ECONOMICS

MINIMUM LEVEL OF LEARNING
STUDY MATERIAL
CLASS XII (2025-26)

KENDRIYA VIDYALAYA SANGATHAN

BHUBANESWAR REGION

CHIEF PATRON

DR SIHARAN BOSE

DEPUTY COMMISSIONER

KENDRIYA VIDYALAYA SANGATHAN

REGIONAL OFFICE, BHUBANESWAR

PATRONS
SH. BIRBAL DHINWA, ASSISTANT COMMISSIONER
SH.ANIL KUMAR, ASSISTANT COMMISSIONER
SH R C GOND, ASSISTANT COMMISSIONER

COURSE DIRECTOR
DR ANJAN KUMAR KHATUA
PRINCIPAL
PM SHRI KENDRIYA VIDYALAYA NO-1 BALASORE

ASSOCIATE COURSE DIRECTOR
MR SUBHASH CHANDRA JENA
PRINCIPAL
PM SHRI KENDRIYA VIDYALAYA INS CHILKA

RESOURCE PERSONS

MR SUBRAT KUMAR BALIARSINGH
PGT ECONOMICS
PM SHRI KENDRIYA VIDYALAYA NO-3 BHUBANESWAR

MR M M KHUNTIA
PGT ECONOMICS
PM SHRI KENDRIYA VIDYALAYA PURO

KENDRIYA VIDYALAYA SANGATHAN BHUBANESWAR REGION
3 DAYS WORKSHOP ON EFFECTIVE TEACHING AND ASSESSMENT STRATEGIES FOR ENHANCED LEARNING PGT ECONOMICS OF BHUBANESWAR REGION
Venue: PM SHRI KV BALASORE
SCHEDULE FOR THE PROGRAMME (11/8/2025 – 13/8/2025)

SL NO.	NAME OF THE OFFICIALS	Name of the KV	DESIGNATION
1	**DR. ANJAN KUMAR KHATUA**	**PM SHRI KV BALASORE NO.1**	**COURSE DIRECTOR**
2	**SH SUBHASH CHANDRA JENA**	**PM SHRI KV CHILKA INS**	**ASSOCIATE COURSE DIRECTOR**
3	**MR. SUBRAT KUMAR BALIARSINGH**	**PM SHRI KV BHUBANESWAR NO.3**	**RESOURCE PERSON**
4	**MR. MANAMOHAN KHUNTIA**	**PM SHRI KV PURI**	**RESOURCE PERSON**
5	MR. RAGHUNATH PANDA	PM SHRI KV BALASORE NO.1	PARTICIPANTS
6	MR. JOGESH RANA	PM SHRI KV BARGARH	PARTICIPANTS
7	Dr. NARENDRA MEHER	PM SHRI KV BERHAMPUR	PARTICIPANTS
8	MR.NIRANJAN SAHOO	PM SHRI KV BHAWANIPATNA	PARTICIPANTS
9	MR. PURUSOTTAM BEHERA	PM SHRI KV BHUBANESWAR NO.1 (SHIFT - I)	PARTICIPANTS
10	MR.BISHNU PRASAD SAHOO	PM SHRI KV BHUBANESWAR NO.1 (SHIFT - II)	PARTICIPANTS
11	Mr. ARABINDA BISWAL	PM SHRI KV BHUBANESWAR NO.2	PARTICIPANTS
12	MR. ARABINDA SAHOO	PM SHRI KV BHUBANESWAR NO.4	PARTICIPANTS
13	MR NIRANJAN SAHOO	PM SHRI KV BHUBANESWAR NO.5	PARTICIPANTS
14	GARJAN GAGARIA	PM SHRI KV BOLANGIR NO.2	PARTICIPANTS
15	MR BALARAM DAUKA	PM SHRI KV KORAPUT	PARTICIPANTS
16	MS. ANJALI VERMA	PM SHRI KV CHILKA INS	PARTICIPANTS
17	Dr. ANIRUDHA OJHA	PM SHRI KV CUTTACK NO.1	PARTICIPANTS
18	Ms. BISHNUPRIYA JENA	PM SHRI KV GAJAPATI	PARTICIPANTS
19	Mr. BAMDEV BAGHAR	KV CHARBATIA, ARC	PARTICIPANTS
20	MRS. ANITA ROUT	PM SHRI KV KEONJHAR	PARTICIPANTS
21	SH PARSURAM SHUKLA	PM SHRI KV KHURDA ROAD	PARTICIPANTS
22	MS. SUBHASMITA NAYAK	PM SHRI KV BONDAMUNDA	PARTICIPANTS
23	MR. DIBYARANJAN RANA	PM SHRI KV DHENKANAL	PARTICIPANTS
24	MS. SADHANA MALLIK	PM SHRI KV GOPALPUR MS	PARTICIPANTS
25	MR. SRIKESH PRASAD	PM SHRI KV SAMBALPUR NO.1	PARTICIPANTS
26	MS BHARATI BHOI	PM SHRI KV SUNDARGARH	PARTICIPANTS

INDIAN ECONOMY ON THE EVE OF INDEPENDENCE.

INTRODUCTION

Before British colonization, India was known as "Sone ki Chidiya" or "The Golden Bird". It was a reference to the wealth and economic prosperity of India before its colonization.

However, during the colonial rule (which lasted for almost two centuries before India finally won its independence on 15th August 1947), the British extracted the wealth of India as much as they could. as their economic policies were concerned with the protection and promotion of the economic interests of their home country Britain rather than with the development of India.

STATE OF INDIAN ECONOMY ON THE EVE OF INDEPENDENCE:

(1) Low level of economic development under colonial rule

A. Before the advent of British rule-

i) Had an independent

ii) Main source of livelihood was Agriculture

iii) Economy was characterized by Various kinds of manufacturing activities

iv) Well known for handicraft industries-like in the fields of

- cotton (like Muslin, Daccai Muslin) and silk textiles
- metal and precious stone works etc.

v) Enjoyed world-wide market due to----

- its reputation of the fine quality of material used and
- high standard of craftsmanship seen in all imports from India.

i) During the British rule-

ii) **Focus of economic policies** - Colonial government in India followed such economic policies which were concerned with the protection and promotion of the economic interests of their home country Britain rather than with the development of India.

iii) **Impact of such economic policies-** Brought fundamental change in the structure of the economy

a) Transformed India into supplier of raw materials

b) Transformed India into consumer of finished products from Britain.

B. Estimation of national Income and per capita income :

The colonial govt. never made any sincere attempt to estimate India's national and per capita income. But some individual attempts were made.

Some of the notable economists who were engaged in estimation of national Income and per capita income are

1). Dadabhai Naoroji 2). William Digby 3). Findlay Shirras 4). VKRV Rao 5).RC Desai

The estimates given by Dr. V.K.R.V. Rao suggested that growth rate of GDP was about 2% per annum while the growth of per capita output was just 1/2 (0.5) percent per annum.

