main interest of the zamindars was only to collect rent regardless of the economic condition of the farmers.

Reason (R): The zamindars also had reasons for having such attitude which was that the dates for depositing specified sums of revenue were fixed, failing which the zamindars were to lose their rights.

Alternatives:

- (a) Both Assertion (A) and Reason (R) are true and the Reason (R) is the correct explanation of Assertion (A)
- (b) Both Assertion (A) and Reason (R) are true and the 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.

Answer: (a)

2.

Assertion (A): There was a huge spread of water and air-borne diseases in the colonial period, which took a huge toll on life.

Reason (R): The public health facilities were either not available to large portion of the population and when it was available it was highly inadequate.

Alternatives:

(a) Both Assertion (A) and Reason (R) are true and the Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true and the 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.

Answer: (a)

3.

Assertion (A): The volume of India's exports expanded but it did not benefit the Indian people.

Reason (R): Due to the construction of railways there was commercialisation of Indian agriculture.

Alternatives:

(a) Both Assertion (A) and Reason (R) are true and the Reason (R) is the correct explanation of Assertion (A)

(b) Both Assertion (A) and Reason (R) are true and the 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.

Answer: (b)

4-

Assertion(A): India became self sufficient in food grain production.

Reason(R): India introduced import Substitution in food grain production.

(a) Both assertion and reason are true and reason is the correct explanation of assertion.

(b) Both assertion and reason are true and reason is not the correct explanation of assertion.

(c) Assertion is true but reason is false

(d) Assertion is false but reason is true

Answer: (b)

5-

Assertion(A): Planning Commission was set up in the year 1950.

Reason(R): Indian economy on the eve of Independence was backward and stagnant.

There was a need of planning process.

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

Answer: (a)

6-

ASSERTION (A):Foreign exchange reserves declined to a level that was not enough to pay for the import bill of more than 2 weeks.

REASON (R): Liberalisation implies controls and restrictions on trade and industry.

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

Ans: (c) Assertion (A) is true but Reason (R) is false.

CASE STUDY BASED QUESTIONS

CASE - 1

Read the following case carefully and answer questions 1-4 on the basis of the same:

The Indian economy during British Colonial rule was primarily an agricultural economy. Almost 85 percent of the country's population lived in villages during that period and derived its livelihood directly or indirectly from agriculture. Despite being the major source of livelihood, the agriculture sector continued to experience stagnation and deterioration during British rule. But , at the time of independence in 1947, India was a poor and underdeveloped country. At that time, agriculture was in a poor condition and mineral resources were not fully used. Most Indians could not afford to buy nutritious and balanced diet. The vast majority of people in India led a miserable life. India was a 'rich' country occupied by 'poor' people.

- 1- Under the British Rule, India was primarily a/an economy.
 - (a) Developed
 - (b) Rural
 - (c) Agricultural
 - (d) Industrial
- 2- Indian farmers were forced to produce under the British Rule.
 - (a) Cash crops
 - (b) Food grains
 - (c) Iron and steel
 - (d) Sugar
- 3- The industry was severely affected due to partition of India.
 - (a) Cotton
 - (b) Jute
 - (c) Silk
 - (d) Wool
- 4- The agricultural sector of India continued to experience..... During the British Rule.
 - (a) Shifts
 - (b) Competition
 - (c) Growth
 - (d) stagnation

Answer: 1-agricultural,2-cash crops,3-jute,4-stagnation.

CASE – 2

Read the following case carefully and answer questions 1-3 on the basis of the same:

Important role being played by the small-scale sector in Indian economy would be clear from the fact this sector presently accounts for around 40% of the gross turnover in the manufacturing sector 6.9 % of the net domestic product and 34% of the country's exports. the second five-year plan emphasized the role of small scale and village industries in this regard a special committee was also set up which find the meaning and national Lane behind the development of small-scale industries.

- 1- Which committee was set up for promotion and development of small-scale industries In India?
 - (a) Tapas Mujumdar committee
 - (b) Karve committee
 - (c) Mahalanobis committee
 - (d) None of the above
- 2- Committee identified in previous question was set up in the year _____
 - (a) 1950
 - (b) 1955
 - (c) 1958
 - (d) 1954
- 3- Why development of small-scale industries was considered important?
 - (a) For development of infrastructure
 - (b) For generation of employment
 - (c) For regional and equity
 - (d) Both b and c

Answer: 1- Karve committee, 2- 1955, 3- Both b and c

SHORT ANSWER TWPE QUESTIONS OF 3/4 MARKS

1- Explain the objectives of British government for promoting the railway in India.

Ans.- 1-The railways were developed in India by the British to promote commercialization of Indian agriculture. This adversely affected the self-sufficiency of the village economy in India.

2-. Railways were introduced to protect and promote the British economic interests of transforming India into supplier of raw materials and consumer of finished industrial products from Britain.

2- Are self -Reliance and self-sufficiency the same? Explain.

Ans.- No. Self-reliance is the ability to meet one's own -development needs. An economy must have enough resources or foreign exchange to purchase all inputs required for production. If they are not available within the country. This is so because n economy can be self-sufficient, i.e. produce everything within the country, as costs may be high. It may be cheaper and better to purchase certain inputs from others countries, For this , an economy needs to have enough foreign exchange. This is self-Reliance. So, while it is good to be self- sufficient, it is not the best way to develop. It is more desirable to be self- reliant.

3- What is import substitution policy? Why it was introduced in India?

Ans.- Import substitution policy aimed at replacing or substituting imports with domestic production. For example, instead if importing vehicles from abroad, the industries were encouraged to produce them in India itself.

It was introduced in India because the government wanted to protect the domestic industries from foreign competition. It was assumed that if domestic industries are protected, they will learn to compete in the course of time.

4- How can India be described as a depleted economy on the eve of independence?

Ans.- India was left with a large debt, mostly owed to the British Empire. This debt had increased over time because of the large expenditure that the British incurred in ruling over India. They maintained the army and the administrative staff to rule over India. India had also paid high taxes for import of raw material and other goods used in the making of roads, railways and coaches. All this drained the Indian treasury.

LONG ANSWER TYPE QUESTIONS AND ANSWERS:

1- Explain the challenges for the Indian economy on the eve of Independence.

Ans.- . 1- Vicious cycle of poverty

2- Backward technology

3- Negligible industrial growth

4- conditions of living

5- Partition of India.

6- Unemployment and underemployment

7- Rural economy

8- Limited size of market

9- High growth rate of population

(Explanation required).

2- Why was the Green Revolution implemented?

Ans-

- 1- Low irrigation facility
- 2- Conventional and Traditional approach
- 3- Lack of Finance
- 4- Lack of Self-sufficiency
- 5- Marketing agriculture produce
- 6- Frequent occurrence of famines

(Explanation required).

3- While subsidies encourage farmers to use new technology, they are a huge burden on government finances. Discuss the usefulness of subsidies in the light of this fact.

Ans- The following arguments are given in favour of subsidy:

- a) Subsidy is generally provided to the poor farmers with the motive of reducing inequality of income between rich and poor farmers.
- b) Subsidy was basically an incentive for the farmers to adopt modern techniques and vital inputs like fertilizers, HYV seeds etc. The subsidy was provided so that the farmers might not hesitate to use modern techniques.
- c) Subsidy is very important for marginal land holders and poor farmers who cannot avail the essential farm inputs at the ongoing market rate.

The following arguments are given against subsidy:

- a) Subsidies are also given to the farmers who do not need them. This often leads to the misallocation of the scarce resources.
- b) It is generally argued that subsidy favours and benefits fertilizer industries more than the farmers.
- c) Subsidies may lead to the wastage of precious resources.

Hence, we can conclude that although subsidies are useful and necessary for poor farmers they put an excessive burden on the scarce finances of the government. Allocation of subsidies to the farmers who need it most is required.

4- Define privatisation. Explain the objectives of privatisation in India.

Ans. Privatization: is defined as the transfer of a function, activity or organization from the public to the private sector.

Objectives of Privatisation:

1-Improving the government financial Composition: Raising funds from the sales of enterprises or their assets; Making the enterprises raise internal resources and from capital markets.

2-Improving the performance of an enterprise: Increasing efficiency; requiring enterprises to meet performance objectives; greater responsiveness to consumers, in terms of quantity, quality, diversity or services; relief from public sector financial constraint; more managerial autonomy.

Besides the above two broad objectives, privatization would help in reducing the burden on public administration by reducing the size of the public sector, strengthening market forces and competition within an economy and promoting wider share ownership among public.

5- Define disinvestment. Explain objectives and methods of disinvestment.

Ans. DISINVESTMENT: is sale of a part of equity holdings held by the government in any public sector undertaking to private investor.

Objectives of Disinvestment:

Disinvestment has been a major strategy by which the government has financed fiscal deficit. Besides financing fiscal deficit, the economic motivation behind it is to improve efficiency of PSUs.

Two main methods of disinvestment are:

(i)- Minority Sale: Under it, the general policy was to sell the shares of the PSUs maximum upto 49% so that government ownership of the companies is maintained.

In this method, equity is offered to investors through domestic public issue.

(ii)-Strategic Sale: Under it, the government sells 50% or more shares of the PSUs.

The ownership of the company transfers from the government to the private sector.

In this method, government offloads above 51% in strategic sale.

6-Agriculture sector appears to be adversely affected by the reform process. Why?

Ans. Economic reforms initiated in 1991 did not have an impact on the agriculture industry.

Here are the reasons:

(i)- Public investment decreased in the agriculture sector after 1991, the Indian government has reduced support for research and development in agriculture and supported services that had a negative impact on agriculture.

(ii)- As subsidies were removed from fertilisers, the cost of production escalated which made farming more expensive, it also affected poor farmers.

(iii)- By complying with WTO regulations, import duties on agricultural products were reduced which made it difficult for poor farmers to compete against products of the international market.

(iv)- Shifting focus on producing more cash crops and removal of subsidies exerted a double impact which resulted in inflation making the cost of production more expensive

7-. Explain arguments in favour and against of New Economic reforms.

POLICE (ARGUMENTS IN FAVOUR/ MERITS OF ECONOMIC REFORMS/LPG

1. Increase in growth rate of the economy:- The growth of GDP increased from 5.6 per cent during 1980–91 to 8.2 per cent during 2007–12. During the reform period, the growth of agriculture has declined. While the industrial sector reported fluctuation, the growth of the service sector has gone up.

2. Increase foreign direct investment (FDI) and foreign institutional investment (FII):has increased from about US \$100 million in 1990-91 to US \$ 36 billion in 2016-17. There has been an increase in the foreign exchange reserves from about US \$ 6 billion in 1990-91 to about US \$ 321 billion in 2014-15.

3. A check on inflation

4. Growth and Employment: Though the GDP growth rate has increased in the reform period, scholars point out that the reform-led growth has not generated sufficient employment opportunities in the country.

DEMERITS OF LPG POLICY/ ECONOMIC REFORMS :- 1.Adverse effect on agriculture

2. Low level of industrial growth 3.Economic colonialism 4.Cultural erosion 5. Spread of consumerism.

CONCLUSION (Critically Examine) of ECONOMIC REFORMS: -The process of globalisation through liberalisation and privatisation policies have produced positive, as well as, negative results both for India and other countries.

1. Some scholars argue that globalisation should be seen as an opportunity in terms of greater access to global markets, high technology and increased possibility of large industries of developing countries to become important players in the international arena.
2. On the contrary, the critics argue that globalisation is a strategy of the developed countries to expand their markets in other countries. According to them, it has compromised the welfare and identity of people belonging to poor countries.

UNIT – 7 CURRENT CHALLENGES FACING INDIAN ECONOMY

HUMAN CAPITAL FORMATION IN INDIA

Key Concepts:

- Human capital refers to the stock of skill, ability, expertise, education and knowledge in a nation at a point of time.
- Physical capital refers to assets which themselves have been manufactured and are used for production of other goods and services.
- Human capital formation is the process of adding to the stock of human capital over a period of time.

- **Sources of human capital formation:**
 - Expenditure on education
 - Expenditure on health
 - On the job training
 - Study programmes for adults
 - Migration and expenditure on information

- **Human Resource Development:** It refers to the development of the set of individuals that makes up the workforce of an organisation, business sector or economy.

- **Role of human capital formation in economic growth:**
 - Raises production
 - Change in emotional and physical environment of growth
 - Improves quality of life
 - Raises life expectancy
 - Innovative skills
 - Raises social justice and equality

- **Problems facing human capital formation:**
 - Rising population
 - High regional and gender inequality
 - Brain drain
 - Insufficient man power planning
 - Insufficient on the job training in agriculture
 - High poverty levels
 - Low academic standards.

- **Interrelationship between human capital formation and economic growth:**
 - Human capital formation raises the process of Economic Growth and economic growth raises the process of human capital formation.

OBJECTIVE TYPE QUESTIONS

1. The ability to read and write is known as:

- A. Education
- B. Literacy
- C. Human capital
- D. Human development

Answer: B

2. The stock of 'skill and expertise' at a point of time is known as:

- A. Social infrastructure
- B. Human capital
- C. Physical capital
- D. None of these

Answer: B

3. Which of the following is the problem of human capital formation in India?

- A. Brain drain
- B. Low academic standards
- C. Rising population
- D. All of these

Answer: D

4. Which of the following organisations is engaged in designing text material up to the senior secondary level?

- A. UGC
- B. AICTE
- C. ICMR
- D. NCERT

Answer: D

5. The responsibility of direction and control of higher education is with:

- A. Government of India
- B. Department of higher education
- C. University grants commission
- D. None of these

Answer: C

6. Who is responsible for the implementation of rules and regulation for technical education in the country?

- A. National council of educational research and training
- B. University grants commission
- C. All India council of technical education
- D. Indian council for medical research

Answer: C

7. Human capital formation leads to:

- A. Efficient utilisation of inputs
- B. Increases in the stock of physical capital
- C. Increase in GDP growth
- D. Both (A) and (C)

Answer: D

8. Overall literacy rate (Census 2011) in India is:

- A. 74%
- B. 70%
- C. 76%
- D. 68%

Answer: A

9. Read the following statements carefully:

Statement 1: Physical capital helps in the formation of human capital.

Statement 2: Human capital helps in the formation of physical capital as physical capital is passive in nature.

In the light of the given statements, choose the correct alternatives:

- A. Statement 1 is true and statement 2 is false
- B. Statement 2 is true and statement 1 is false
- C. Both statements 1 and 2 are true
- D. Both statements 1 and 2 are false

Answer: B

10. Male literacy rate in India according to census 2011:

- A. 80%
- B. 85%
- C. 82.1 %
- E. None of these

Answer: C

11. Ms. Ramanpreet has started a new business venture, she intends to spend a huge amount towards 'on-the-job training' of her workers before putting them to work. It exhibits the right step in the direction of Human Capital Formation. Spot which of the following does not directly contribute to the process of human capital formation by Ms. Ramanpreet:

Ramanpreet:

- A. adds skills and expertise
- B. improves efficiency
- C. ensures gender equity
- D. increases output productivity

Answer: C

12. Read the following statements - Assertion (A) and Reason (R):

Assertion (A) – Human capital treats human beings as a means to an end (increase in productivity). **Reason(R)** – Human Capital Formation decreases by way of investments in education and health. From the given alternatives choose the correct one:

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.