(2) Agricultural sector - Experienced stagnation

i) Land tenure system- Exploitative zamindari system- landowners extracted high rents from peasants.

ii) Forced commercialization of Agriculture

iii) Lack of Irrigational Facilities

iv) Insignificant use of fertilizers,

v) Lack of investment,

vi) Use of out-dated modes of production

vii) Frequent famines and other natural calamities etc.

viii) Partition of the country.

(3) Industrial sector - No sound industrial base

i) Adoption of the policy of Systematically De-industrializing India

ii) Decline of Indian handicraft industry.

iii) Lack of modern industries

iv) Lack of Capital good industries

v) Low contribution to GDP

vi) Limited operation of public sector

(4) Foreign trade –Drain of India's wealth

i) Exporter of raw materials (primary products) and importer of finished consumer goods.
ii) Monopoly control of Britain over India's foreign trade.
iii) Opening of Suez Canal in 1869 further intensified the British control over India's foreign trade.
iv) Generation of large export surplus and drain of India's wealth.

(5) Demographic condition -Worsening Profile

First official census of British India-1881- revealed unevenness in India's population growth. Year 1921 is known as the year of great divide.

i) High death and Birth rate-40 and 48 per thousand respectively.
ii) High infant mortality rate-218 per thousand.
iii) Illiteracy-84% illiterate. Female Literacy level was about 7%.
iv) Low life expectancy- less than 32 years
v) Low standard of living and widespread poverty- People used to spend 80% to 90% of their income on basic needs.
vi) Lack of public health facilities

Occupational structure: More dependency on agriculture and growing regional variation

More dependency on primary sector

- Largest share of work force which was 70-75% was engaged in agriculture.
- 10% in manufacturing while
- 15-20% workforce were engaged in service sector.

Regional variation in occupational structure was also seen

- Parts of the then Madras Presidency Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the services sectors.
- However, during the same time in states such as Orissa, Rajasthan and Punjab there had been an increase in the share of workforce in agriculture

6. Infrastructure: Motive behind Infrastructural facilities - to subserve their colonial interest. Some efforts have been made to develop basic infra-structure like roads, railways, ports, water transport, post & telegraph by the British rulers. The main motive was not to provide basic amenities to the Indian people but to subserve their colonial interest.

SOME POSITIVE SIDE-EFFECTS OF THE BRITISH RULE IN INDIA

A. Provided transport facilities, largely in terms of railway.
B. Development of ports.
C. Provision of post and telegraph services.
D. British Govt. left a base of a strong and efficient administrative set up.
E. Evolution of banking and monetary system.

CONCLUSION

The social and economic challenges before the country were quite enormous at the time of independence.

i) The agricultural sector was already saddled with surplus labour and extremely low productivity.
ii) The industrial sector was crying for modernisation, diversification, capacity building and increased public investment.
iii) Foreign trade was oriented to feed the Industrial Revolution in Britain.
iv) Infrastructure facilities, including the famed railway network, needed upgradation, expansion and public orientation.
v) Prevalence of rampant poverty and unemployment required welfare orientation of public economic policy.

INDIAN ECONOMY 1950-90

Economic Planning: "Economic planning means utilization of country's resources in different development activates in accordance with national priorities" .

Types of Economic Systems:-

- Capitalist economy •Socialist economy •Mixed economy

GOALS OF PLANNING (**GEMS)**

1 **Growth:-** It refers to increase in the country's capacity to produce the output of goods and services within the country.

2. **Modernisation:** To increase the production of goods and services the producers have to adopt new technology

3. **Self-reliance:** A nation can promote economic growth and modernization by using its own resources or by using resources imported from other nations.

4. **Equity:** Now growth, modernization and self-reliance, by themselves, may not improve the kind of life which people are living..

AGRICULTURE

- **IMPORTANCE OF AGRICULTURE IN THE INDIAN ECONOMY**
  1. Agriculture as the principal source of the supply of raw material
  2. High Contribution to GDP
  3. Agriculture as the principal source of the supply of wage goods.
     (Wage goods are the necessities of life such as wheat, rice, pulses etc.)
  4. Agriculture as the principal sector of employment
  5. Agriculture as the principal consumer of the industrial goods.
- **FEATURES OF INDIAN AGRICULTURE** :-
  1. Low productivity
  2. Subsistence farming
  3. Disguised unemployment
  4. Small holdings
  5. Lack of modern inputs
  6. Dependence on rainfall.
- **PROBLEMS OF INDIAN AGRICULTURE :-**
  1. Small and scattered holdings
  2. Deficiency of finance
  3. Lack of permanent means of irrigations
  4. Conventional outlook
  5. Lack of organized marketing system
- **REFORMS IN INDIAN AGRICULTURE (AGRARIAN REFORMS** :-
  1. Technical reforms & 2.Institutional reforms.

1. TECHNICAL REFORMS (GREEN REVOLUTION)

The Green Revolution:It 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. As a result, in the first phase of the green revolution (approximately mid 1960s)

Use of HVY seeds: This 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.

- **Use of chemical fertilizers** :- The use of these seeds required the use of fertiliser and pesticide in the correct quantities
- **Use of insecticides and patricides**:- The use of these seeds required the use of fertiliser and pesticide in the correct quantities as well as regular supply of water; the application of these inputs in correct proportions is vital. for crop protection .
- **Marketed surplus**: - The portion of agricultural produce which is sold in the market by the farmers is called marketed surplus.
- Scientific farm management practices

POSITIVE CONTRIBUTION OF AGRARIAN REFORMS (green revolutions)

(i) Use of HVY seeds
(ii) Use of chemical fertilizers
(iii) Use of insecticides and patricides for crop protection
(iv) Mechanised means of cultivation
(v) Scientific farm management practices.

SHORTCOMINGS (LIMITATIONS) OF GREEN REVOLUTION: -

1. Limited crops
2. Regional imbalance
3. Increase in the disparity between small and big farmers
4. Economic divide

2. INSTITUTIONAL REFORMS (LAND REFORMS) :-

1. **Land Reforms:** At the time of independence, the land tenure system was characterised by intermediaries (variously called zamindars, jagirdars etc.) who merely collected rent from the actual tillers of the soil without contributing towards improvements on the farm.

2**. Land ceiling** was another policy to promote equity in the agricultural sector. This means fixing the maximum size of land which could be owned by an individual.

(3) **Regulation of rent**

(4) Cooperative farming

STRATEGY OF INDUSTRIAL GROWTH (1947-1990)

IMPORTANCE OF INDUSTRY:-

1. Industry is an epicenter of economic growth
2. An emerging source of employment.
3. Source of mechanised means of farming
4. Industrial growth leads to growth of civilisation
5. Infrastructural growth

INDUSTRIAL POLICY RESOLUTION -1956 (IPR 1956) :-

In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted. This resolution classified industries into three categories.

Principal elements of IPR- 1956:-

1. **Three- fold classification of industries** :-(i) Established and developed exclusively as a public sector enterprises (ii) Established both as the private and public sector enterprises (iii) All industries other than in categories (i) and (ii) were left to the private sector
2. .**Industrial license**: private sector, the sector was kept under state control through a system of licenses.
3. .**Industrial concessions**: This policy was used for promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area

DEVELOPMENT OF SMALL SCALE INDUSTRY (SSI):-

A small scale industry defined as one whose investment does not exceed Rs. 5 crore (1951 one whose investment maximum Rs. 5 Lakh).

INDIA'S FOREIGN TRADE

- **AT THE TIME OF INDEPENDENCE**

1. Trade related to colonial exploitation
2. Favorable balance of trade (export > import)
3. Direction of trade was restricted, being largely between England and India
4. Volume of trade was very small
5. Britain maintained a monopoly control over India's exports and imports

- **AFTER INDEPENDENCE :-**

1. India's exports and imports have tended to rise(but percentage share in international trade has tended to shrink)
2. Decline in percentage share of agricultural exports and rise in percentage share of manufactured goods
3. Direction of trade has become diversified
4. Shift in trade strategy from 'Inward looking" to 'outward looking"

INWARD LOOKING TRADE <u>STRATEGY (STRATEGY OF IMPORT SUBSTITUTION.</u> Technically, this strategy is called import substitution.It is policy of reliance on "Import substitution" and protection to the domestic industry through import restriction and import duties in the area of international trade. Protection from imports took two forms:

(i) Tariffs :- Tariffs are a tax on imported goods; they make imported goods more expensive and discourage their use.

(ii) Quotas:- Quotas specify the quantity of goods which can be imported.

NEW ECONOMIC REFORMS SINCE 1991

Reasons for New Economic Reforms

- Poor performance of PSU
- Deficit in BOP
- Inflationary pressure
- Fall in Foreign Exchange Reserves
- Huge Burden Debt
- Inefficient management

Liberalization: Removal of entry and growth restrictions on the private sector enterprise. removing all Unnecessary control and restriction like permits licenses. Protectionist duties, quotas etc.

Financial Sector Reforms:

1. Foreign investment limit in banks was raised to around 51 per cent.
2. Autonomy to Bank to set up new branches.
3. Role of RBI: Central bank reduced from regulator to facilitator of financial sector
4. Establishment of private sector banks in India like ICICI Bank or HDFC Bank

Foreign exchange reforms

1. Devaluation of Rupee: Devaluation refers to reduction in the value of domestic currency by the government. This led to an increase in the inflow of foreign exchange.
2. Market Determination of Exchange Rate: market forces of demand and supply determine the exchange value of the Indian rupee in terms of foreign currency.

Tax Reforms

1. Simplification of TAX payment Process:.
2. Indirect Taxes Reform: facilitate establishment of common national market for goods and commodities.(GST)
3. Reduction in Taxes: To reduce tax evasion.

Trade & Investment Reforms.

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

Privatisation: •Transfer of ownership, management and control (OMC) of public sector enterprises to the private sector.Privatisation can be done in two ways;

1. Outright sale.
2. Disinvestment.

Objective: -

- Performance improvement of the PSUs.
- Encourage Inflow of FDI: -
- Autonomy:-To improve the efficiency of PSU.
- Key To improve financial discipline and facilitate modernization.

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

Arguments in favour of Globalisation

1. Greater access to global market
2. Advanced technology
3. Better future prospects for large industries.
4. Better prospects for skilled people in abroad

Arguments in against

1. More benefits goes to developed countries
2. Compromise welfare of poor countries.
3. Increases income disparity between nations and people.
4. MNCs gained strong position but domestic industry face stiff competition.

Outsourcing: Contracting out of some activities to a third party who was earlier performed by the organisation because of cheaper cost with reasonable degree of skill and accuracy.

India becomes favourable destination of outsourcing because of :

1. Availability of skilled man power
2. Favourable government policies
3. Low wage rate & availability of cheap labours
4. Growth of Indian IT sectors.

Why developed countries oppose it because:

1. Outflow of funds from developed countries to India.
2. Increases unemployment in developed countries
3. Creates job insecurity in developed countries

World Trade Organisation: Established in 1995.

Functions.

1. To facilitate international trade through removing tariff & non-tariff barriers.
2. Establish rule based trading regime.
3. Enlarge production & trade of eservices
4. Ensure optimum utilisation of world resources.
5. Protect environment.

Appraisal of LPG policy

In favour

- Increase in rate of economic growth
- Inflow of foreign investment
- Rise in foreign exchange reserve
- Rise in exports
- Increase in role of private sector

In against

- Growing unemployment
- Neglect of agriculture
- Low level of industrial growth
- Ineffective disinvestment policy
- Unbalanced growth.

DemonetisationIt is the process of stripping a currency unit from its status as legal tender in the country. On 08/11/2016 all notes of denominations of Rs. 500 and Rs. 1000 were demonetized.

Effects of 2016 Demonetisation –

(1) Pushed India towards cashless economy

2. Raised tax payments

3. Brought an end to black money

4.Curbed terrorist funding

5.Curbed effect on growth and revenues of MSMEs

GOODS & SERVICE TAX: Came into effect from 1 July 2017.It aims to generate additional revenue for the government; to reduce tax evasion; and to create 'one nation, one tax and one market'. Features:

Features

- Single comprehensive indirect tax on supply of goods and services
- 5 SLABS OF GST: 0%, 5%, 12%, 18% and 28%
- Replaced large number of indirect taxes
- Central Excise Duty, Service Tax, Central Sales Tax subsumed in GST

Benefits

- Boost in GDP
- Ease in filing:-
- Reducing cascading effect(tax on tax
- Higher transparency in the taxation system.,

Human Capital: It refers to the stock of skills and expertise in the country.

Human Capital Formation: It refers to the process of additions to the existing stocks of skills and expertise in the country.

Sources of Human Capital Formation:

1. Expenditure on Education: It increases future income and raises the living standard.

2. Expenditure on Health: It helps to build productive labour force and improve quality of life.

Forms of Expenditure on Health:

- Preventive medicine
- Curative Medicine
- Social Medicine
- Provision of clean drinking water
- Good sanitation facilities

3. **On the Job training**: It increases the skill and efficiency of workers. It may take two forms. (a) Training **in the firm** under the supervision of skilled worker.

(b) **Off campus** training.

4. **Expenditure on Migration:** It enhanced the earnings in the migrated place that is more than the cost of migration.

5. **Expenditure on Information:** It is incurred on acquiring information relating to labour markets and other markets.

Human Capital And Economic Growth

1. Promotes inventions, innovations and technological improvements.

2. Healthy persons contribute growth by providing uninterrupted labour supply for longer period of time.

3. Contribution of educated persons to economic growth is more than that of illiterate person.

Importance or Role of Human Capital Formation

- Effective use of Physical capital
- Higher productivity and production
- Stimulates innovations and creates ability to absorb new technologies.
- Modernization of attitudes
- Increases life expectancy
- Improves quality of life
- Control of population growth.

Problems of Human Capital Formation:

- Insufficient resources
- Serious inefficiencies
- Brain drain
- High growth of population
- Several imbalances
- Lack of proper manpower planning
- Weak science and technology

Differentiate between Human Capital and Human Development

S.N	HUMAN CAPITAL	HUMAN DEVELOPMENT
1.	Human capital considers education and health as a means to increase labour productivity	In human development, education and health are integral part to human wellbeing.
2.	It is narrow concept.	It is a broad concept
3.	It treats human beings as a means to increase productivity.	It considers human beings as ends in themselves.