Answer: C

13. 'Since independence, India has witnessed a considerable fall in the Infant Mortality Rate in India' Identify which of the following may not be one of the reasons for the fall in the Infant Mortality Rate?

- A. Improvement in health facilities over the years
- B. Improvement in educational standards over the years
- C. Fall in standard of living of the population of the nation over the years
- D. Technological expansion over the years

Answer: C

14. In India 'ICMR' stands for.....

- A. Indian Council of Medicines and Research
- B. Indian Council for Medical Regulation
- C. Industrial Council of Medical Research
- D. Indian Council for Medical Research

Answer: D

15. The Education Commission (1964-1966) in India recommended that at least..... % of GDP be spent on education so as to make a noticeable rate of growth in educational achievements.

- A. 2
- B. 4
- C. 6
- D. 10

Answer: 6

16.

Select Indicators of Development in Education and Health Sectors

Particulars	1951	1981	1991	2001	2016-17	
Real Per Capita Income (in Rs)	7,651	12,174	15,748	23,095	77,659	
Crude Death Rate (Per 1,000 Population)	25.1	12.5	9.8	8.1	6.3	
Infant Mortality Rate	146	110	80	63	33	
Life Expectancy at Birth (in Years)	Male	37.2	54.1	59.7	63.9	67
	Female	36.2	54.7	60.9	66.9	70
Literacy Rate (%)	16.67	43.57	52.21	65.20	76	

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

On the basis of above-mentioned information, answer the following question:

The Real Per Capita Income of India (as per the given data) has increased by (approximately) between 1951 and 2016-17:

- A. 915 %
- B. 1015 %
- C. 815 %
- D. 715 %

Answer: A

17. Match the situations given in Column I with their respective implications given in Column II:
(Choose the correct alternative)

	Column I		Column II
A	Migration	i.	reduced in per capita economic growth
B	Low level of academic standards	ii.	Imbalance between demand and supply of human resource
C	Population- High Growth rate	iii.	Brain Drain
D	Lack of proper manpower planning	iv.	Mismatch between required skill and academic standards

- A. A-ii, B-iii, C-iv, D-i
 B. A-iii, B-iv, C-i, D-ii
 C. A-i, B-ii, C-iii, D-iv
 D. A-ii, B-iv, C-i, D-iii

Answer: B

18. Read the following statements - Assertion (A) and Reason (R):

Assertion (A) – Expenditure on migration is a source of human capital formation.

Reason(R) – Migration to other countries involves the cost from one place to another and the higher cost of living in the migrated places.

From the given alternatives choose the correct one:

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.

Answer: B

19. Read the following statements - Assertion (A) and Reason (R):

Assertion (A) – Education contributes to economic growth.

Reason(R) – Education confers higher earning capacity on people. From the given alternatives choose the correct one:

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.

Answer: A

20. Read the following statements - Assertion (A) and Reason (R):

Assertion (A) – Both education and health increase the income-generating capacity of an individual. **Reason(R)** – The contribution of an educated and healthy person to economic growth is more than that of an illiterate and unhealthy person.

From the given alternatives choose the correct one:

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.

Answer: A

SHORT ANSWER TYPE QUESTIONS (3/4 MARKS)**21. What are the different forms of health expenditure?**

Answer: The different forms of health expenditure include expenditure on:

- Preventive medicine – medical practices which are designed to avoid or avert diseases
- Curative medicine – health care practices that are used to treat patients with the intent of curing them, not just reducing their pain
- Social medicine – medical practices concerned with the role of social factors in the occurrence, prevention and treatment of disease
- Provision of clean drinking water
- Good sanitation

22. “Higher income leads to high level of human capital.” Comment.

Answer: Higher income leads to development of high level of human capital and vice versa. In other words, high level of human capital leads to growth of income. It is believed that even a large population, which is trained and educated, can become an asset in accelerating economic growth and ensuring social change in desired directions.

23. State the problems of human capital formation in India.

Answer: The problems of human capital formation are:

- High cost of human capital formation
- Low levels of adult and agricultural education
- Less priority to secondary education
- Limited stock of human capital formation

24. Why is it important to promote education for women in India?

Answer: It is important to promote education for women in India due to the following reasons:

- It helps in improving women’s economic independence and their social status.
- Women education has a favourable impact on fertility rate and women and child health care.
- Educated woman can provide better guidance to her children.

25. List the benefits of education.

Answer: Following are the benefits of education:

- It gives a better social standing and pride.
- It enables wise decision-making.
- It enhances social outlook and develops understanding to accept the changes taking place in society.
- It stimulates innovations and facilitates adaptation to new technologies.

LONG ANSWER TYPE QUESTIONS (6 MARKS)

26. What initiatives have been taken by the government to provide equal access of education to all? Discuss.

Answer: The following initiatives have been taken by the government to provide equal access of education:

- The Government of India enacted the 'Right to Education Act' in 2009 to make free education a fundamental right of all children in the age group of 6-14 years.
- Government of India has started levying a 2 per cent 'education cess' on all Union taxes. The revenue earned from education cess is spent on elementary education.
- The government sanctions a large outlay for the promotion of higher education.
- New loan schemes for students to pursue higher education are introduced by government.

27. Differentiate between human capital and physical capital.

Answer: Following are the points of difference between human capital and physical capital:

Human Capital	Physical Capital
Owners of human capital should be present in the place where it is used like driver of the bus.	Owner of physical capital need not to be present in the place where it is used, like bus.
Human capital is intangible. It is not sold in the market. Only its services are sold.	Physical capital is tangible and can be sold in the market.
Human capital is inseparable from its owner.	Physical capital is separable from its owner.
It is not completely mobile between countries because of different nationalities and culture.	It is completely mobile between countries except for some trade restrictions.
It cannot be built through imports. It is built through policy formulation by state and the individuals.	It can be built through imports.
Depreciation takes place with ageing but can be reduced through investment in education, health etc.	Continuous use of physical capital leads to depreciation and change in technology makes a machine obsolete.
Human capital benefits both owner as well as the society	Physical capital benefits only the one who pays the price for the product.

28. Explain the various sources of human capital.

Answer: Following are the sources of human capital:

- Expenditure on Education: Investment in education is considered as one of the source of human capital. Investment in education gives human beings additional skills to do the same job. It converts human beings into human capital, which enhances the labour productivity.
- Expenditure on Health: Health is another significant source of human capital. Expenditure on health directly increases the supply of healthy labour force and hence, a source of human capital formation. The various forms of health expenditure are:
 - Expenditure on On-the-job Training: Firms incur expenditure on providing on-the-job training to their workers. Training imparts technical skills and know-how among the workers while working at the actual work site. The workers may be trained by either of the following two methods: i) Training within the firm under the supervision of a skilled worker ii) Off-campus training
- Expenditure on Migration: People migrate in search of jobs that fetch them higher salaries than what they may get in their native places. Migration involves transportation cost, higher cost of living in the migrated place and psychic cost of living in an unknown socio-culture set-up. However, the increased earnings at the new place outweigh the cost of migration.
- Expenditure on acquiring Information: People need to incur expenditure in order to acquire information related to equity markets, labour markets, education, health and other related markets. The money spent on obtaining information related to any kind of markets is a source of human capital formation.

29. Differentiate between human capital and human development.

Answer: Following are the points of difference between human capital and physical capital:

Human Capital	Human Development
Human capital considers education and health as a means to increase labour productivity.	Human development is based on the idea that education and health are integral to human wellbeing because these help him make other choices.
Human capital treats human beings as a means to an end, the end is the increase in productivity.	In human development perspective, human beings are ends in themselves.
Investment in education and health is unproductive if it does not enhance production of goods and services.	Investment in education and health should be made even if such investments do not result in better labour productivity.
To summarise, investment in education and health is made to increase the labour productivity.	To summarise, investment in education and health is made to improve quality of life of an individual.

30. Explain how investment in education stimulates economic growth. (or) Explain the role of education in the development of a country.

Answer: Education is an important source of human capital formation. Investment in education stimulates economic development in the following ways:

- Raises production. Knowledgeable and skilled workers can make better use of

resources at their disposal. It will increase production in the economy. An educated and trained person can apply his knowledge and skill at farm, factory and office to increase production.

- Raises efficiency and productivity. Investment in education increases efficiency and productivity, and hence yields higher income to the people.
- Brings positive changes in outlook and attitudes. Knowledgeable and skilled people have modern outlook and attitudes, that they make rational choice in respect of places and jobs.
- Improves quality of life. Education improves quality of life as it provides better job, high income and improves health. It results in better standard of living.

RURAL DEVELOPMENT

In India, majority of the poor people live in rural areas. Around 22% of our total population still lives below the poverty line.

Agriculture, with maximum share of rural economy, has grown at a meagre rate of 2.7% in the last fifty years. During 2007-12, agriculture output has grown at 3.2%.

The share of agriculture sector to GDP was on a decline and there has been increase in the share of industrial and service sector. However, the population dependent on agricultural sector did not show any significant change.

Inadequate infrastructure, lack of alternate employment opportunities in the industry or service sector, increasing casualisation of employment etc. further obstructed the process of rural development.

So, real progress of India is possible only when rural areas and rural people are developed, so that overall growth of India could be achieved.

MEANING OF RURAL DEVELOPMENT

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

In India, agriculture is the major source of livelihood in the rural sector, with more than two-third of India's population depending on it. So, development in agriculture will contribute to the betterment of rural areas and rural people. However, the term rural development includes not only agricultural development, but it involves all those aspects, which improves quality of life of people. It aims at improving the economic and social conditions of people living in villages.

PROCESS OF RURAL DEVELOPMENT

Some of the areas, which are challenging and need fresh initiatives for development in India include:

Development of Human Resources: The quality of the human resource needs to be improved.

Development of Infrastructure-Improvement in electricity, irrigation, credit, marketing and transport facilities.

Land Reforms

Alleviation of Poverty: Around 22% of total population is still below the poverty line. So, there is a serious need for taking serious steps for alleviation of and bringing significant improvement in living conditions.

RURAL CREDIT

Growth of rural economy depends on timely infusion of capital, to realise higher productivity in agriculture and non-agriculture sectors. In agriculture, farmers are in strong need for credit due to long time gap between crop sowing and realisation of income.

Broadly, there are two sources, from which the farmers can raise loans:

1. Non-Institutional Sources

2. Institutional sources

Non-Institutional Sources

Moneylenders

Relatives

Traders and Commission Agents

Rich Landlords

Institutional Sources

NABARD(National bank for agriculture and Rural Development)-

1. Established on 12th July 1982.
2. Apex bank for institutions

Co-operative Credit
Land Development Banks
Commercial Bank Credit
Regional Rural Banks
National Bank for Agricultural and Rural Development (NABARD)
Self-Help Group

AGRICULTURAL MARKET SYSTEM

Meaning of Agricultural Marketing

Agricultural marketing is a process that involves assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country. Agricultural marketing system is an efficient way by which the farmers can dispose their surplus produce at a fair and reasonable price.

Measures to Improve Agricultural Marketing

After Independence, the Government of India adopted the following measures to improve the system of agricultural marketing:

1. **Regulated Markets:** The first measure was regulation of markets, to create orderly and transparent marketing conditions. Regulated markets have been organised with a view to protect the farmers from the malpractices of sellers and brokers. This policy benefited farmers as well as consumers.
2. **Infrastructural Facilities:** The Government aims to provide physical infrastructure facilities like roads, railways, warehouses, godowns, cold storages and processing units. The current infrastructure facilities are quite inadequate to meet the growing demand and need to be improved.
3. **Cooperative Marketing:** The aim of cooperative marketing is to realise fair price for farmers' products. Cooperative Marketing is a system in which the farmers pool their marketable surplus of crops and distribute the sale proceeds on the basis of each individual share.

Cooperative Marketing benefits the farmers in following ways:

- * It improves bargaining power of farmers as they sell their produce together through one agency.
- * Cooperative marketing societies help farmers in satisfying their immediate cash requirements by providing them credit.
- * Cooperative societies often have storage facilities. So, farmers are not in a hurry to sell their produce and they can wait for better prices.
- * Facility of bulk transportation of agriculture produce of farmers is often cheaper and easier.
- * Different Policy Instruments: In order to protect the farmers, the government has initiated the following policies:

Minimum Support Prices (MSP): To safeguard the interest of farmers, government fixes the minimum support prices of agricultural products, like wheat, rice, maize, cotton etc.

Maintenance of Buffer Stocks: The Food Corporation of India (FCI) purchases wheat and rice at the procurement prices, to maintain buffer stock.

Public Distribution System (PDS): The public distribution system in our country operates through a network of ration shops and fair price shops.

Agricultural marketing has come a long way with the intervention of the government. However, despite of government intervention:

Emerging Alternate Marketing Channels

Origin of Farmers Market: Farmers can increase their incomes, if they directly sell their produce to consumers.

Apni Mandi in Punjab, Haryana and Rajasthan

Hadaspar Mandi in Pune;

Rythu Bazars in Andhra Pradesh and Telangana;

Uzhavar Sandies (farmers market in Tamil Nadu).

DIVERSIFICATION OF AGRICULTURAL ACTIVITIES

Reason for Diversification

There is greater risk in depending exclusively on farming for livelihood; and To provide productive sustainable livelihood options to rural people.

Types of Diversification

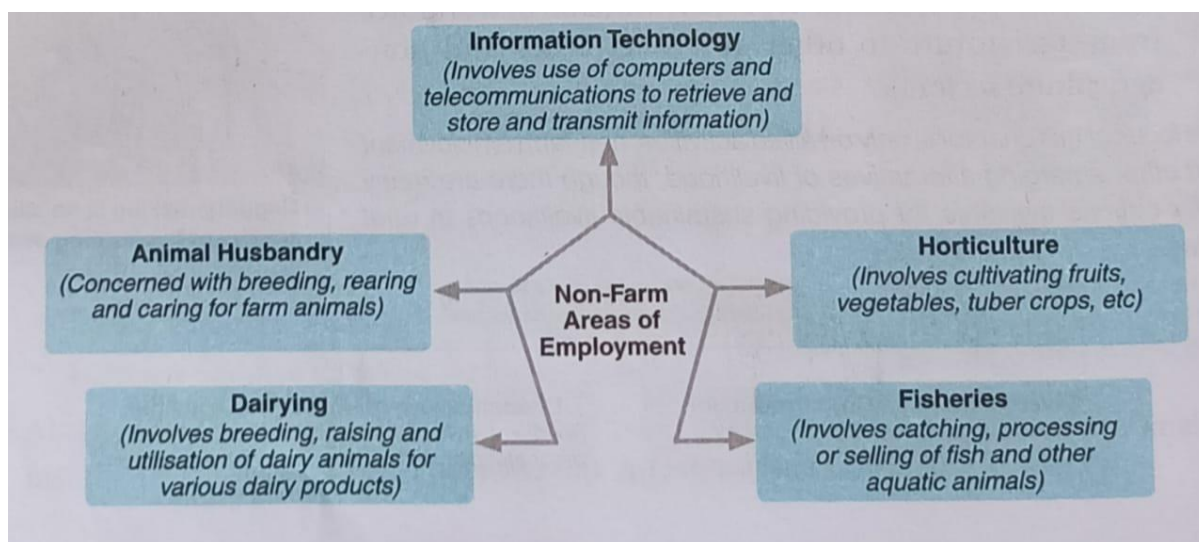
Diversification includes two aspects:

1. Diversification of Crop Production (Change in Cropping Pattern);
2. Diversification of Productive Activities (shift of workforce from agriculture to other allied activities and non- agriculture sectors).

Diversification of Productive Activities

As agriculture is already overcrowded, a major proportion of the increasing labour force needs to find alternate employment opportunities in other non-farm sectors.

It would provide alternative avenues of sustainable livelihood and would raise the level of income.



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. 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.

SUSTAINABLE DEVELOPMENT AND ORGANIC FARMING

In recent years, there is a considerable rise in awareness of the harmful effects of chemical- based

c. Moneylenders d. Regional Rural Banks

3. When was NABARD set up?

a. 1951 b. 1975 c. 1991 d. 1982

4. TANWA was set up to:

- a. Train farmers for organic farming methods
- b. Train women in latest agricultural techniques
- c. Practice green revolution
- d. Arrange credit for the farmers

5. Which Indian state became a leader in setting up of milk cooperatives?

a. Uttar Pradesh b. Tamil Nadu c. Punjab d. Gujarat

6. A substantial rise in the production of Milk during 1960-2002 is known as.

a. White Revolution b. Green Revolution
c. Operation Milk d. Golden Revolution

7. Operation Flood is also known as

a. White Revolution b. Green Revolution
c. Operation Milk d. Golden Revolution

8. The term Operation Flood is associated with

- a. A substantial rise in generation of hydro-electricity.
- b. A substantial rise in milk production.
- c. Techniques used to control floods.
- d. A substantial rise in the agricultural production.

9. Which of the following is not related to agricultural marketing?

- a. Grading or assembling the produce after harvest.
- b. Credit taken to make investments on agriculture.
- c. Grading and distribution of the produce after harvest.
- d. Storage of the produce for sale in future.

10. Which of the following plays an important role in meeting micro credit needs in rural Areas?

a. Regional Rural Banks b. NABARD
c. Commercial Banks d. Self Help Groups

11. Farmers need short term credit for:

- a. Making any permanent improvement on land
- b. Purchase of tractors and other machinery
- c. Purchase of seeds and manures
- d. Purchase of new land

12. The problem(s) faced in rural banking is/are:

- a. Inadequate credit delivery mechanism
- b. Agricultural loan default rates are high
- c. Requirement of collateral keeps majority of households out of credit network
- d. All of these

13. Name the apex body which governs the financial institutions aiming at expansion of Credit for agriculture and other economic activities in rural areas.

a. NABARD b. RBI c. Regional Rural Banks d. Commercial Banks

14. The government fixes the minimum support price in order to:

- a. Safeguard the interest of consumers.
- b. Safeguard the interest of farmers.
- c. Enhance export earnings from agricultural commodities.
- d. None of these.

15. Distress sale by the farmers refers to:

- a. Sale of property to repay loans.
- b. Sale of crops directly to the consumers.
- c. Selling crops at the minimum support price fixed by the government.
- d. Selling of crops by farmers at a very low price to meet urgent cash needs.

Answer

1. (d) 2. (c) 3. (d) 4. (b) 5. (d) 6. (a) 7. (a) 8. (b) 9. (b) 10. (d) 11. (c) 12. (d) 13. (a) 14. (b) 15. (d)

Que.1 Match the following

- | | |
|---|------------|
| (i) Distribution of food grains at subsidised rates | (a) NABARD |
| (ii) Assurance of minimum price to farmers for agricultural products | (b) TANWA |
| (iii) Apex bank for monitoring Rural financing | (c) MSP |
| (iv) Project initiated to train women in latest agricultural techniques | (d) PDS |

Que.2

- | | |
|---|----------------------|
| (i) Eco-friendly agricultural technology | (a) Self Help Groups |
| (ii) Growing of fruits, vegetables, flowers etc. | (b) Operation flood |
| (iii) Processing and marketing of Milk through cooperatives | (c) Organic farming |
| (iv) Micro-credit programmes | (d) Horticulture |

Ans 1.(i) (d) (ii) (c) (iii) (a) (iv) (b)
2.(i) (c) (ii) (d) (iii) (b) (iv) (a)

Assertion-Reasoning MCQs

Directions: There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below

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

1.Assertion (A): Rural Banking has always given lesser attention to the credit requirements of small and marginal farmers.

Reason (R): Marginal farmers enjoy better creditworthiness.

Ans. (c) Because the Benefits of rural banking mostly enjoyed by the rich farmers.

2.Assertion (A): Rural Development includes only agricultural development

Reason (R): Rural Development aims at improving the economic and social conditions of people living in villages.

Ans. (d) Assertion (A) is False but Reason (R) is true.

3.Assertion (A): The focus of Self-Help Group (SHG) is largely on the rural poor.

Reason (R): Rural Poor have no sustainable access to the formal banking system.

Ans. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

4.Assertion (A): India ranks first in the world in milk production.

Reason (R): India's milk production increased due to operation Flood.

Ans. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

5.Assertion (A): Indian Government took various measures to improve agricultural marketing

Reason (R): Farmers were often forced to sell at low prices due to a lack of required market information.

Ans. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

6.Assertion (A): Diversification of crop production led to shift from single cropping system to a multi- cropping system.

Reason (R): It reduced the income of farmers due to increase in market risk because of price fluctuation.

Ans. c) Assertion (A) is true but Reason (R) is False

Fill in the blanks

1. _____ is the major source of livelihood in the rural sector credit.
2. Moneylenders and traders are ___ source of finance in rural areas.
3. _____ is the apex body to coordinate the activities of all institutions involved in the rural financing system.
4. Commercial banks and regional rural banks are examples of _____ sources of credit.
5. The Self-Help Groups promote thrift among rural households and promote _____ credit programmes.
6. _____ is a process that involves the assembling, storage, processing, Transportation, packaging, grading and distribution of different agricultural commodities.
7. NABARD was set up in the year _____.
8. _____ maintains buffer stocks of wheat and rice in India.
9. _____ in the dairy development program which transformed India into the World's largest milk producer.
10. _____ sources provide major contribution to the total value of fish production in India.
11. Growing of flowers, fruits and vegetables is termed as _____.
12. India ranks _____ in fruits and vegetables production in the world.
13. A system of farming that maintains and enhances the ecological balance is called _____.
14. _____ is a women-oriented community-based poverty reduction programme being implemented in Kerala.
15. In the year ___ India adopted social banking and multi-agency approach to meet the needs of rural credit.

1. Agriculture
2. Non-institutional
3. NABARD
4. Institutional
5. Micro

6. Agricultural marketing
7. 1982
8. Food Corporation of India
9. Operation Flood
10. Inland
11. Horticulture
12. Second
13. Organic farming
14. Kudumbashree
15. 1969

VERY SHORT ANSWER QUESTIONS

1. What do you mean by rural development?
2. What are the two purposes for which Indian farmers require credit?
3. What are the two main sources of agricultural finance in India?
4. Who occupies the prime place in non-institutional agricultural finance in India?
5. Name the main sources of institutional agricultural finance in India?
6. Give two main problems of institutional agricultural finance in India.
7. What is organic farming?
8. What do you mean by agricultural marketing?
9. Mention two important government measures undertaken to improve the agricultural marketing system in India.

ANSWER

1. Rural development implies both the economic betterment of the people as well as Greater social transformation in the rural sector.

2. Productive Purpose; and Non-productive Purpose.

3. Non-institutional sources; and Institutional sources.
Moneylender.

5. Cooperative credit societies; Regional Rural Banks; Commercial Banks; Kisan Credit Card; SHGS.

6. (i) Inadequate credit and generally taken by the rich farmers
(ii) High level of over dues and defaulters.

7. When farming is done with the use of organic manure, bio-fertilisers and organic Pesticides, it is called organic farming.

8. Agricultural marketing involves several activities such as collecting, storage, processing, Transportation, packaging, grading and distribution of agricultural products.

9. (i) Organisation of regulated markets
(ii) Cooperative marketing.

3 Marks Questions

Q-1 Discuss the importance of credit in rural development.

Ans. Growth of rural economy depends primarily on infusion of capital, from time, to realize higher productivity in agriculture and non-agriculture sectors.

As the gestation gap between crop sowing and realization of income after production is quite long, farmers borrow from various sources (formal and informal) to meet their requirements on Seeds, fertilizers etc. and other family expenses of marriage, religious ceremonies etc.

Q2 "The Prime Minister urged to increase the rural income by increasing non-farm activities.

"Explain how non- Farm activities can lead to rise in income of people in rural sector.

Ans.

Non-farm activities (Agro-processing industries, poultry, craft, handloom) provide alternative avenues for sustainable livelihood and may raise the level of income as the risks due to

fluctuations in production and market prices is generally less.

Agriculture in India is mainly a seasonal occupation, however, during off seasons, it becomes difficult to find employment and stabilize farmer's income.

Thus, the Prime Minister has urged appropriately in the best interest of the farmers of the rural India.

Q-3 Discuss the role of the rural banking system in the process of rural development in India.

Ans - In India, the rural banking system has come up with a lot of Support for the farmers and has led to rural development, Directly or indirectly.

Farmers have begun to avail adequate credit at cheaper rates from the formal credit sources for their production needs.

It has helped to the Increase the rural farm and non-farm output, Income and employment in rural areas.

Q4. State any three challenges facing rural development in India.

Ans. Three challenges faced by rural development in India are:

development of human resource.

development of infrastructure

Measures for alleviation of poverty

Q5. Why is agricultural diversification essential for sustainable livelihoods?

Ans. 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.

QUESTION (4 Mark)

Q1. "Information technology plays a very significant role in achieving sustainable development and food security." Explain.

Ans. i) Information technology plays a very significant role in achieving sustainable development and food security by following ways

ii) Government can predict areas of food insecurity and vulnerability using appropriate information and software tools.

iii) It also has a positive impact on the agriculture sector as it can distribute information regarding emerging technologies and its applications.

(iv) Issues like weather forecasting, crop treatment, fertilizers, pesticides, storage conditions etc. can be well administered, if expert opinion is made available to the farmers.

(iv) The quality and quantity of crops can be increased manifold, if the farmers are made aware of the latest equipments, technologies and resources.

It has potential of employment generation in rural areas.

Q.2 Mention some obstacles that hinder the mechanism of agricultural marketing.

Ans. Some obstacles that hinder the mechanism of agricultural marketing:

Farmers, while selling their produce to traders, suffered from faulty weighing and manipulation of accounts.

Farmers who did not have the required information on prices prevailing in markets were often forced to sell at low prices.

They also did not have proper storage facilities to keep back their produce for selling later at a better price. Even today, more than 10 per cent of goods produced in farms are wasted due to lack of storage.

Q3. Explain the role of micro-credit in meeting credit requirements of poor.

Ans.

Self-help group (SHG) has emerged as the major micro finance programmed in the country in recent year.

There 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.

SHGs promote thrift in small proportions by a minimum contribution from each member.

From the pooled money, credit is given to the needy members at reasonable interest rates, which is to be repaid in small installments.

By March 2003, more than seven Laky SHGs had reportedly been credit linked. Such credit provisions are generally referred to as micro-credit programmers. SHGs have also helped in the empowerment of women.

Q4. What is organic farming and how does it promote sustainable development?

Ans. 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 promotes 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.

Q5. Enlist some problems faced by farmers during the initial years of organic farming.

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

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 it at large scale.

Organic farming faces problems of inadequate infrastructure and marketing facilities.

Organic produce has a shorter shelf life as compared to sprayed produce.

The choice in production of off-season crops is quite limited in organic farming.

QUESTION (6mark)

1. Critically evaluate the role of the rural credit / banking system in the process of rural development in India. Also, give some suggestions to improve the situation.

Ans. The institutional structure of rural banking consists of commercial banks, regional rural banks (RRBs), cooperatives and land development banks. They are expected to dispense adequate credit at cheaper rates.

Role: In India, the rural banking system has come up with a lot of support for the farmers and has led to rural development, directly or indirectly.

Farmers have begun to avail adequate credit at cheaper rates from the formal credit sources for their production needs.

It has helped to increase the rural farm and non-farm output, income and employment in rural areas.

We have now achieved food security which is reflected in the abundant buffer stocks of food grains.

Criticisms: In spite of it, following problems have been faced in the rural banking such as: The volume of rural credit in the country is still insufficient in comparison to its demand and institutional sources have failed to cover the entire rural farmers of the country.

Less attention has been given on the credit requirements of needy (small and marginal farmers) and the problem of overdue in agricultural credit continues.

Except commercial banks, other formal institutions have failed to develop a culture of deposit mobilization leading to worthwhile borrowers and effective loan recovery.

Agriculture loan default rates have been chronically high. Farmers are deliberately refusing to pay back loans.

To improve the situation, **it is suggested that:**

Banks need to change their approach from just being lenders to building up relationship banking with the borrowers.

Inculcating the habit of thrift and efficient utilization of financial resources needs to be enhanced among the farmers too.

Q2. What is the importance of credit in rural development? Explain the role of micro-credit programmes in meeting the credit requirements of the poor.

Ans. Importance of credit in rural development: Rural economic Development depends primarily on infusion of capital Credit, from time to time, to realize higher productivity in agriculture and non- agriculture sectors.

As the time Gestation between crop sowing and realization of income after production is quite long, farmers need credit to meet Their initial investment on seeds, fertilizers, implements and other family expenses.

Micro-credit programmes: Formal credit delivery mechanism Has proven inadequate for rural development. Since some Kind of collateral is required, vast proportion of poor Households were automatically out of the credit network. Recently, self-help groups (SHGs) have emerged to fill the Gap in the formal credit system.

The SHGs promote thrift in small proportions by a minimum contribution from each member. From the pooled money, credit is given to the needy members to be repayable in small instalments at reasonable interest rates.

Such credit provisions are Generally referred to as micro-credit programmes. SHGs Have helped in the empowerment of women. However, it is Alleged that borrowing is mainly continued to consumption Purposes, rather than productive purposes.