<u>Human Capital Formation in INDIA: Great prospects</u>

Human capital formation is the outcome of investments in education, health, on the job training, migration and information. Out of all these, education and heath are very important sources of human capital formation. **In the Indian Context,**

1. Investment on education is to be carried by each levels of the government.

2. Both private and public sector institutions exist in the education and health sector service market.

3. **<u>Need for government intervention</u>:** To ensure favourable benefits, government intervention is important because of the following reasons:

- Long- term impact of the health and education services and they can not be easily reversed.
- Individual consumers do not have complete information about the quality of services and their costs.
- Avoidance of monopoly power and removing exploitation by the providers of education and health services.

4. **<u>Regulatory authority in Education</u>**:

- **NCERT** (Work for the improvement of school education)
- **UGC** (coordinate, determine and maintain standards of teaching examinations and research in the university examination)
- **AICTE** (Work for the improvement of standards in the technical education system)

5. **<u>Regulatory authority in Health:</u>**

- **ICMR:** Working for the practical solutions to the health problems of the country.

6. Basic education and health care are the fundamental rights of every citizen.

<u>Education Sector in India</u>

1. Growth in government expenditure on Education. List of government expenditure are as follows:

- Government spends more on elementary education.
- Government spends less on tertiary education on an average.
- Differences in the educational opportunities across states.
- Inadequate expenditure on Education.
- Provision of free and compulsory education.

<u>Future prospects in Educational Sector</u>

1. Education for all: Still a distant dream

2. Gender Equity: Better than before

3. Higher education: Few takers.

MEANING:Rural development is the comprehensive socio-economic process to develop the areas that are lagging behind the overall development of the village economy.

The dimensions or key issues of rural development constitute of those areas in which a village economy generally lagging behind in comparison to its counterparts. The challenging issues of rural development in India are as follows.

Development of human resources/ Land Reforms / Development of productive resources/ Infrastructure development/ Measures for poverty alleviation

- **Rura Credit Meaning:**
  Credit is an agreement in which the lender supplies the borrower with money , goods and services in return for the promise of future payment.
- **Need of Credit in rural economy:**
  - To realize higher productivity
  - To meet e time lag between crop sowing and realization of income
  - Lack of saving due to low output and low output.
- **Sources of Credit:**Rural credit comprises of the followings
  - **Formal/Institutional lending System:**

Credit by commercial banks	Credit by Regional Rural Banks (RRB's)	Credit by Land Development Banks (LDB's)
Credit extended by NABARD	Credit by Cooperatives	Micro credit involving SHG linkage
Credit by Micro Finance Institutions	Credit extended by banks through govt. employment generation programmes like SGSY	

Informal/Non-institutional System:
Credit extended by friends, Credit extended by relatives, Credit by money lenders, Credit by traders
AGRICULTURAL MARKETING **Meaning:**

The process of assembling, storage, processing, transportation, packaging, grading and distribution of agricultural commodities is called agricultural marketing.

- **Functions of agricultural market:**

Collection of surpluses from the individual farmers Transportation to nearest assembling centre Grading and standardization Pooling Processing Warehousing	Packing Transportation to the consuming centers Bringing the buyers and sellers together Sale to the ultimate consumers ranging requisite finance for the above purposes

- **Need of agricultural marketing in India**Agricultural marketing is needed due to

To give a better price of the produce to the farmer	To minimize wastage
To link the farmer directly to the consumers by avoiding intermediaries	To save the farmers against exploitation and cheating from the traders

- **Measures taken by the govt. to improve agricultural marketing**

Govt. made provision of physical infrastructures like roads , railways , warehouses , godowns , cold storage etc.	Govt. regulated the markets
Govt. assured the farmers through Minimum Support Prices (MSP	Govt. establishes cooperatives to realize fair prices

- **Problems of agricultural marketing in India**

Predominance of private traders, Improper warehouses, Lack of grading and standardization,
Inadequate transport facilities, Presence of large number of intermediaries, Malpractices in unregulated markets, inadequate market information, Inadequate credit facilities

Alternative agricultural marketing channels in India

Group Marketing: Group marketing includes, joint planning, funding, implementation, pricing, sharing risk equally in the marketing and reaping the benefit of collective bargaining.
Cooperative Marketing: This system is pursued on the principle of **"self-help by mutual help"**
Direct Marketing: Farmers come into direct contact with the consumers and receive the payment directly from the consumers. This system is prevailing in many parts of the country viz.,

Apni Mandi: In Punjab and Rajasthan **Uzhavar Santhaigal:** In Tamil Nadu
Rythu Bazrs: In Andhra Pradesh **Santhegalu :** In Karnataka,

Contract Farming: Contract farming, is a type of farming wherein the industry or perspective buyer enters into a contract with the farmer and promises to buy the farmer's produce at a pre-negotiated price under pre-negotiated conditions.

ROLE OF COOPERATIVES

Cooperatives played a vital role in rural development. These are as follows.

- To free farmers from poverty and money lenders.
- Take out of agricultural credit.
- Supports production, farming, marketing and processing.
- provide credit to the farmers and finance agricultural equipments
- Provides top quality fertilizers, seeds, insecticides, pesticides etc at reasonable price.

DIVERSIFICATION IN TO PRODUCTIVE ACTIVITIES: Meaning

Diversification may be defined as the entrepreneurial use of farm resources for a non-agricultural purpose for commercial gain.

- **Need of agricultural diversification:**
  a. There is greater risk in depending exclusively on agriculture
  b. To provide productive sustainable livelihood options to rural people
  c. To give employment to the people throughout the year.
  d. To overcome poverty and other tribulations

Merits of agricultural diversification

Mixed cropping enhance soil fertility,Rotation of crops facilitates reduction of weeds.,It helps to grow more than one crop,It also facilitates breeding of livestock, It providing additional source of income to the farmers in the form of milk ,meat, It creates a sustainable employment opportunities in village economy. It enable the farmer to spread his risk..

Some of the important agricultural diversifications in India

A. Animal Husbandry
B. Operation Flood (White Revolution):
C. Fisheries (Blue Revolution):
D. Horticulture (Golden Revolution):

ORGANIC FARMING

ii. **Meaning:** Organic farming is a form of agriculture that relies on techniques such as crop rotation, green manure, compost, and biological pest control.

- ✓ **Benefits /Advantages of Organic Farming:**
- ✓ **Nutrition:** In this regard, organically grown food is dramatically superior in mineral content to that grown by modern conventional methods.
- ✓ **Poison-free:**it is free of contamination & Free from health harming chemicals such as pesticides, fungicides and herbicides.
- ✓ **Food Tastes Better :**
- ✓ **Food Keeps Longer:**Organically grown plants are nourished naturallyAs a result, organically grown foods can be stored longer.
- ✓ **GROWER BENEFITS**:Disease and Pest Resistance, Weed Competitiveness, Lower Input Costs, Drought Resistance: Organically grown plants are more drought tolerant.

EMPLOYMENT: GROWTH INFORMALISATION AND OTHER ISSUES

Introduction

Employment trends in India have transformed significantly due to economic reform, technological advancement, policy changes, and demographic shifts. Understanding the evolving structure, participation, and challenges of the workforce is crucial to comprehending India's economic and social development.

Basic Concept of Employment

Employment refers to the engagement of people in productive economic activities for earning a livelihood. It includes wage employment, self-employment, and casual labor in both formal (organized) and informal (unorganized) sectors.

-Participation of people in employment
-Distribution of employment
- *Distribution of people by gender
- * Distribution of people by region
- *Distribution of people in different sectors.

-Growth & Changing Structure of Employment
- *Changing structure of employment (sector wise)
- * Changing structure of employment (status wise)

-Informalisation of Indian Workforce
- *Formal or Organised sector *Informal or Unorganised sector

-Unemployment
-Types of Unemployment
- *Rural Unemployment *urban unemployment *Other types of Unemployment

-Causes of Increasing Unemployment in India
-Effects of Unemployment in India
-Suggestions to solve the Problem on Unemployment
-Government Policies and Programmes in Employment Generation

<u>Points to Remember</u>

* Work plays an important role in our lives, as individuals and as members of society .
* A worker is an individual , who is involved in some productive activity , to earn a living,
* An economic activity refers to the activity performed by people to earn the living.
* **Labour force** : All persons, who are working (have a job) and those are not working but able to work and willing to work at the existing wage rate constitute labour force.
* **Work force :** The number of persons, w ho are actually employed at a particular time are known as workforce, It includes all those persons who are actual l y engaged in productive activities. This includes persons between age group of 15-60 years.
* **Labour supply** - It refers to amount of labour that people are willing to offer corresponding to a particular wage rate.
* **Jobless Growth :** It is defined as a situation where GDP grows faster than the employment opportunities resulting in unemployment.
* **Causualisation and Informalisation of employment.** Casualisatoin refers to a situation when the percentage of casually hired workers in the total workforce tends to rise over time.

Informalisation : refers to a situation when people tend to find employment more in informal sector of the economy , and less in formal sector of the economy .

Distinction between the Formal (Organised) Sector and Informal (Unorganised) Sector:

Basis	Formal / Organised Sector	Informal / Unorganised Sector
Definition	Employment is regular and enterprises are registered.	Employment is casual, enterprises are often unregistered, and government rules not followed.
Examples	Government offices, registered companies, banks, factories, schools.	Street vendors, small shopkeepers, casual labourers, domestic workers.

Basis	Formal / Organised Sector	Informal / Unorganised Sector
Job Security	Jobs are secure; employees have fixed terms of employment.	Jobs are insecure; employment can be terminated without notice.
Wages	Fixed, regular, and paid according to government or company rules.	Irregular and often lower wages.
Benefits	Provident Fund (PF), pension, medical benefits, paid leave, etc.	Usually no social security or additional benefits.
Working Conditions	Regulated and safe working environment.	Often unsafe or unhygienic working environment.
Regulation	Governed by labour laws and monitored by the government.	Not regulated by formal laws; few or no legal protections.

Employment : Growth Informalisation and other issues

Unemployment : It is a situations where a person is ready and willing to work at the prevailing wage -rate but doesn't get work.

Unemployment Rate : It is calculated as percentage of labour force who are unemployed, not as a percentage of total population.

Unemployment can be classified into several types based on its causes and characteristics. Here's a clear breakdown:

1. Frictional Unemployment

- **Meaning:** Temporary unemployment that occurs when people are between jobs or entering the workforce for the first time..

2. Structural Unemployment:Meaning: Caused by changes in the structure of the economy, where certain skills are no longer in demand..

3. Cyclical Unemployment:Meaning: Caused by a fall in overall demand for goods and services during economic downturns or recessions.

4. Seasonal Unemployment:Meaning: Happens when jobs are available only during certain seasons of the year.

5. Disguised Unemployment:Meaning: More workers are employed than actually needed; productivity remains the same even if some leave.

6. Technological Unemployment:Meaning: Caused by automation and technological advancements replacing human labor.

7. Educated Unemployment:Meaning: When educated people cannot find jobs matching their qualifications.

Causes of unemployment

* Slow rate of economic growth	* Defective educational system	* Slow growth of Industry
*Population explosion	* Decline of collage and small industry	* Faulty planning
* Underdeveloped agriculture	* Inadequate employment planning.	* Low capital formation

Remedial measures for unemployment .

* Accelerating growth rate of GDP	* Control of population grow th
* Development to small scale enterprises.	* Encouragement in infrastructure.
* Special employment programmes	* Rapid industrialisation.

Special programmes to fight poverty and unemployment

* Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) Its a significant recent attempt of govt., offering guaranteed employment to those in the rural areas who are below poverty line.

Environment and Sustainable Development

1. Definition of Environment

- **Environment**: Total planetary inheritance & all resources.
  - **Biotic Elements**: Living elements (birds, animals, plants, forests, fisheries, etc.).
  - **Abiotic Elements**: Non-living elements (air, water, land, etc.).

2. Functions of the Environment

1. Provides resources for production
2. Assimilates waste
3. Sustains life
4. Provides aesthetic services

3. Reasons for Environmental Crisis

1. Population explosion & industrial revolution
2. Over-extraction of renewable & non-renewable resources
3. Extinction of resources
4. High consumption & production standards of developed countries
5. Development-related pollution causing diseases
6. Global environmental issues – **Global Warming & Ozone Depletion**

4. Global Warming

- Increase in Earth's average temperature due to greenhouse gases (CO_2, CH_4, water vapor, ozone). **Causes:** Burning of Petroleum, forest fire, Deforestation, Increase in cattle production **Effects:** Melting of Icebergs, rise in sea level, flood risk, Hurricanes and tropical cyclones, rise in tropical diseases, rising risk of extinction of species.

5. Ozone Depletion

- Loss of ozone in the stratosphere caused by CFCs & bromine compounds. **Causes:** Rising CFC in refrigeration centers. Aerosol propellants and Holon's in fire extinguishers **Effects:** Inflow of UV rays and damage to skin, rising skin cancer, fall in production of phytoplankton's.

6. Montreal Protocol

- UN treaty to phase out CFCs to protect the ozone layer (freeze production & consumption by 2013).

7. Challenges to India's Environment

- **Priority Issues**:
  - Land Degradation
  - Deforestation
  - Soil Erosion
  - Biodiversity Loss
  - Air Pollution

Definitions:

- **Land Degradation**: Decline in soil, water, or vegetation quality (often human-caused).
- **Deforestation**: Permanent destruction of forests.
- **Soil Erosion**: Washing away of topsoil due to heavy rains & floods.

1. Biodiversity Loss

- **Definition**: Variability among living organisms from all sources.
- **Cause**: Habitat destruction, over-exploitation of resources.
- **Impact**: Economic & social costs, threat to plant & animal species.

2. Air Pollution

- **Definition**: Presence of harmful materials in air at concentrations dangerous to humans and the environment.