CASE STUDY

Since ages, farmers in India have taken recourse to debt. In the earlier times the same was from informal sources. Since independence with the efforts of the government, formal sector has actively come into picture. Farmers borrow not only to meet their investment needs but also to satisfy their personal needs. Uncertainty of income caused by factors like crop failure caused by irregular rainfall, Reduction in ground water level, locust/other pest attack etc. These reasons push them into the clutches of the private money Lenders, who charge exorbitant rates of interest which add to their miseries.

Various governments in India, at different times for different reasons, introduced debt relief/waiver schemes. These schemes are Used by governments as a quick means to extricate farmers from their indebtedness, helping to restore their capacity to invest and produce, in short to lessen the miseries of the farmers across India. The costs and benefits of such debt relief schemes are, however, a widely debated topic among economists. Some economists argue that such schemes are extremely beneficial to the marginalized farmers while others argue that these schemes add to the fiscal burden of the government, others believe that these schemes may develop the expectation of repeated bailouts among farmers which may spoil the credit culture among farmers.

1. Uncertainty of income for farmers in India is majorly caused by ___ (irregular rainfall/unavailability of loans)
2. Some economists argue that debt waiver schemes are extremely beneficial to the poor and marginalized farmers, as these Schemes reduce the burden of _ (indebtedness/personal expenditures)
3. The rural banking structure in India consists of a set of multi-agency institutions. _____ (Regional Rural Banks /Small Industries Development Bank of India) is expected to dispense credit at cheaper rates for agricultural purposes to farmers.
4. _____ (Regional Rural Banks/ Land Development Banks) is the most prominent body responsible for providing loans for long term land development.

Answer:

1. irregular rainfall
2. indebtedness
3. Regional Rural Banks
4. Land Development Banks

Credit in Rural Areas of India

At the time of independence, moneylenders and traders exploited small and marginal farmers and landless labourer by lending to them on high interest rates and by manipulating the accounts to keep them in a debt-

trap. A major change occurred after 1969 When India adopted social banking and multiagency approach to adequately meet the needs of rural credit. The institutional structure of rural banking today consists of a set of multi-agency institutions, namely, commercial banks, regional Rural banks (RRBs), cooperatives and land development banks. They are expected to dispense adequate credit at cheaper rates. Recently, Self-Help Groups (SHGs) have emerged to fill the gap in the formal credit system. The SHGs promote thrift in small Proportions by a minimum contribution from each member. From the

pooled money, credit is given to the needy members to be Repayable in small instalments at reasonable interest rates. By May 2019, nearly 6 crore women in India have become member in 54 lakh women SHGs. About 10-15,000 per SHG and another 2.5 lakhs per SHG as a Community Investment Support Fund (CISF) are provided as part of renovating fund to take up self-employment for income generation.

Q-1 __ Was set up in 1982 as an apex body to coordinate the activities of all institutions involved in the rural financing System. (1)

Q2. The ____ Was a harbinger of major changes in the credit system as it led to the diversification of the portfolio of Rural credit towards production-oriented lending.

- (a) Green Revolution
- (b) White Revolution
- (c) Golden Revolution
- (d) None of these

Q3. Recently, Self-Help Groups (SHGs) have emerged to fill the gap in the formal credit system. Such credit provisions are Generally referred to as__

Q-4 Which of the following is not a part of the institutional structure of rural banking today?

Commercial banks

- i) Regional Rural Banks (RRBs)
- ii) Non-Banking Finance Companies (NBFCs)
- iii) Land Development Banks
- iv) The National Bank for Agriculture and Rural Development (NABARD)

Ans (a) NABARD

- (b) Green Revolution
- (c) micro-credit programmes
- (d) Non-banking Finance Companies (NBFCs)

EMPLOYMENT GROWTH, INFORMATION AND OTHER ISSUES

Worker: Workers include all those people who are engaged in work whether for others (paid workers or self-employed)

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)

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.

labour force participation rate-The ratio of labour force to total participation is called labour force participation rate.

Work force: The number of persons, who are actually employed at a particular time are known as work force.

worker population ratio- Worker- population ratio is the percentage of total population engaged in work.

Total number of workers in India

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

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

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.

Informalisation of workforce- Informalisation of workforce refers to a situation whereby the proportion of workforce in the informal sector to total workforce increases. 93 % labors is in informal sector.

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

Employment: Employment is an activity which enables a person to earn his means of living.

Full employment: Full employment is a situation in which all the workers who are capable of working and willing to work get an employment at a prevailing wage rate.

Self-employment: When the worker uses his own resources to work and make a living then we call it as Self Employment.

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

Seasonal unemployment- Unemployment that occurs at certain seasons of the year is known as Seasonal unemployment.

Disguised unemployment- Disguised unemployment refers to a state in which more people are engaged in work than are really needed.

Formal sector establishment- All the public enterprises and private establishments, which Employ10 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.

Casual workers -refer to those workers who do not work throughout the year. They only work for few months. Casual workers are not hired by employers on a regular basis. They do not enjoy social security benefits like provident fund, gratuity, etc. They are generally unskilled workers. For example: workers working at a construction site

Cost push inflation -is inflation caused by an increase in prices of inputs like labour, raw material, etc. The increased price of the factors of production leads to a decreased supply of these goods.

Demand-pull inflation- is a term used to describe when prices rise because the aggregate demand in an economy is greater than the aggregate supply.

Questions & Answers

Q 1) 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 of land.

Q 2) 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.

Q 3) Meena is a housewife. Besides taking care of household chores, she works in the cloth shop which is owned and operated by her husband. Can she be considered as a worker? Why?

A person who is involved in the production activity and contributes to the generation of GDP is referred to as worker. As here Meena works in the cloth shop to support her husband and contributes to GDP by rendering her services, so, she can be considered as a

worker.

Q 4) Find the odd man out (i) rickshaw puller who works under a rick- shaw owner (ii) mason (iii) mechanic shop worker (iv) shoeshine boy.

Shoe shine boy is a odd man out. All others (a rickshaw puller, a mason, and mechanic shop worker) are hired workers. They render their services to their employers and receive rewards in the form of salaries or wages in return. On the other hand, shoe shine boy is a self-employed worker and carries out his occupation himself. In other words, he is engaged in his own profession.

Q 5) 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.

Q6)-Why are less women found in regular salaried employment?

Lesser women are found in regular salaried employment as compared to men because a larger proportion of women are engaged in the economic activities without stable contracts and steady income. The stable contracts and steady income are two features prevalent in the regular salaried employment. Women are engaged in informal segments of the economy, where they are not entitled to any social security benefits. Moreover, women work in more vulnerable situations than men and have lower bargaining power and, consequently, are paid lesser than the male workforce.

Thus, the women workers are more likely to be found in the self-employment and casual work as compared to men rather than regular salaried employment.

Q 7 How will you know whether a worker is working in the informal sector?

- i. A worker working in an enterprise (other than the public sector establishments and the private sector establishments) hiring 10 or less than 10 workers.
- ii. This sector includes millions of farmers, agricultural labourers, owners of small enterprises and self employed. These sections of people are not hired worker.
- iii. A worker working in informal sector does not enjoy social security benefits such as provident fund, gratuity, pension, etc.
- iv. The economic interest of the workers working in the informal sector is not protected by any Labour Laws other than Minimum Wages Act. Therefore, workers in the informal sector are highly exposed to the uncertainties of the market and have low bargaining power.

Q 8) You are residing in a village. If you are asked to advice the village panchayat, what kinds of activities would you suggest for the improvement of your village which would also generate employment.

- i. Increase Production: It is of prime importance to increase production in the agricultural and industrial sectors in order to increase employment. For this purpose, small scale and cottage industries should be promoted. This will not only generate new employment opportunities but also assist the industrial sector, as the production of the small scale and cottage industries act as subsidiaries to the industrial sector.
- ii. Increase Productivity: The demand and productivity for labour are directly related to each other. The higher productivity generates higher profits that in turn implies higher investment and generates higher demand for labour. Rural workers should be imparted technical knowledge and modern know-how that will not only increase their productivity but also enhance their acceptability of modernisation.
- iii. Control over Population: Population explosion is one of the important concerns for India. It hinders economic growth prospects. The rising population leads to the rise in unemployment and, therefore, poverty. Thus, rural people should be made aware of various birth control measures and also the benefits associated with family planning and nuclear-family.
- iv. Creating Non-agricultural Employment: India being an agrarian economy employs a major proportion of workforce in the agricultural sector. The development of this sector is still a far cry and, consequently, suffers from disguised unemployment. Moreover, as agriculture is a seasonal occupation, so, many farmers remain unemployed for three to four months in a year. Thus, it is necessary to engage these people in non-agricultural sectors for the phase they are off from cultivation. Creation of non-agricultural job like pottery, handicrafts, not only reduces disguised unemployment but also contributes to enhanced income to the farmers in the off-season, which could be invested in the farm to improve farm productivity and farm products.
- v. Easy Credit and Finance: Often, the rural people find it difficult to access finance due to the lack of sufficient financial institutions in the rural areas. Even if the finance or the credit is available, then this is provided at higher lending rates. The lack of credit acts as a bottleneck for the rural growth. Thus, financial institutions and banks should be set up to provide easy credit to the rural people.
- vi. Education and Health Facilities: Rural areas have always lagged behind in education and health care facilities. This not only impedes their productivity but also reduces their life expectancy and quality of standard of living. Along with primary and secondary schools, night schools for adults, imparting technical education and technical know-how, proper sanitation and hospitals should be established in the rural areas.

Q 9) Victor is able to get work only for two hours in a day. Rest of the day, he is looking for work. Is he unemployed? Why? What kind of jobs could persons like Victor is doing?

Yes, Victor is an unemployed worker. He works for two hours a day but a major portion of the day he is looking for work and is unemployed. This implies that he is an underemployed worker. The situation of underemployment refers to a situation in which a person gets work for lesser time than the time he actually can and wants to work. According to the National Sample Survey Statistics, a person who is employed for less than 28 hours in a week is called underemployed. Victor could do jobs that are part time in nature like dropping news papers, working in a restaurant, delivering couriers, bank tellers

UNEMPLOYMENT:-Situation when people are willing to work at the existing wage rate, and are able to work, but are not getting work.

WORKER: - All those who are engaged in economic activities, in whatever capacity — high or low, are workers (Those activities which contribute to the gross national product are called economic activities).

SELF-EMPLOYED WORKERS: - Those workers who are engaged in their own business or own profession.

HIREN WORKER: - Those workers who work for others and get wages and salaries as a reward for their services.

CASUAL WORKERS:- Casual workers are like daily wagers, not on permanent rolls of the employer, and not entitled to social security benefits.

REGULAR WORKERS:- Workers are hired on regular basis and are on permanent pay-roll of their employees and are entitled to social security benefits.

LABOR SUPPLY: - amount of labour that the workers are willing to offer corresponding to different wage rates.

LABOR FORCE:- Number of persons actually working, or willing to work at the existing wage rate.

WORK FORCE: - Number of persons actually working, and does not account for those who are willing to work.

JOBLESS GROWTH: - Jobless growth is a situation when the level of output in the economy tends to rise owing to innovative technology without any perceptible rise in the level of employment.

SIZE OF WORK FORCE IN INDIA:- 1.India has a workforce of nearly 47.3 crore of persons. 2.About 70% of the workforce of the male workers and only 30% are female workers. 3.Nearly 75% of the workforce found in rural areas and urban workforce is only 25% of the total. 4.Female workforce in rural areas is nearly 25% , while it is only 20% in urban areas

RATE OF PARTICIPATION IN INDIA (RURAL- URBAN, MALE- FEMALE RATE

OF PARTICIPATION):- (i) Rate of participation for the urban areas is about 33.9 % in 2017-18 (ii) Rate of participation for the rural areas is about 35% in 2017-18 (iii) In urban areas, rate of participation is about 53% for man and 14.2% for women. (iv) In rural areas, rate of participation is about 51.7% for man and 17.5% for women.

SELF- EMPLOYMENT AND HIRED WORKERS IN INDIA:- URBAN WORKERS:- Hired worker 61% and self-employed 38% (2017-18). RURAL WORKERS:- Hired worker 42% and self-employed worker 58% (2017-18)

MALE WORK FORCE: - Hired male worker 48% and self-employed 52% (2017-18).

FEMALE WORK FORCE:- Hired female worker 48% and self-employed female worker 52%(2017-18).

CAUSES OF LOWER WOMEN PARTICIPATION IN WORK: - 1.women education in India is still lagging behind implies low employment opportunities for women 2.In urban areas, most families do not like women to do work 3.Women , by and large, undertake productive work only under compulsion 4. Many activities performed by women of India are not recognized as economic activities.

EMPLOYMENT IN FIRMS, FACTORIES AND OFFICES:- In the course of economic development of a country, labour flows from agriculture and other related activities to industry and services. Generally, we divide all economic activities into eight different industrial divisions. They are (i) Agriculture (ii) Mining and Quarrying (iii) Manufacturing (iv) Electricity, Gas and Water Supply (v) Construction (vi) Trade (vii) Transport and Storage and (viii) Services.

For simplicity, all the working persons engaged in these divisions can be clubbed into three major sectors viz., (a) primary sector which includes (i) , (b) secondary sector which includes (ii), (iii), (iv) and (v) and (c) service sector which includes divisions (vi), (vii) and (viii).

DISTRIBUTION OF WORKFORCE IN DIFFERENT SECTORS (OCCUPATIONAL STRUCTURE):-Percentage distribution of our workforce across primary, secondary tertiary sectors of the economy during the year 2017-18 - (i) Primary sector- primary sector is the main source of employment in India, which provides employment to about 44.6% of the workforce. (ii) Secondary sector – In this sector provides employment only about 24.4% of workforce. (iii) Tertiary sector- Nearly 31.0% of the workforce are employed in the service sector. DISTRIBUTION OF RURAL-URBAN WORKFORCE ACROSS DIFFERENT

SECTORS:- (I) About 59.8% in rural areas and 6.6% in urban workforce depends upon

agriculture and allied activities (2017-18). (ii) About 20.4% rural workforce and 34.3% urban workers are working in secondary sector (2017-18). (iii) Nearly 19.8% rural

workforce and 59.1% urban workers are working in tertiary sector (2017-18). DISTRIBUTION OF MALE-FEMALE WORKFORCE ACROSS DIFFERENT

SECTORS:- 1. Male and female workers are heavily employed in the primary sector 2. A

huge percentage of female workforce is engaged in primary sector that is 57.1% and about

40.7% male are employed in that sector (2017-18). 3. About 17.7% female workforce and

26.5% male workers are working in secondary sector (2017-18) 4. Nearly 25.2% female

workforce and 32.8% male workers are working in tertiary sector (2017-18). JOBLESS GROWTH:-“ Jobless growth is a situation when the level of output in the

economy tends to rise owing to innovative technology without any perceptible rise in the level of employment”.

(i) Jobless growth leads to chronic unemployment, even when there is a rise in

GDP(ii) During the recent past, GDP of India grew positive and higher than the employment growth

Why are we relying more on technology and less on employment? :- 1.Our growth

process is being increasingly hijacked by MNCs 2.MNCs achieving high growth through

efficient use of technology rather than through greater use of manpower 3.Result growth is moving faster than the opportunities of employment.

CASUALISATION OF WORKFORCE:-“It refers to a situation when the percentage of

casually- hired workers in the total workforce tends to rise over time” The distribution of workforce in different status indicates that over the last four decades (1972 -2012), people have moved from self-employment and regular salaried employment to casual wage work.

Yet self-employment continues to be the major employment provider. Scholars call the

process of moving from self-employment and regular salaried employment to casual wage

work as casualisation of workforce. Distribution of workers by category of employment: - 1.Self- employment 2.Regular workers 3. Casual workers

INFOALISATION OF WORKFORCE:- “Situation where percentage of workforce in the

formal sector tends to decline and that in the informal sector tends to rise”. Classify the workforce into two categories:

FORMAL WORKERS: - 1.Work in organized sector of the economy 2. Are entitled to

social security benefits 3.Can form trade unions 4.Are protected by various labor laws.

INFORMAL WORKERS: - 1.Work in unorganized sector of the economy 2. Are not

entitled to social security benefits 3.Cannot form trade unions 4.Are not protected by various labor laws.

RURAL AND URBAN UNEMPLOYMENT (NATURE OF UNEMPLOYMENT IN INDIA)

RURAL UNEMPLOYMENT: - 1. Disguised unemployment:- “When the number of workers engaged in a job much more than actually required” for example If three persons are required to cultivate a farm measuring one hectare but actually six persons are engaged there, then three persons are disguisedly unemployed. disguised unemployment is a feature of Indian agriculture because:- (i) On account of joint family system (ii) Per person holding size continues to shrink (iii) Lack of job opportunities outside agriculture. 2. SEASONAL

UNEMPLOYMENT:- It occurs simply because agriculture is a seasonal occupation .

During the off- season, often the farm workers are out of job. They have no work to do .

Workers engaged for few month in a year rest of period, they remain unemployed. There are three sources of data on unemployment (i) Reports of Census of India, (ii) National Sample Survey Organisation’s (NSSO) Reports (iii) Employment Exchanges.

URBAN UNEMPLOYMENT:- 1. Industrial unemployment :-“ Industrial unemployment refers to the unemployment among the illiterates who wish to work in industries, mining, transport, trade and construction activities, but are not getting jobs because of insufficient demand for labor” . The principal causes of Industrial unemployment are :- (i) Rapid rise in population overtime (ii) Concentration of industry in the urban areas (iii) Labor- saving western Technology . 2. Educated unemployment: - “Among the educated people which include matriculates to higher educated” educated unemployment arises due to :- (i) On account of expansion of educational institutions (ii) Education system in India is not job- oriented (iii) Increase in the size of educated labor force.

COMMON TYPES OF UNEMPLOYMENT ACROSS RURAL AND URBAN

AREAS:- 1. Open unemployment :- “When worker is willing to work, and has the necessary ability to work, yet he does not get work”(found among agricultural and educated persons)

2. Structural unemployment:- “Structural unemployment occurs due to structural change in the economy.” Structural changes are broadly of two types: (i) Changes in technology (ii) Changes in pattern of demand. 3. under unemployment: - “Situation in which a worker does not get a full time job” . He remains unemployment for some month in a year or some hours every day Under unemployment is of two kinds: (i) Visible unemployment (ii)

Invisible unemployment 4. Frictional unemployment:-“It occurs due to imperfections in the mobility of labor across different occupations” . One wishes to move from one job to the other, but in the process of change may remain unemployed for some time. 5. Cyclical unemployment: - It occurs owing to cyclical fluctuations in the economy: Phases of boom, recession, depression and recovery in the market economy.

CAUSES OF UNEMPLOYMENT IN INDIA:- 1.High population growth 2.Slow economic growth 3.Joint family system 4.Agriculture is a seasonal occupation 5.Faulty education system 6.Decay of cottage and small industries 7.Limited mobility of labor.

ECONOMIC AND SOCIAL CONSEQUENCES OF UNEMPLOYMENT

ECONOMIC CONSEQUENCES:- 1.Non-utilisation of manpower 2.Loss of output 3.Low capital formation 4. Low productivity SOCIAL CONSEQUENCES:- 1.Low quality of life 2.Social unrest 3.Class struggle 4.Greater inequality.

SUGGESTIONS TO SOLVE THE PROBLEM OF UNEMPLOYMENT:- 1. Increase in production 2.High rate of capital formation 3.Increase in productivity 4. Employment exchanges 5.Educational reforms 6.Help to self-employed persons 7.Technique of production 8. Importance to employment programmes .

GOVERNMENT POLICY AND PROGRAMMES:- Most poverty alleviation programmes implemented are based on the perspective of the Five Year Plans. Expanding self-employment programmes and wage employment programmes are being considered as the major ways of addressing poverty . Self-employment programmes :- (i)Rural Employment Generation Programme (REGP),(ii) Prime Minister's Rozgar Yojana (PMRY) and Swar na Jayanti Shahari Rozgar Yojana (SJSRY) (iii) Swarnajayanti Gram Swarozgar Yojana (SGSY) (iv) National Rural Livelihoods Mission (NRLM). Wage employment programmes :- (i) Mahatma Gandhi National Rural Employment Guarantee Act 2005. (MGNREGA):- The Parliament passed a new Act to provide guaranteed wage employment to every rural household whose adult volunteer is to do unskilled manual work for a minimum of 100 days in a year. (ii) Pradhan Mantri Gram Sadak Yojana,(iii) Pradhan Mantri Gramodaya Yojana, (iv) Valmiki Ambedkar Awas Yojana (v) Development of small and cottage industries (vi) Minimum needs programme (vii) Twenty- point programme (viii) Micro Units Development Refinance Agency Bank (MUDRA BANK) Government has set up MUDRA Bank in April 2015.Its objective is to meet credit needs of micro enterprise and self- employed persons. Under MUDRA yojna , a micro enterprise is entitled for a loan up to Rs. 10 lakh per unit.

ASSERTION & REASON (01 Marks)

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.

Q1. ASSERTION (A): Percentage of Female worker is low in Urban Area.

REASON (R): In urban areas, job for women is governed by Family decisions rather than Individual Decision.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

Q2. ASSERTION (A): Disguised unemployment is present in India.

REASON (R): Agricultural productivity at the margin is close to zero.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

Q3. ASSERTION (A): Worker-population ratio of women workers in rural areas is more than the women in urban areas.

REASON (R): The number of women workers in our country are generally underestimated because many activities undertaken by them are not recognised as productive work.

Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

Q4. ASSERTION (A): Labour force refers to the number of persons actually working and does not account for those who are willing to work.

REASON (R): Workforce is a measurement of actual labour force.

Ans: (d) Assertion (A) is false but Reason (R) is true.

Q5. ASSERTION (A): Women participation in workforce is less.

REASON (R): Women education in India is still lagging behind which implies low employment opportunities for women.

Ans: (a) Both Assertion (A) and Reason (R) are true an

MCQ

1. Workers who are on permanent pay-roll of their employer are called:

(A) Self-employed workers

(B) Casual workers

(C) Regular workers

(D) None of the above

2. Unemployment is defined as:

(A) The section of the population that is not capable of being employed

- (B) The section of population willing to work but unable to find employment
- (C) The section of population that is waiting to be employed
- (D) The section of population that are without the skills needed by employers

3. Data on unemployment in India can be obtained from which source?

- (A) Reports of Census of India
- (B) National sample survey organisation (NSSO)
- (C) Directorate general of employment
- (D) All the above

4. When more persons are working in a job than actually required, it is known as _____. (A) Disguised unemployment

- (B) Seasonal unemployment
- (C) Educated unemployment
- (D) Open unemployment

5. Those who work in their own establishment using their own resources are called _____. (A) Hired workers

- (B) Casual workers
- (C) Regular workers
- (D) Self-employed

6. _____ is a common form of unemployment in rural India.

- (A) Disguised unemployment
- (B) Structural unemployment
- (C) Educated unemployment
- (D) None of these

7. Unemployment common in urban areas

- (A) Seasonal unemployment
- (B) Disguised unemployment
- (C) Open unemployment
- (D) None of these

8. An establishment with four hired workers is known as _____ sector establishment.

- (A) Formal
- (B) Informal
- (C) (a) and (b)
- (D) None of the above

9. Most of the unemployment in India is

- (A) Voluntary
- (B) Structural
- (C) Frictional
- (D) Technical

10. _____ unemployment may result some workers are temporarily out of work while hanging job.

- (A) Cyclical
- (B) Voluntary
- (C) Fictional
- (D) Seasonal

11. If construction site manager hires two workers on daily wages basis, such a situation is covered under _____ (formal / informal) sector.

(CBSE 2020)

Ans. informal

12. In the past few decades _____ (primary/ secondary/ tertiary) sector has created maximum jobs opportunities in India. (CBSE 2020)

Ans. tertiary

13. State whether the following statement is true or false: (CBSE 2020)

'In the past few decades, primary sector has created maximum jobs in India'. Ans. False

Answer Key

1 C 2 B 3 D 4 A 5 D

6 A 7 C 8 B 9 B 10 C

SHORT AND LONG ANSWER TYPE QUESTION (3,4 &6 Marks)

Q1. (a) Comment upon the informalisation of labour force in India.

(b) Define the worker- population ratio. (CBSE 2020)

Ans. (a) INFORMALISATION OF WORKFORCE:- "Situation where percentage of workforce in the formal sector tends to decline and that in the informal sector tends to rise".

Formal sector is the organized sector of the economy.

INFORMAL WORKERS: - 1. Work in unorganized sector of the economy 2. Are not

entitled to social security benefits 3. Cannot form trade unions 4. Are not protected by various

labor laws. (b.) Worker- population ratio : Worker-population ratio is an indicator which is used for analysing the employment situation in the country.

This ratio is useful in knowing the proportion of population that is actively

contributing to the production of goods and services of a country. If the ratio is higher, it means that the engagement of people is greater; if the ratio for a country is medium, or low, it means that a very high proportion of its population is not involved directly in economic activities.

Q2. Analyse the trends in sectoral distribution of workforce in India on the basis of

Data: (CBSE 2020)

Trends in Employment pattern (sector- wise), 1972-2012 (in %)

Ans. As a evident the table, between period of 1972-73 to 2011-12, percentage of workforce:

Primary sector: percentage of workforce engaged in primary sector has declined from 74.3% to 48.9% .

Secondary and Service Sector: Secondary and service sectors are showing promising future for the Indian workforce. These sectors have increased from 10.9 to 24.3 per cent and 14.8 to 26.8 per cent, respectively.

Q3. Discuss briefly, why less women are found in regular salaried employment. (CBSE

Term- 2 2022, CBSE 2020)

Ans: In India, lesser women are found in regular salaried employment;

(i) As such jobs require high level of skills and literacy. (ii) Lack of mobility among women in India due to various socio- economic constraints, adds to problem.

Q4. 'Is it necessary to generate employment in the formal sector rather than in the informal sector'. Defend or refute the given statement with valid arguments. (CBSE 2020)

Answer: The formal sector not only provides employment but also several social security benefits. A worker in the formal sector gets higher salary and social security benefits. Various social security benefits that the worker can be assured of better quality of life when he becomes old or physically disabled. After the life of a worker, his family members can be assured of a decent life. The situation is totally opposite in the informal sector where even regular salary is a dream for most of the workers.

Hence, it is necessary to generate employment in the formal sector rather than in the informal sector.

Q5. Explain why regular salaried employees are generally more in urban areas than in rural areas. (CBSE Term- 2 2022)

Ans. Regular salaried employees are more in urban as they have variety of employment opportunities due to presence of more industries and as compared to the rural areas.

Higher level of literacy and skills are required in regular salaried jobs which are available in urban areas. Moreover enterprises in urban areas require workforce on a regular basis.

Q.6. What measures/steps have been taken by the government of India in generating employment or creating opportunities for employment generation in India?

Ans. The Union and State governments have played an important role in generating employment or creating opportunities for employment generation in India. Their efforts can be broadly categorised into two — direct and indirect.

- Direct employment generation – The government employs people in various departments for administrative purposes. It also runs industries, hotels and transport companies, and hence provides employment directly to workers.
- Indirect employment generation opportunities – When the output of goods and services from government enterprises increases, the private enterprises will also raise their output and hence increase the number of employment opportunities in the country.

For example, when a government owned steel company increases its output, it will result in direct increase in employment in that government company.

Simultaneously, private companies, which purchase steel from it will also increase their output and thus employment. This is the indirect generation of employment opportunities by the government in the country.

Moreover, many programmes that the governments implement, aimed at alleviating poverty, are through employment generation. They are also known as employment generation programmes. For example, Mahatma Gandhi National Rural Employment Guarantee Act 2005,

Pradhan Mantri Jan-Dhan Yojna 2014, Swarna Jayanti Gram Swarozgar Yojna (SGSY),

Pradhan Mantri Gramodaya Yojna, Valmiki Ambedkar Awas Yojna etc. All these programmes aimed at providing not only employment but also services in areas such as primary health, primary education, rural drinking water, nutrition,

assistance for people to buy income and employment generating assets,
construction of houses and sanitation, assistance for constructing houses, etc.

Q 7: Why are less women found in regular salaried employment? . Answer: There are many reasons for low representation of women in regular

salaried

employment.

i) Division of work: Deep rooted social beliefs are the main reason which segregate women's work as homemakers who are not supposed to venture out of their homes. Even though women are educated they prefer work at fewer wage.

ii) Low female literacy: Female literacy level is still below the male literacy level which means a less number of women are properly qualified and skilled to get a regular salaried job.

iii) Patriarchal System of Society: On the other hand, a male is expected to earn a livelihood so that he can support his family and thus a boy is mentally conditioned since his childhood to do something. A regular salaried job usually ensures a better social recognition and hence most of the unemployed first try to land a regular salaried job.

Q8. Concept of Labour force and workforce . Labour force includes all those who are working and those not working but is seeking

work. In other words it includes employed and unemployed workers.

The labour force includes all persons in the age group between 15 to 60 years who

are employed or available to work. Workforce includes all those who are employed at a particular point of time. In other

words this refers to those persons who are working.

It includes all persons who are engaged in economy activities so,

Labour force = Workforce + Unemployed persons

Workforce = No. of persons working

Q8. What are the measures that can be taken to eradicate the unemployment problem.