3. Sustainable Development

- **Meaning**: Development that ensures future generations enjoy at least the same (or higher) quality of life as the present generation.

4. Ways to Achieve Sustainable Development

1. Restrict use of renewable resources
2. Substitute non-renewable with renewable resources
3. Become input efficient
4. Control pollution

5. Control population growth

5. Strategies for Sustainable Development

1. Use of non-conventional sources of energy
2. Use of cleaner fuels
3. Establishment of mini-hydel plants
4. Traditional knowledge & practices
5. Use of bio-compost
6. Control of biopest
7. Change in unsustainable consumption & production pattern

Carrying Capacity

- Resource extraction must remain below regeneration rate.
- Waste generation should stay within environment's absorption capacity.

Absorptive capacity

- Means the ability of the environment to absorb degradation.

High Opportunity Costs of Environmental Damage

- More government spending on health due to pollution, global warming, ozone depletion → decline in environmental quality → higher costs involved in maintain quality life.

Central Pollution Control Boards (PCBs)

1. Establishment

- **Central Pollution Control Board (CPCB)** set up in **1974** to address:
  - **Water pollution**
  - **Air pollution**
- States subsequently established **State Pollution Control Boards (SPCBs)**.

2. Functions

1. **Investigation & Data Collection**
   - Gather, analyze, and share information on water, air, and land pollution.
2. **Standard Setting**
   - Set norms for sewage/trade effluent discharge and industrial emissions.
3. **Technical Assistance**
   - Support government in preventing, controlling, and reducing pollution.
4. **Research & Development**
   - Sponsor studies on pollution prevention and control.
5. **Awareness Programmes**
   - Organize campaigns via mass media.
6. **Guidelines & Manuals**
   - Publish codes for sewage and effluent treatment and disposal.
7. **Air & Water Quality Monitoring**
   - Assess air quality and inspect industries to ensure compliance.
8. **Industrial & Town Planning Support**
   - Provide background environmental data for industrial location and town planning.

Comparative Development Experience of India with Its Neighbors

Development Path of India, Pakistan and China

- All three countries began their development journeys at the same time. India and Pakistan gained independence in 1947, and China established the People's Republic of China in 1949.
- All three countries had begun to plan their development strategies in a similar manner. India unveiled its first Five Year Plan in 1951, Pakistan in 1956, and China in 1953.
- India and Pakistan pursued similar strategies, such as establishing a large public sector and increasing government spending on social development.
- While India and Pakistan followed the 'mixed economy' model, China followed the 'command economy' model of economic growth.
- Prior to the 1980s, all three countries had comparable growth rates and per capita incomes.
- China implemented economic reforms in 1978, Pakistan in 1988, and India in 1991.

<u>Development Strategies of India</u>

1. **A Sound Trade System:** India was a country with a history of closed tradeThis new trade reform has been implemented in the Indian economy and has accelerated India's growth.
2. **Poverty Reduction:** To reduce poverty in India, several poverty alleviation programs have been implemented.
3. **Rural Development:** India implemented a variety of measures to develop the village economy.
4. **Employment Generation:** Several economic reforms have been initiated to generate employment.

<u>Development Strategies of China</u>

1. **Great Leap Forward:** Launched in 1958, this campaign aimed at massively industrializing the country. People were encouraged to establish large-scale industries in their own backyards.
2. **Great Proletarian Cultural Revolution (1966-1976):** In 1965, Mao Se Tung launched a large-scale cultural Revolution. During the revolution, students and professionals were sent to the countryside to work and learn.
3. **1978 Reforms:** Beginning in 1978, China began to implement New economic reforms.

Development Strategies of Pakistan

1. **Mixed Economy**: Pakistan has a mixed economy in which the public and private sectors coexist.
2. **Import Substitution**: In the late 1950s and early 1960s, Pakistan established direct import controls on competing imports.
3. **Green Revolution:** This was implemented to increase food productivity and self-sufficiency, and increased food grain output. This had a significant impact on the agrarian system.

Comparative Study – India, Pakistan and China:

1. Pakistan's population is very small, accounting for roughly **one-tenth** of that of China and India.
2. Despite being the largest country geographically, **China has the lowest population density** of the three.
3. Pakistan has the **fastest population growth**, followed by India and China. The **one-child policy**, which was implemented in China in the late 1970s, is the primary cause of low population growth. However, this measure resulted in a decrease in the sex ratio, or the proportion of females per 1000 males.
4. In all three countries, **the sex ratio is low and biased against females**. In all of these countries, there is a strong preference for sons.
5. The **fertility rate in China is low**, but it is **very high in Pakistan**
6. Both China and Pakistan have high levels of urbanization, with **India has lowest urbanisation**(28 percent of its Population) living in cities.

Gross Domestic Product (GDP) and Sectors

1. China had the world's second largest GDP (PPP) followed by India's GDP Pakistan's GDP (PPP) .
2. China's average growth rate is approximately 9.5 percent, while India's and Pakistan's average growth rates are approximately 5.8 percent and 4.1 percent, respectively.
4. **In China** agriculture employed **37** percent of the workforce and contributed 9 %to GDP.

In India agriculture employs 56% workforce and contributes 19% to GDP

In Pakistan, agriculture employs 55% workforce and contributes 21% to GDP.

5. In China, manufacturing accounts for 47 percent of GDP, whereas in India and Pakistan, the service sector accounts for the majority of GDP (more than 50 percent of GDP).

5. India and Pakistan have moved directly from agriculture to the service sector.
6. the service sector employed 17, 12, and 27 percent of the workforce in India, China, and Pakistan, respectively.

Human Development Indicators

1. ***China has outperformed India and Pakistan in most areas of human development***. This is true for many indicators, including per capita GDP & the proportion of the population living in poverty, as well as health indicators such as mortality rates, access to sanitation, literacy, life expectancy, and malnourishment.
2. ***Pakistan is ahead of India*** in terms of reducing the proportion of ***people living in poverty***, as well as its performance in shifting labor from the agricultural to the industrial sectors and access to water.
3. In contrast, ***India outperforms Pakistan in the education and health-care sectors***.
4. India and Pakistan are ahead of China in terms of improved water sources.

Item	India	China	Pakistan
Human Development Index (Value)	0.547	0.687	0.527
Ran (based on HDI)	134	101	145
Life Expectancy at Birth (Years)	65.4	73.5	63.0
Adult Literacy Rate (% aged 15 and above)	62.8	94	55.5
GDP per Capita (PPP US $)	3296	6828	2609
People Below Poverty Line (%) (2004-06)	37.2	2.8	22.3
Infant Mortality Rate (Per 1000 live births)	66	19	87
Maternal Mortality Rate (Per 1 lakh births)	230	38	260
Population with Sustainable Access to Improved Sanitation (%)	52	92	32
Population with Sustainable Access to An Improved Water Source (%)	88	97	93
% of Children Malnourished (< 5)	43.5	4.5	NA

MACRO ECONOMICS

National Income and Related Aggregates

1. Final Goods

- **Meaning:** Goods meant for final use, no further production/transformation.
- **Examples:**
    - Milk purchased by household.
    - Tea brewing machine purchased by a restaurant.