Measures that can be taken to eradicate the problem of unemployment are
(i) By controlling population ii) Creating alternative source of employment for agricultural workers / farmers iii) Development of villages and small scale industries iv) By introducing social reforms and bringing modernisation v) Employment oriented education and planning vi) Developing institutional credit facilities vi) Increase in investment and capital formation

ENVIRONMENT AND SUSTAINABLE ECONOMIC DEVELOPMENT

Sustainable Economic Development

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

Renewable resources -Renewable resources are those inexhaustible resources capable of being replenished easily. Water, trees and fish are the renewable resources.

Non-renewable resources- Non-renewable resources are those resources that are likely to be exhausted or depleted on use. Petroleum, coal and iron ore are non-renewable resources. The pace of re-occurrence of these resources is slower than that of their exploitation

Effects of Economic Development on Resources and Environment

Economic growth means an increase in real output (real GDP). Therefore, with increased output and consumption we are likely to see costs imposed on the environment. The environmental impact of economic growth includes the increased consumption of non-renewable resources, higher levels of pollution, global warming and the potential loss of environmental habitats.

However, not all forms of economic growth cause damage to the environment. With rising real incomes, individuals have a greater ability to devote resources to protecting the environment and mitigate the harmful effects of pollution. Also, economic growth caused by improved technology can enable higher output with less pollution.

External costs of economic growth

Pollution. Increased consumption of fossil fuels can lead to immediate problems such as poor air quality and soot, (London smogs of the 1950s). Some of the worst problems of burning fossil fuels have been mitigated by Clean Air Acts – which limit the burning of coal in city centres. Showing that economic growth can be consistent with reducing a certain type of pollution.

Less visible more diffuse pollution. While smogs were a very clear and obvious danger, the effects of increased CO₂ emissions are less immediately obvious and therefore there is less incentive for policy makers to tackle. Scientists state the accumulation of CO₂ emissions have contributed to global warming and more volatile weather. All this suggests economic growth is increasing long-term environmental costs – not just for the present moment, but future generations.

Damage to nature. Air/land/water pollution causes health problems and can damage the productivity of land and seas.

Global warming - Global warming refers to the phenomenon of sustained increase in global temperature due to environmental pollution and deforestation. It is caused by the emission of Green House Gases, particularly, carbon dioxide. The increase in the level of carbon dioxide raises the temperature of the earth surface, accelerating the melting of polar ice. This leads to the rise in the sea level. Thus, the disturbed ecological balance leads to increasing natural calamities, posing a threat to human survival.

ozone depletion- Ozone acts as a cover for the earth surface that is very essential for the sustenance of life. It prevents the harmful ultra violet radiations from penetrating the earth surface. But its depletion is becoming a global concern these days. This is due to the excessive use of cooling substances in the air conditioners and the refrigerators. As ozone depletes, the possibility of ultra violet radiations penetrating to the earth surface increases, posing a threat to the life on earth.

Soil erosion. Deforestation resulting from economic development damages soil and makes areas more prone to drought.

Loss of biodiversity. Economic growth leads to resource depletion and loss of biodiversity. This could harm future ‘carrying capacity of ecological systems’ for the economy. Though there is uncertainty about the extent of this cost as the benefit of lost genetic maps may never be known.

Long-term toxins. Economic growth creates long-term waste and toxins, which may have unknown consequences. For example, economic growth has led to increased use of plastic, which when disposed of do

not degrade. So there is an ever-increasing stock of plastic in the seas and environment – which is both unsightly but also damaging to wildlife.

Environment

Environment refers to all the surroundings which have an impact on human lives. It is the sum total of the surroundings and resources that effect our existence and quality of life. It includes all the biotic and abiotic factors. Biotic factors include all the living creatures like plants, animals, forests, etc. while abiotic factors include all non-living things like air, water, land, etc. that are provided free of cost by nature. Biotic and abiotic both make up our surroundings and impact our existence and quality of life. In other words, environment encompasses the r the biotic and abiotic components and their relations

Functions of Environment:

- 1. Offer Production Resources:** Environment provides us with wide tangible resources like minerals, water and soil. These are the gifts of nature. These resources act as an input for converting natural resources into productive and useful things. In other words, environment provides input for production that enhances human life qualitatively.
- 2. Sustains Life:** Environment provides us with vital ingredients like sun, soil, water and air that are necessary for the survival of life. Absence of these essential elements implies absence of life. It supports biodiversity.
- 3. Assimilates Waste:** The activities of production and consumption generate waste. This waste in the form of garbage is absorbed by the environment automatically.
- 4. Enhances Quality of Life:** Environment includes surroundings such as rivers, oceans, mountains and deserts. It provides scenic beauty that man admires in life and adds to the quality of human life.

Reason for Environmental Crises

(i) Rising Population

Rising population has exerted an excessive burden on the environment in terms of two basic aspects. The intensive and extensive extraction of both renewable and non-renewable resources has led to exhaustion of the vital resources. Also, the explosive population size has triggered excessive demand for housing, thereby, resulting in widespread deforestation and fast depletion of other natural resources leading to ecological imbalances. Therefore, it is high time for the Indian government to take preventive measures to control population explosion.

(ii) Air Pollution

Air consists of oxygen that supports life. Air pollution implies contamination of air, i.e. absence of fresh air (oxygen) to breathe. Various pollutants like CO₂, CO, SO₂, SO, etc. pollutes air. Air pollution causes hypertension, asthma, respiratory and cardio-vascular problems. Thus, the Indian government should take various steps to control air pollution, avoid deforestation, increase health investment and also search for new alternative pollution free technology such as CNG, etc.

(iii) Water Contamination

Contamination of water or pollution of water is posing a serious threat to human life. It is one of the principal causes of all deadly diseases such as diarrhea, hepatitis, cholera, etc. It occurs due to dumping of industrial waste, agricultural waste and sewerage into the water bodies. Thus, the Indian government should put a check on wastewater disposal. This calls for high capital investment for installation and maintenance of purifier machines.

(iv) Affluent Consumption Standards

Affluent Consumption Standards have placed a huge stress on the environment in terms of resources supply and assimilation of waste. The resources have become extinct and wastes generated are beyond the absorptive capacity of the environment leading to environmental crises. The government is compelled to spend huge amounts on research and development to explore alternative environment friendly resources. Also, upgradation of environmental quality entails huge cost

(v) Illiteracy

Man, if illiterate will not use the resources judiciously that will ultimately lead to overuse or misuse of the scarce resources. The resources can be judiciously and efficiently exploited (with minimum waste) only when people are aware of and skillful in utilising the resources. Otherwise lack of knowledge and skills may lead to excessive extraction of resources and, thereby, its misuse. Thus, the government should take measures to create awareness and spread technical knowledge among people about various efficient and economising methods.

(vi) Industrialisation

Industrialisation, on one hand, enhances our living standards but, on the other hand, it causes deforestation, depletion of natural resources. In the blind rage to achieve economic development, industrialisation acts as a catalyst. In order to speed up the process of industrialisation, natural resources are exploited at a rapid pace. More trees are being felled and, increasing volume of toxics and industrial wastes are dumped into the water bodies. All these culminate to ecological imbalances posing threat to sustainable economic development. Thus, the government should take measures to check undue and unnecessary industrial growth in order to restore ecological balance.

(vii) Urbanisation

Urbanisation, on the one hand, infuses modernisation of lifestyle but, on the other hand, it leads to deforestation. In order to meet the growing demand for houses, more trees are to be felled, decreasing the land-per-man ratio. Rapid urbanisation puts an excess burden on the natural resources, causing depletion. Urbanisation also reduces the availability of land for farming purpose and lowers farm outputs. Hence, the government should take measures to mitigate the impact of urbanisation by promoting small and cottage rural industries, rural infrastructural development, thereby, reducing the rural-urban migration. Further, the government should also promote afforestation and most importantly, adopt measures to arrest population explosion.

(viii) Reduction of forest coverage

The need for reduction of forest coverage or deforestation arises due to the growing demand for land, wood, rise in population and river valley projects. Deforestation leads to reduction in oxygen level in air, soil erosion, climate change and global warming due to rise in the CO₂ level. Thus, measures are needed to promote afforestation, opening up of sanctuaries and national park such as Jim Corbett National Park.

(ix) Poaching

Poaching is the illegal capturing, killing and hunting of animals. Due to this, many animals are on the verge of extinction. The excessive hunting and killing of animals result in serious ecological imbalances. Thus, in order to save the rare species such as Tiger, Asian Elephants, Grevy's Zebra, etc. more sanctuaries and national parks are to be set up. There is also need for various environmental legislations like Endangered Species Act in the USA that imposes strict penalties on the law breakers.

(x) Global warming

Global warming refers to the phenomenon of sustained increase in global temperature due to environmental pollution and deforestation. It is caused by the emission of Green House Gases that include, particularly, carbon dioxide. The increase in the level of carbon dioxide raises the temperature of the earth surface. This risen temperature accelerates the melting of polar ice that further leads to the rise in the sea level. Thus, the incidence of natural calamities rises due to disturbed ecological balance, thereby, posing a threat to human life.

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

IMPORTANT QUESTIONS

Q 1) 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.

Q 2) 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.

Q 3) What has caused Global Warming?

The Global warming is due to increase in the Green-house gas concentrations, like water vapor, carbon-dioxide, methane and ozone in the atmosphere.

Q 4) 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.

Q 5) Why have some resources become extinct?

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

Q 6) What happens when the rate of resource extraction exceeds that of their regeneration?

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.

Q.7)“Recently Indians have drifted away from the traditional knowledge and practices and caused large scale damage to environment”. Explain how, adopting the traditional practices can be helpful in achieving the objective of sustainable development

The given statement is quite appropriate. Indian traditional practices were environment friendly and worked as complementary to the system and not its controller. The traditional agriculture system, healthcare system, housing, transport etc. were intrinsically environment friendly .The traditional practices used natural products and processes which are more or less free from side effects. For example by adopting medicinal plants/products we can conserve the resources and achieve the objective of sustainable development.

Q.8) India has abundant natural resources - substantiate the statement.

India is fortunate enough to have abundant natural resources. It comprises of rich and fertile soil, plenty of rivers and tributaries, green forests, mineral deposits, mountains, etc. The Indo-Gangetic plains are the most fertile, densely populated and cultivated plains in the world. It stretches from the Arabian Sea to the Bay of Bengal. The black soil of the Deccan Plateau is suitable for the cultivation of cotton in the country. India's lush green forests serve as a natural cover for the majority of the population. India holds more than 20 % of the world's total iron ore reserves. There are mountain ranges that facilitate the operation of the mini hydel plants. It also has vast variety of flora of 15,000 species of plants. The country is also endowed with numerous minerals that are found under the earth's surface like coal, natural gas, copper, diamonds, etc.

Q.9) Is environmental crisis a recent phenomenon? If so, why?

Yes, the environmental crisis is a very recent phenomenon; the sparks of such crisis were never visible in the past. In the early centuries before industrialization, the population growth was on a tight rein. The demand of the environmental resources was much lower than its supply. Environment supported the world's population in the past as the rate of usage of the resources was lesser. Also, the rate of regeneration of resources exceeded the rate with which the resources were exploited. In other words, the threat of environment crisis was never felt in the past as the exploitation of natural resources was within the carrying capacity of the environment. But, today, due to heavy industrialization, urbanization, man has started exploiting nature to its maximum. Nuclear and industrial wastes being dumped into the water bodies, pollution of land and air has affected the environment in three-fold manner. Now, the rate of exploitation of natural resources is lagging behind the rate of regeneration of the natural resources. Consequently, the mounting pressure on the carrying capacity of the environment is paving the way for environmental crises.

-----X-----
ENVIRONMENT — DEFINITION:- 'It includes all the biotic and abiotic factors that influence each Other'. While all living elements — the birds, animals and plants, forests, fisheries etc.— are biotic elements, abiotic elements include air, water, land etc. Rocks and sunlight are all examples of abiotic elements of the environment.

Function (Importance/ Significance) of environment:- 1.Environment offers resource for production:- resources here include both renewable and non-renewable resources. Renewable resources are those which can be used without the possibility of the resource becoming depleted or exhausted. That is, a continuous supply of the resource remains available.

2.Enhances quality of life 3. Environment sustains life by providing genetic and bio diversity

4.Environment assimilates waste:- This implies that the resource extraction is not above the rate of regeneration of the resource and the wastes generated are within the assimilating capacity of the environment.

Problems related to Environment: - 1.Problem of pollution 2.Problem of excessive exploitation of natural resources. 1. Problem of pollution:- The intensive and extensive extraction of both renewable and non-renewable resources has exhausted some of these vital resources and we are compelled to spend huge amounts on technology and research to explore new resources. Added to these are the health costs of degraded environmental quality — decline in air and water quality (seventy per cent of water in India is polluted)have

resulted in increased incidence of respiratory and water-borne diseases. Hence the expenditure on health is also rising. To make matters worse, global environmental issues such as global warming and ozone depletion also contribute to increased financial commitments for the government. Thus, it is clear that the opportunity costs of negative environmental impacts are high. (i) Air pollution (ii) Water pollution (iii) Noise pollution

2.Excessive exploitation of natural resources:- Deforestation :- “Deforestation refers to the removal or destruction of the forest cover of an area”. Causes of Deforestation :- (i) It is caused by growing demand for wood other forest products by the industries (ii) Increasing pressure of population (iii) Industrialization leads to urbanization and urbanization and urbanization induces deforestation (iv) Construction of dams is another factor for deforestation.

Degradation of land: - “Degradation of land means loss of fertility of land”. Degradation of land is caused by the following factors. (i) Soil erosion (ii) Water logging (iii) Deforestation (iv) Excessive use of fertilizers.

Cause of environmental degradation:- 1.Population explosion 2.Poverty 3.Increasing urbanization 4.Rapid industrialization 5.Increasing use of insecticides, pesticides and chemical fertilizers 6.Disregard to the civic norms 7.Multiplicity of transport vehicles 8.Improper crop rotation 9.Poverty of the agriculture-dependent people.

State of environment in India:- India supports approximately 17 per cent of the world’s human and 20 per cent of livestock population on a mere 2.5 per cent of the world’s geographical area. The high density of population and livestock and country as a result of which the country loses 0.8 million tonnes of nitrogen, 1.8 million tonnes of phosphorus and 26.3 million tones of potassium every year. Our challenging issues are : (i) Land degradation (ii) Loss of biodiversity (iii) Air pollution an urban areas (iv) Management of fresh water and (v) Management of solid waste .

Principal factors contributing to land degradation in India :- (i) Loss of vegetation due to deforestation (ii) Multiple cropping along with subsistence farming by small and marginal holders (iii) Excessive use of chemical fertilizers, insecticides and pesticides (iv) Low watertable (v) Soil erosion occurring due to floods, strong winds and other factor .

HOW TO SAVE ENVIRONMENT? :- 1.Social awareness 2.Population control

3.Afforestation campaign 4.Enforcement of environment conservation Act 5.Water management 6.Management of solid waste 7.Control over industrial and agricultural

pollution 8.Improvement in housing . Government measures for environment protection:- 1.The environment protection

Act.1986. The Forests (protection) Act 1980 3. Pollution control boards 4. Clean development mechanism 5. National Green Tribunal Act, 2010.

Global warming:- "Global warming refers to the phenomenon of sustained increase in global temperature due to environmental pollution and deforestation." Causes of Global

warming:- (i) Burning of coal and petroleum products are sources of carbon dioxide (ii)

Deforestation (increases the amount of carbon dioxide) Release of methane gas from animal waste .

SUSTAINABLE DEVELOPMENT:- "Sustainable development is that process of economic development which aims at raising the quality of life of both present and future generations, without harming natural resources and environment". The concept of sustainable development was emphasised by the United Nations Conference on Environment and Development (UNCED), which defined it as: 'Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs'.

The Brundtland Commission emphasises on protecting the future generation. This is in line with the argument of the environmentalists who emphasise that we have a moral obligation to hand over the planet earth in good order to the future generation; that is, the present generation should bequeath a better environment to the future generation.

The present generation can promote development that enhances the natural and built environment in ways that are compatible with (i) conservation of natural assets (ii) preservation of the regenerative capacity of the world's natural ecological system (iii) avoiding the imposition of added costs or risks on future generations. Features of

sustainable development :- 1. Increase in per capita income and welfare over time
2. Rational use of natural resources 3. Check on pollution 4. Ability of future generations to fulfill their need.

STRATEGIES FOR SUSTAINABLE DEVELOPMENT:- 1. Use of Non-conventional

Sources of Energy: India, as you know, is hugely dependent on thermal and hydro power plants to meet its power needs. Both of these have adverse environmental impacts. Wind power and solar rays are good examples of conventional but cleaner and greener energy sources but are not yet been explored on a large scale due to lack of technological devices. 2.

LPG, Gobar Gas in Rural Areas: Households in rural areas generally use wood, dung cake or other biomass as fuel. This practice has several adverse implications like deforestation, reduction in green cover, wastage of cattle dung and air pollution. To rectify the situation, subsidised LPG is being provided. In addition, gohar gas plants are being provided through

easy loans and subsidy. As far as liquefied petroleum gas (LPG) is concerned, it is a clean fuel — it reduces household pollution to a large extent. Also, energy wastage is minimised. 3. CNG in Urban Areas:- In Delhi, the use of Compressed Natural Gas (CNG) as fuel in public transport system has significantly lowered air pollution and the air has become cleaner in the last few years. 4. Solar Power through Photovoltaic Cells: India is naturally endowed with a large quantity of solar energy in the form of sunlight. Plants use solar energy to perform photosynthesis. Now, with the help of photovoltaic cells, solar energy can be converted into electricity. 5. Mini-hydel Plants: In mountainous regions, streams can be found almost everywhere. A large percentage of such streams are perennial. Mini-hydel plants use the energy of such streams to move small turbines. 6. Input efficient technology 7. Integrated rural development 8. Use of environment friendly sources of energy 9. Manage the wastes 10. Shift to organic farming 11. Public means of transport 12. Awareness to conserve natural assets for inter-generational equity.

ASSERTION & REASON

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.

Q1. ASSERTION (A): The environment fails to perform its vital function of life sustenance and this results in an environmental crisis.

REASON (R): Many resources have become extinct and the wastes generated are beyond the absorptive capacity of environment.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

Q2. ASSERTION (A): The environment has an important function of supplying resources, both renewable and non-renewable resources.

REASON (R): The environment is able to perform its functions as long as the demand on these functions is within its carrying capacity.

Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

Q3.ASSERTION (A): Sustainable development is the development that meets the need of present generation without compromising the ability of the future generations to meet their own needs.

REASON (R): Conservation and promotion of natural resources.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

Q4.ASSERTION (A): Environmental degradation owes a great deal to supply demand reversal of resources over time.

REASONING (R): Global warming is wake up call to save environment.

Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

Q5. ASSERTION (A): Deforestation is rising at such a rapid scale that it has totally disturbed the ecological balance of the country.

REASON (R): Deforestation is one of the major reason for soil erosion.

Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

MCQ & OTHER 01 Marks Question

1. Which of the following is not used as a strayegy for the sustainable development?

(CBSE 2020)

- (a) Use of bio-gas
- (b) Use of solar power
- (c) Use of thermal power
- (d) Use of hydel power

Ans. (c)Use of thermal power

2. Central Pollution Control Board has identified _____ categories of large and medium industries as polluting industries. (CBSE 2020)

- (a) 15 (b) 17
- (c) 19 (d) 13

Ans. (b) 17

3. Environmental includes:

- (a) Biotic factors (b) Abiotic factors
- (c). Both (a) and (b) (d) None of the above

Ans. (c). Both (a) and (b)

4. Which of the following statement is correct?

- (A) Global warming is entirely a natural phenomenon
- (B) Global warming is simply another term used for green house effect
- (C) Global warming is the rise in average temperature at the earth's surface
- (D) Global warming is caused by ozone depletion

Ans. (c) Global warming is the rise in average temperature at the earth's surface

5. In 1997, a UN conference on climate change was held in :

- (a) Japan (b) India
- (c) Germany (d) China

Ans. Japan

6. Which are the catch phrases in the following UNCED definition of Sustainable Development:

“Development that meet the need of the present generation without compromising the ability of the future generation to meet their own needs.”

- (a) Need
- (b) Future generation
- (c) Need and present generation
- (d) Need and future generation

Ans. (d) Need and future generation

7. Brundtland Commission in 1987 defined sustainable development as:

- (A) A type of development which put the interests of developing countries ahead of the interests of the rich nations
- (B) Development which meets the needs of present generation without compromising the ability of future generation to meet their own needs
- (C) Development that protects the future generation even at the expense of present generation
- (D) None of the above

Ans (b) Development which meets the needs of present generation without compromising the ability of future generation to meet their own needs

8. The ability of the environment to absorb degradation is:

- (a) Carrying capacity
- (b) Absorptive capacity
- (c) (a) and (b)
- (d) None of the above

Ans. (b) Absorptive capacity

SHORT AND LONG ANSWER TYPE QUESTION (3,4 & 6 Marks)

Q1. State and discuss any two environmental concerns faced by India in the present times (CBSE 2020)

Ans. Two environmental concerns faced by India in the present times :

1. Problem of pollution:- The intensive and extensive extraction of both renewable and nonrenewable resources has exhausted some of these vital resources and we are compelled to

spend huge amounts on technology and research to explore new resources. Added to these are

the health costs of degraded environmental quality — decline in air and water quality

(seventy per cent of water in India is polluted) have resulted in increased incidence of

respiratory and water-borne diseases. Hence the expenditure on health is also rising. To

make matters worse, global environmental issues such as global warming and ozone

depletion also contribute to increased financial commitments for the government. Thus, it is

clear that the opportunity costs of negative environmental impacts are high. (i) Air pollution

(ii) Water pollution (iii) Noise pollution

2. Excessive exploitation of natural resources:- Deforestation :- “Deforestation refers to

the removal or destruction of the forest cover of an area”. Causes of Deforestation :- (i) It is

caused by growing demand for wood other forest products by the industries (ii) Increasing

pressure of population (iii) Industrialization leads to urbanization and urbanization and

urbanization induces deforestation (iv) Construction of dams is another factor for

deforestation.

Q2. What is meant by sustainable development? Discuss briefly any two strategies of

sustainable development. (CBSE 2020) . Ans. SUSTAINABLE DEVELOPMENT:- “Sustainable development is that process of

economic development which aims at raising the quality of life of both present and future

generations, without harming natural resources and environment”. The concept of

sustainable development was emphasised by the United Nations Conference on Environment

and Development (UNCED), which defined it as: ‘Development that meets the need of the

present generation without compromising the ability of the future generation to meet their

own needs’.

STRATEGIES FOR SUSTAINABLE DEVELOPMENT:- 1. Use of Non-conventional

Sources of Energy: India, as you know, is hugely dependent on thermal and hydro power

plants to meet its power needs. Both of these have adverse environmental impacts.

2. LPG, Gobar Gas in Rural Areas: Households in rural areas generally use wood, dung

cake or other biomass as fuel. This practice has several adverse implications like deforestation, reduction in green cover, wastage of cattle dung and air pollution. To rectify the situation, subsidised LPG is being provided. In addition, gobar gas plants are being provided through easy loans and subsidy. As far as liquefied petroleum gas (LPG) is concerned, it is a clean fuel — it reduces household pollution to a large extent. Also, energy wastage is minimised.

3. CNG in Urban Areas:- In Delhi, the use of Compressed Natural Gas (CNG) as fuel in public transport system has significantly lowered air pollution and the air has become cleaner in the last few years.

4. Solar Power through Photovoltaic Cells: India is naturally endowed with a large quantity of solar energy in the form of sunlight. Plants use solar energy to perform photosynthesis. Now, with the help of photovoltaic cells, solar energy can be converted into electricity. 5. Mini-hydel Plants: In mountainous regions, streams can be found almost everywhere. A large percentage of such streams are perennial. Mini-hydel plants use the energy of such streams to move small turbines.(Any Two Strategies)

Q3. Define the following : (CBSE 2020)

- (a) Carrying capacity of environment.
- (b) Bio-composting
- (c) Sustainable development
- (d) Absorptive capacity of the environment.

Ans (a) Carrying capacity of environment: This implies that the resource extraction is not above the rate of regeneration of the resource and the wastes generated are within the assimilating capacity of the environment.

When this is not so, the environment fails to perform its third and vital function of life sustenance and this results in an environmental crisis.

(b) Bio-composting : In our quest to increase agricultural production during the last five decades or so, we almost totally neglected the use of compost and completely switched over to chemical fertilisers. The result is that large tracts of productive land have been adversely affected, water bodies including ground water system have suffered due to chemical contamination and demand for irrigation has been going up year after year.

Farmers, in large numbers all over the country, have again started using compost made from organic wastes of different types. In certain parts of the country, cattle are maintained only because they produce dung which is an important fertiliser and soil conditioner.

Earthworms can convert organic matter into compost faster than the normal composting process.

(c) Sustainable development: “Sustainable development is that process of economic development which aims at raising the quality of life of both present and future generations, without harming natural resources and environment”.

The concept of sustainable development was emphasised by the United Nations Conference on Environment and Development (UNCED), which defined it as:

‘Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs’.

(d) Absorptive capacity of the environment: Absorptive capacity means the ability of the environment to absorb degradation. The result — we are today at the threshold of environmental crisis.

The past development has polluted and dried up rivers and other aquifers making water an economic good. Besides, the intensive and extensive extraction of both renewable and nonrenewable vital resources and we are compelled to spend huge amounts on technology and research to explore new resources.

Q4. State any two harmful effects of using chemical fertilizers. (CBSE Term-2 2022 -2 Marks)

Ans. Two harmful effects of using chemical fertilizers are:

(i) Contamination of soil

(ii) Contamination of ground water.

Q5. Define the following a) Carrying capacity b) Absorptive capacity c) Global

warming d) Ozone depletion. a) 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.

b) Absorptive capacity means the ability of the environment to absorb degradation. c) Global warming is due to an increase in Greenhouse gas concentrations, like

water vapour, carbon dioxide, methane, and ozone in the atmosphere. d) It refers to the destruction of ozone in the ozone layer, due to the presence of chlorine

from manmade chlorofluorocarbons and other forces

Q6. What are the causes of environment degradation?

Causes of Environment degradation are:-

i) Population explosion ii) Widespread poverty iii) Increasing urbanisation iv) Excess use of insecticides and pesticides v) Rapid industrialisation vi) Disregard for civic norms

Q7. Identify four factors contributing to land degradation in India. Ans. Principal factors contributing to land degradation in India :-

- (i) Loss of vegetation due to deforestation
- (ii) Multiple cropping along with subsistence farming by small and marginal
- (iii) Excessive use of chemical fertilizers, insecticides and pesticides
- (iv) Low water- table
- (v) Soil erosion occurring due to floods, strong winds and other factor .

Q8. What is environment? Explain significance of environment.

Ans. - ' It includes all the biotic and abiotic factors that influence each Other'. While all living elements — the birds, animals and plants, forests, fisheries etc.— are biotic elements, abiotic elements include air, water, land etc. Rocks and sunlight are all examples of abiotic elements of the environment.

Function (Importance/ Significance) of environment:- 1.Environment offers resource for production:- resources here include both renewable and non-renewable resources. Renewable resources are those which can be used without the possibility of the resource becoming depleted or exhausted. That is, a continuous supply of the resource remains available.

2.Enhances quality of life

3. Environment sustains life by providing genetic and bio diversity

4. Environment assimilates waste: - This implies that the resource extraction is not above the rate of regeneration of the resource and the wastes generated are within the assimilating capacity of the environment. -----

SOURCE --- STUDY MATERIAL CHANDIGARH(ZIET)

Unit 8

Development Experience of India: A Comparison with Neighbours

Gist of the Chapter: Study of the development experience of India as a comparison with its two immediate and strategically important neighbours China and Pakistan over a range of socio-economic issues like demography, economic growth, sectoral development, sectoral employment and other human development indicators. This unit makes a comparative assessment of the policies devised and implemented by these three countries in the aftermath of their independence from colonial rule after the end of World War II.

All the three countries started their development journey as independent countries almost at the same time and also in similar circumstances of poverty and economic backwardness. India and Pakistan became independent in 1947 and the Republic of China came into existence in 1949. The similarity among these countries doesn't lie only in their timing but also in the kind of development models adopted around the middle of 20th century. All the three countries started their economic planning in similar ways. India announced its First Five Year Plan in 1951, Pakistan in 1956 and China in 1953. The similarity starts changing with passing decades and is evident today in the form of starkly different levels of achievements in the three countries.

First, we look at the development strategies of the two neighboring countries China and Pakistan separately and then make a comparative assessment of the three countries together with the help of relevant statistics.

A. China

In the beginning, China adopted the following strategies economic development and prosperity:

1. Government Control: - The first and most important decision which builds the economy of China is to brought all the sectors of the economy, enterprises and lands owned and operated by the individuals under government control.
2. In 1953, China adopted its First Five Year Plan.
3. Great Leap Forward: - In 1958, a leap forward campaign was launched by the Government of China for the process of industrialization. This campaign aims at modernizing the economy by rapid industrialization. People were encouraged to set up industries in the backward areas. The process of industrialization aids to the growth rate of the economy of China.
4. Great proletarian cultural revolution (by Mao tse tung): - In 1965, Mao, the chairman of the Communist Party of China has introduced the Great proletarian cultural revolution (1966-76). According to this revolution, students and professionals were sent to work and learn from rural areas. This helps the people of China to understand the basic problem of the economy and to help others in the path of development. Development strategies.
5. Reforms: China implemented economic reforms in the following two phases:
 - i) In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors. It involved allocation of land to the general public who were allowed to keep all the income from the land after paying a certain minimum tax.
 - ii) In the later phase, reforms were initiated in the industrial sector. Under this private firms and village enterprises were allowed to produce goods.
6. Dual pricing System: According to this system, the farmers and industrial units are obliged to buy and sell fixed quantities of inputs and outputs at the prices fixed by the government and the rest were sold and purchased at market prices.
7. In order to attract foreign investors, SEZs were set up. These were special regions that had economic laws different from those followed in other parts of the country. For example, provision of cheap labour, lower tax rates, subsidized electricity supply etc. The main

objective of setting up these SEZs was to attract foreign investment and also increase exports.