2. Intermediate Goods

- **Meaning:** Goods meant for resale or further production, pass through more production stages.
- **Examples:**
    - Milk purchased by a restaurant for tea preparation.
    - Tea brewing machine purchased by a machine dealer for resale.

3. Consumption Goods

- Goods consumed by ultimate consumers.
- **Examples:** Milk, bread, food, etc.

4. Capital Goods

- Durable goods used in production of other goods; do not get transformed in process.
- **Examples:** Machines, tools, implements.

Stocks and Flows.

Difference between Stock and Flow Variables:

Basis	Stock Variable	Flow Variable
Meaning	Measured at a point of time	Measured over a period of time
Nature	Static	Dynamic
Time	No time dimension	Has time dimension
Example	Capital, national wealth	Capital formation, national income, savings

Investment

- Addition to stock of capital (**capital formation**).
- **Gross Investment:** Total addition to capital stock including depreciation.
- **Depreciation:** Annual allowance for normal wear and tear of capital goods.
- **Net Investment:**
  Net Investment=Gross Investment−Depreciation\text{Net Investment} = \text{Gross Investment} - \text{Depreciation}Net Investment=Gross Investment−Depreciation
  → Addition to capital stock excluding depreciation.

Circular Flow of Income in Two-Sector Economy

Meaning: Illustration of flow of income and product among various sectors.

Phases of Circular Flow:

1. **Generation:** Firms produce goods & services.
2. **Distribution:** Factor income flows from firms to households.
3. **Disposition:** Households spend income on goods & services produced by firms.

Concept of Value Added

- **Meaning:** Value Added = Value of Output − Value of Intermediate Cost.
- **Example (Wheat → Flour → Bread):**
    - Farmer sells wheat to Miller for ₹100 → VA = ₹100 (100 − 0).
    - Miller sells flour to Baker for ₹120 → VA = ₹20 (120 − 100).
    - Baker sells bread to Consumer for ₹200 → VA = ₹80 (200 − 120).
    - **Total Value Added = ₹100 + ₹20 + ₹80 = ₹200** = Value of Final Output.
- **Conclusion:** Value of final output is the sum of value added at all stages.

Problem of Double Counting

- **Meaning:** Adding the value of an output more than once while estimating National Income.
- **Problem:** Overestimation of National Income.

Methods of Avoiding Double Counting

1. **Final Output Method:**
    - Include only value of final output.

2. **Value Added Method:**
    - Include value added at each stage of production.

Precautions While Estimating National Income

(i) Value Added Method

- Avoid double counting.
- Exclude sale of second-hand goods.
- Include self-consumed output.
- Include change in stock (part of capital formation).
- Include imputed value of own-occupied house.

(ii) Income Method

- Exclude transfer income.
- Exclude capital gains.
- Exclude financial transactions.
- Exclude income from sale of second-hand goods.
- Exclude windfall gains.
- Exclude taxes.

(iii) Expenditure Method

- Avoid intermediate expenditure.
- Avoid transfer expenditure.
- Avoid expenditure on sale of second-hand goods.
- Include expenditure on own account production.
- Exclude purchase of financial assets like shares & bonds.

Real and Nominal GDP

- **Nominal GDP:** GDP measured at **current market prices**.
- **Real GDP:** GDP measured at **constant market prices**.

GDP Deflator (Price Index)

GDP Deflator (Price Index)

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

Advantages of Real GDP

- Helps find out the
- effect of increased
- production of goods/services on real development capacity.
- Enables year-to-year comparison of changes in output growth.
- Useful for making international comparisons of economic performance.

GDP and Welfare

A higher GDP may indicate greater well-being, but not always. Reasons:

(a) Distribution of GDP

- Rising GDP may not improve welfare if income is concentrated in a few hands.

(b) Non-Monetary Exchange

- Non-monetary transactions (e.g., housewife services, kitchen gardening) are excluded due to lack of data.

(c) Externalities

- **Definition:** Benefits or harms caused to others without payment or penalty.
    - Positive externalities → underestimation of national income.

    - Negative externalities → overestimation of national income.
- No market exists for externalities; not counted in GDP.

(d) Composition of GDP

- If GDP includes socially undesirable goods (e.g., guns, bombs), it overestimates welfare.

Steps for estimating national income by value added method?

1. Identification of producing units

    (namely: primary sector, secondary sector, and tertiary sector)

2. Calculation of GDP mp or GVA mp:

- **GVOmp =Sales + Change in Stocks+ Goods produced for self-consumption**

  =(Domestic Sales+ exports)+(Closing Stock-Opening Stock)

- GVA mp/ GDPmp = GVOmp-intermediate Consumption

  =GVOmp-(Domestic purchase+ imports)

3. Calculation of Domestic Income (NDP fc): **NDP fc=GDPmp-Depreciation-NIT**

4. Calculation of National income (NNpfc) :**NNPfc=NDPfc+ NFIA**

Steps involved in calculation of national income by income method.

1. Classify the producing enterprises into industrial sectors like primary, secondary and tertiary.

2. Estimate the following factor income paid out by the producing enterprises in each sector,i.e.

NDPfc=C+O+M

- Compensation of employees
- Operating surplus
- Mixed income of self employed

3. Take the sum of factor income by all the industrial sectors to arrive at NDPfc

4. Add net factor income from abroad to the NDP fc to arrive at NNp fc

Steps to calculate national income by expenditure method?

1Classify the economic units incurring final expenditure into distant groups like households, government, firms etc.

2. Estimate the following expenditure on final products by all economic units **GDPmp = C+I+G+(X-M)**

- Private final consumption expenditure
- Government final consumption expenditure
- Gross Domestic Capital Formation
- Net Exports(Sum total of the above items give GDPmp

3. Deduct depreciation

4. Add net factor income from abroad to NDP fc to arrive at NNPfc

MONEY AND BANKING

MEANING OF MONEY:-

Money is anything that is generally accepted as a medium of exchange, a measure of value, a store of value, and a standard for deferred payments.

MEDIUM OF EXCHANGE FUNCTION OF MONEY

It is the most essential function of Money.
It can be used as a medium of making payments for all goods and services.
The major difficulty of Barter system, lack of double coincidence of wants has removed.
It has the quality of general acceptability.
Purchase and sale of goods can be conducted independently of one another.

MONEY AS A MEASURE OF VALUE

All prices of goods and services are expressed in terms of Money
It works as a common denomination for value of goods and services
It simplifies the process of exchange
It works as a measuring rod which expresses the value of goods and services
It permits to compare the relative values of any two commodities.

MONEY AS A STORE OF VALUE

It is the most convenient way to store wealth
It provides security to individuals to meet unforeseen contingencies, emergencies
It helps to transfer purchasing power from present to future
Money is easy to store and is not perishable

MONEY AS A STANDARD OF DEFERRED PAYMENTS

Money serves as a standard of debt
Deferred payments refers to, payments which are to be made in near future
Use of money immensely simplified the borrowing and lending operations

Money acts as Standard of Deferred Payments due to:

a. Value of money remains almost constant
b. It is generally accepted
c. It is more durable as compared to goods

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

MONEY CREATION OR CREDIT CREATION –

Money creation (or deposit creation or credit creation) by the commercial banks is determined by (1) The amount of the initial fresh deposit and
(2) The Legal Reserve Ratio (LRR) –
It is the minimum ratio of deposit legally required to be kept as cash by the banks. LRR includes Cash Reserve Ratio.