- China also adopted One Child Policy in 1970s to control increasing population.

B. Pakistan

The major highlights of the development policy of Pakistan are as follows:

- Mixed Economy:** Like India Pakistan also adopted a model of mixed economy. It is a type of economy in which both the private and public sector are participating in productive activities. The allocation of resources is made by the government to remove the central problem of the economy with the help of the private sector. Since, the Private sector is guided for maximizing their profit.
- Green Revolution:** The green revolution in Pakistan was started in 1953. It refers to sudden and spectacular rise in production and productivity of foodgrains in Pakistan. Increase in public investment in agriculture in developing infrastructure and on and off farm support services resulted in increase in foodgrain production in Pakistan.
- Role of Public Sector:** In the beginning Pakistan assigned strategically important role to the public sector similar to what happened in India during early decades of development.
- Development Policies:** After independence, Pakistan adopted various policies to protect the domestic manufacturers and traders and to accelerate the economic growth. Pakistan introduced policy of import substitution, tariff protection for manufacturing of consumer goods and so on.
- Economic Reforms:** In 1988, Pakistan started economic reforms after realising the importance of role of private sector in economic development. Disinvestment of PSUs and encouragement to private sector was the main focus of the policy of economic reforms in Pakistan.

A detailed analysis of the development experience of India has been made in the previous chapters of the book 'Indian Economic Development'. So now we make a comparative assessment of the development experience of India, China and Pakistan in the following section.

Demographic indicators: - (Relating to the structure of the population)

Select Demographic Indicators, 2017-18

Country	Estimated Population (in Millions)	Annual growth of population	Density (persons per sq. km)	Sex Ratio	Fertility rate	Urbanization
India	1352	1.03	455	924	2.2	34
China	1393	0.46	148	949	1.7	59
Pakistan	212	2.05	275	943	3.6	37

- Population:** China is the most populous country in the world as shown in the table. As per the latest figures India has become most populous country in the world by 2023. Pakistan has the lowest population among the three countries.
- Population Growth Rate:** It is highest in Pakistan followed by India and China. The One Child Policy adopted by China has been responsible for the reduced annual growth rate of population.
- Sex Ratio:** It refers to the number of males per 1000 females in a country. It is most favourable in China followed by China and India.

4. Population Density: It refers to number persons living per unit area which is usually taken as square kilometers. The population density is highest in India (455) followed by Pakistan (275) and China (148).

Gross Domestic Product and Sectors

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

Country	1980-90	2015-2017
India	5.7	7.3
China	10.	6.8
Pakistan	6.3	5.3

One of the much-talked issues around the world about China is its growth of Gross Domestic Product. China has the second largest GDP (PPP) of \$22.5 trillion in the world, whereas, India's GDP (PPP) is \$9.03 trillion and Pakistan's GDP is \$ 0.94 trillion, roughly about 11 per cent of India's GDP. India's GDP is about 41 per cent of China's GDP.

When many developed countries were finding it difficult to maintain a growth rate of even 5 per cent, China was able to maintain near double-digit growth during 1980s as can be seen from Table 10.2. Also, notice that in the 1980s, Pakistan was ahead of India; China was having double-digit growth and India was at the bottom. In 2015–17, there has been a decline in Pakistan and China's growth rates, whereas, India met with moderate increase in growth rates.

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

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

1. Area suitable for agriculture in China is just 10% of its total land.
2. China's agricultural land is just 40% of India's agricultural area.
3. Till 1980 nearly 80% of China's population was engaged in agriculture.
4. The government encouraged farmers to shift to other occupations like handicrafts trade and transport.
5. In 2018-19 only 26% of its Population was involved in agriculture.

Trends in Output Growth in Different Sectors, 1980–2015

Country	1980–90	2014–18

	<i>Agriculture</i>	<i>Industry</i>	<i>Service</i>	<i>Agriculture</i>	<i>Industry</i>	<i>Service</i>
India	3.1	7.4	6.9	3.1	6.9	7.6
China	5.9	10.8	13.5	3.1	5.3	7.1
Pakistan	4	7.7	6.8	1.7	4.8	5.0

In the last five decades, the growth of agriculture sector, which employs the largest proportion of workforce in all the three countries, has declined. In the industrial sector, China has maintained a near double-digit growth rate in 1980s but began showing decline in recent years, whereas, for India and Pakistan growth rate has declined. In case of service sector, China was able to maintain its rate of growth during 1980–1990, while there was a positive and increasing growth of India's service sector output. Thus, China's growth is contributed by the manufacturing and service sectors and India's growth by the service sector. During this period, Pakistan has shown deceleration in all three sectors.

Human Development Indicators

Some Selected Indicators of Human Development, 2017-2019

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

From the above table the following observations can be made:

1. HDI score of China is highest followed by India and Pakistan.
2. HDI ranking of China is very high (87) when compared with India (130) and Pakistan (154).
3. Life expectancy at birth in China (76.9) is more than India (69.7) and Pakistan (67.3) by almost 10 years.
4. Per capita income in China is very high as compared to both India and Pakistan.
5. Percentage of under nourished children in China is very low (8.1) as compared to that in India (37.9) and Pakistan (37.6).
6. Infant mortality in Pakistan is very high (57.2) as compared to China (7.4) and India (29.9).

7. Maternal mortality in China is also very low (29) when compared with India (133) and Pakistan (140) who are at similar level.

In general, China has been able to make extraordinary progress in the field of economic as well as human development sectors when compared with India and Pakistan who started their development journey at the same time 70 years ago.

Multiple choice Question/ fill in the blanks /match the column and etc.

1. The great leap forward (GLF) campaign was launched in China in the year:

a)1944. b)1958. c)1970. d)1980)

2. India and Pakistan are now relying more on sector in terms of the sectoral composition to GDP:

A) Secondary. B) tertiary C) either (a) or (b). D) primary

3. One child policy is adopted by which of the following countries?

A) India B) Pakistan C) China. D) either (a) or (b)

4. Reforms were introduced in Pakistan in:

A)1991 B)1988 C)1978 D)2000

5. In which of the country's reforms were started in 1978?

A) India B) China C) Pakistan D) None of these

6. program was started in China with the aim of industrialisation.

a. great Leap Forward (b) great proletarian cultural revolution (c) one child policy
(d) none of these

7. China announced its Five Year Plan in the year ... (1953/1949)

8. Pakistan announced its five-year plan in the year..... (1956/ 1951)

9. Arrange the following events of China in chronological order and choose the correct alternative:

- (I) Great proletarian cultural Revolution
- (II) Great Leap Forward campaign
- (III) Introduction of Economic Reforms
- (IV) First five-year plan

(Choose the correct alternative)

- (a) (ii), (iv), (iii), (i)
- (b) (iv), (ii), (i), (iii)
- (c) (ii),(iv),(i),(iii).
- (d) (iv),(i),(ii),(iii)

10. Arrange the following events in chronological order:

- (i) The Great proletarian cultural Revolution
- (ii) Initiation of reforms in Pakistan
- (iii) Agricultural reforms in China

(iv) Opening up of Indian economy Choose the correct alternative:

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

Assertion and reason

11. Assertion (A): Great proletarian Cultural revolution was launched to address economic recession.

Reason (R): Great leap forward failed to accelerate the pace of development. Alternatives:

- a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
- b) Both Assertion and Reason 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

12. Assertion (A): China has the lowest density of population as compared to India and Pakistan.

Reason(R): China has a very large geographical area. Alternatives:

- a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
- b) Both Assertion and Reason 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

13. Assertion (A): GLF was the campaign Launched in China to accomplish economic and industrial development at a faster rate.

Reason(R): It focused on discouraging people to establish industries in their backyard. Alternatives:

- a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
- b) Both Assertion and Reason 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

14. Assertion (A): Pakistan relies upon remittances and borrowing from abroad to meet its forex needs.

Reason (R): It experiences volatility in its forex reserves. Alternatives:

- a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)

- b) Both Assertion and Reason are true and Reason (R) is not the correct
- c) Both Assertion and Reason are true and Reason (R) is not the correct explanation of Assertion A
- d) Assertion (A) is True but Reason (R) is False
- e) Assertion (A) is False but Reason (R) is True

15. "China has performed exceedingly well in various health and economic indicators". Identify which of the following is not a health indicator?

- A) Infant mortality rate
- B) Life expectancy at birth.
- C) Percentage of people below poverty line.
- D) Maternal mortality rate.

16. In China, Commune system is related to..... sector.

- A) Agriculture
- B) Industry
- C) Services
- D) Informal

Q.17. Under _____ in China, farmers and industrial units were required to buy and sell fixed quantities of inputs and outputs on the basis of prices fixed by the government and the rest were purchased and sold at market prices.

(Choose the correct alternative)

- a) Commune System b) Great Leap Forward
- c) Dual Pricing d) Great Proletarian Cultural Revolution

Answer:

1	B	5	B	9	B	13	C	17
2	D	6	A	10	D	14	A	C
3	C	7	1953	11	A	15	C	
4	B	8	1956	12	A	16	A	

3/4 MARKS QUESTIONS

1. **Explain at least three areas where India and Pakistan both have achieved success.**

Ans. India and Pakistan have achieved success in the following common areas:

- A) Both India and Pakistan have succeeded in more than doubling their per capita incomes. This is a remarkable feat considering that the population has increased fourfold in case of Pakistan and threefold in India.
- B) The incidence of poverty (defined as one dollar per day) has also been reduced significantly although the number of absolute poor remains astoundingly high.
- C) Food production has not only kept pace with the rise in population but has surpassed it. Both countries are self-sufficient in foodgrain production.

2. Why are regional and economic groupings formed?

Ans: Different nations throughout the world are motivated to form regional and global economic groups such as SAARC, European Union, ASEAN, and others in order to better grasp diverse means and plans for economic strengthening. Such formations allow member countries to learn about the development methods and policies used by other members.

This allows them to assess their strengths and weaknesses and, as a result, adopt strategies to expedite social growth and cultural development among its member countries. Second, another key reason for the formation of these associations is to maintain the member countries' peace and stability. Furthermore, these organizations provide a common forum for people to unite and speak out on shared issues in order to protect their common interests.

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

Ans: The following are the different methods through which nations are attempting to boost their domestic economies: To boost their economies, nations are joining numerous regional and economic groups such as SAARC, the European Union, the G-8, the G-20, and ASEAN. These organizations provide a shared forum for member countries to speak out on common concerns in a cohesive voice in order to protect their common interests. They are also interested in learning about the developmental processes used by their neighboring countries in order to assess their own strengths and flaws. As a result, they adopt strategies to enhance social and cultural growth among member countries. Furthermore, governments are liberalizing their economy. This reduces the government's involvement in economic activity. The economy is governed by market forces, i.e. demand and supply factors.

Nations also use the globalisation process to open up their economy and create a large worldwide market to their domestic producers.

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

Ans: Both India and Pakistan have pursued a similar developmental agenda. The following are the primary similarities between the developmental strategies: Both India and Pakistan began development programs based on economic planning soon after their independence in 1947. Both countries rely on the public sector to kickstart the growth and development process. They have both followed the road of a mixed economic structure, involving both the state and the private sector. They both implemented economic changes at the same time in order to develop their economies.

5. Compare and analyse the following information related to annual growth of GDP of India and China:

Country	1980-90	2015-17
India	5.7	7.3
China	10.3	6.8

Ans. From the above data we infer that when many developed countries were finding it difficult to maintain a growth rate of even 5%, China was able to a double-digit growth during the 1980s, whereas growth rate of India was just 5.7% for the same period. In 2015-17, there has been a decline in China's growth rate, from 10.3% to 6.8%, whereas India met with moderate increase in growth rate from 5.7% to 7.3% for the same period.

6. China's rapid industrial growth can be traced back to its reforms in 1978. Do you agree? Elucidate.

Ans: Yes, China's rapid industrial expansion cannot be ignored as a result of the different economic reforms implemented in stages since 1978. Reforms were undertaken in the agriculture, foreign trade, and investment sectors during the early period. The Commune Method, a collaborative farming system, was adopted. Land was divided into tiny plots and assigned to individual households under this method. After paying taxes to the government, these households were allowed to keep the remainder of their land revenue. Reforms in the industrial sector were undertaken later in the phase. Dual pricing was also incorporated in the revisions. Dual pricing implies that farmers and industrial units were forced to acquire and sell a predetermined quantity of inputs and output at a government-determined price, while the remaining quantities were sold at market prices. The changes also included the establishment of Special Economic Zones in order to attract foreign firms. As a result, China's rapid industrial expansion can be attributed to the success of various stages of its economic reforms.

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

Ans: In order to achieve economic development, Pakistan developed a mixed economy model in which the private and governmental sectors coexist. During the 1950s and 1960s, Pakistan used a range of controlled policy frameworks for import substitution and industrialization. This entails creating items at home to replace imports, so inhibiting imports while boosting and expanding indigenous industry. Tariff barriers were erected as a policy instrument to protect domestic companies manufacturing consumer products.

The introduction of the Green Revolution mechanized agriculture, resulting in an increase in food grain output. In the 1970s, mechanisation of agriculture was followed by nationalization of capital goods industries. In the late 1970s and early 1980s, Pakistan switched its policy orientation by denationalizing the thrust areas, thereby supporting private sector growth. All of the preceding actions established an environment suitable to launching the economic changes that were eventually launched in 1988.

8. What is the important implication of the one child norm in China?

Ans: The significant impact of China's one-child policy is the country's low population growth. This approach also resulted in a decrease in China's sex ratio, or the proportion of females per thousand males. However, the country believes that in the following decades, there will be a greater proportion of elderly people than young ones. As a result, the country will be forced to implement social security measures with fewer personnel.

9. Explain the great Leap Forward campaign of China as initiated in 1958.

Ans. In 1958, a program named 'The Great Leap Forward' campaign was initiated by Mao to modernize China's economy.

(i) The aim of this campaign was to transform agrarian economy into a modern economy through the process of rapid industrialization. Compare and contrast India and China's sectoral contribution towards GDP in 2003 what does it indicate

- (ii) Under this program, people were encouraged to set up industries in their backyards.
- (iii) In rural areas, Commune was started. Under the Commune system, people collectively cultivated lands.
- (iv) 1958, there were 26000 communes covering almost all the farm population.
- (v) GLF campaign met with many problems. A severe drought caused havoc in China killing about 30 million people.