PROCESS - Let the LRR be 20% and there is a fresh deposit of Rs.10000. As required the banks keep 20% i.e. Rs 2000 as cash. Suppose the banks lend the remaining Rs8000 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 8000. The banks again keeps 20% i.e. Rs1600 as cash and lend Rs.6400 which is also 80% of the last deposit the money again comes back to the banks' lending to a fresh deposit of Rs 6400. The money goes on multiplying in this way and ultimately total money creation is Rs =50000. Credit creation by banks is done by the formula. As seen in the table, banks are able to create total deposits of Rs. 50000 with the initial deposits of just Rs. 10000. It means, total deposits become 'five times' of the initial deposit. Five times means Value of 'Money Multiplier'.

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.

Initials Deposits	Deposits	Loans	LRR=20%	Money Creation = Initial Deposit x 1/LRR, Money Multiplier = 1/LRR
Round - 1	10000	8000	2000	Money Creation = Initial Deposit x Money Multiplier
Round - 2	8000	6400	1600	Money Multiplier = 1/ (20/100), 1/0.20 = 5
Round -3	6400	5120	1280	Money Creation = Initial Deposit x Money Multiplier
	---	---	---	Money Creation = 10000 x 5 = 50000
	---	---		
Total	50000	40000	10000	

. Explain the functions of Central Bank.

1. **Currency Authority or Bank of Note Issue** - Central bank is a sole authority to issue currency in the country. The main advantages of sole authority of note issue. (a)Uniformity in note circulation, (b) Better supervision and control, (c) It is easy to control credit, (d) Ensure public faith, (e) Stabilization in internal and external value of currency.

2. **Banker's Bank- RBI acts as Bankers bank in 3 capacities- Banker's Bank and Supervisor** – There should be some agency top regulate and supervise their proper functioning. The RBI regulates and controls the commercial banks. The regulation of banks may be related to their licensing, branch expansion, liquidity of assets, management, Merging, winding up etc. The central bank also acts as lender of last resort for the other banks of the country.

3. **Banker to the Government** Banker to the Government – As a Banker - to the govt., it acts like commercial bank to the public. Accepts receipts & makes payment for the govt. It provides short term credit to the govt. It provides foreign exchange resources to the govt. to repay external debt.

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

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

CREDIT CONTROL BY THE CENTRAL BANK

Though credit is created by the commercial bank but it is controlled by the central bank. This is done through its following monetary policy instruments

(a) Bank Rate Policy

- **Bank rate is the rate at which central bank lends funds to commercial banks**

At the time of excess demand

- At the time of excess demand central bank increases the bank rate
- This leads to increase the cost of borrowing from the central bank
- So the credit creation capacity by the commercial banks reduced

At the time of deficient demand

- At the time of deficient demand central bank lowers the bank rate
- This leads to decrease the cost of borrowing from the central bank
- So the credit creation capacity by the commercial banks increased

(b) Repo Rate

- Repo rate is the rate at which central bank lends short term loans to commercial banks

At the time of excess demand

- At the time of excess demand central bank increases the repo rate
- This leads to increase the cost of borrowing from the central bank
- So the credit creation capacity by the commercial banks reduced

At the time of deficient demand

- At the time of deficient demand central bank lowers the repo rate
- This leads to decrease the cost of borrowing from the central bank
- So the credit creation capacity by the commercial banks increased

(c) Reverse Repo Rate

- Reverse Repo rate is the rate at which commercial banks park their excess reserves with the central bank

At the time of excess demand

- At the time of excess demand central bank increases the reverse repo rate
- This encourages the commercial bank to park their excess reserves with the central bank
- So the credit creation capacity by the commercial banks reduced

At the time of deficient demand

- At the time of deficient demand central bank lowers the reverse repo rate
- This discourages the commercial bank to park their excess reserves with the central bank
- So the credit creation capacity by the commercial banks increased

(d) Cash Reserve Ratio (CRR)

CRR is the percentage of total deposits which commercial banks are stipulated to keep with RBI

At the time of excess demand

- At the time of excess demand central bank increases the CRR
- This reduces the funds of the commercial bank to give loans
- So the credit creation capacity by the commercial banks reduced

At the time of deficient demand

- At the time of deficient demand central bank lowers the CRR
- This increases the funds of the commercial bank to give loans
- So the credit creation capacity by the commercial banks increased

(e) Statutory Liquidity Ratio (SLR)

SLR is the percentage of total deposits which commercial banks are stipulated to keep with themselves

At the time of excess demand

- At the time of excess demand central bank increases the SLR
- This reduces the funds of the commercial bank to give loans
- So the credit creation capacity by the commercial banks reduced

At the time of deficient demand

- At the time of deficient demand central bank lowers the SLR
- This increases the funds of the commercial bank to give loans
- So the credit creation capacity by the commercial banks increased

(f) Open Market Operation (OMO)

OMO is the act of buying and selling of government securities by the central bank from/to the public and banks

At the time of excess demand

- At the time of excess demand central bank sell the securities
- By this way it collects the amount from the commercial banks as banks/public pay the amount to the central bank through cheque issued by the commercial bank
- So the credit creation capacity by the commercial banks reduced

At the time of deficient demand

- At the time of deficient demand central bank buys the securities
- By this way it pays to the public/banks through cheque and the deposit of the commercial bank increases
- This enhances the commercial banks capacity to create credit

(g) Margin Requirements (MR)

MR is the difference between the amount of the loan and market value of the security offered by the borrower against the loan

MR = Market Value – Loan Value

At the time of excess demand

- At the time of excess demand central bank increases the MR
- So the loan value decreases
- So the credit creation capacity by the commercial banks reduced

At the time of deficient demand

- At the time of deficient demand central bank lowers the MR
- So the loan value increases
- This enhances the commercial banks capacity to create credit

(h) Moral Suasion

It is a combination of persuasion and pressure that central bank applies on other banks in order to get them act, in a manner in line with nits policy.

DETERMINATION OF INCOME AND EMPLOYMENT

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 period of time. AD represents the total expenditure on goods and services in an economy during a period of time.

Components of Aggregate demand are:

(i) Household consumption expenditure (C).
(ii) Investment expenditure (I).
(iii) Govt. consumption expenditure (G).
(iv) Net export (X – M).
Thus, AD = C + I + G + (X – M)

In two sector economy AD = C + I

Aggregate Supply is the money value of all final goods and services available for purchase by an economy during a given period. It is the flow of goods and services in the economy. Since, money value of final goods and services is equal to net value added, AS is nothing but the national income.

AS = C + S Aggregate supply represents the national income of the country. **AS = Y (National Income)**

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.

Important Points about APC

(i) APC is more than 1: as long as consumption is more than national income before the break-even point, APC > 1.
(ii) APC = 1, at the break-even point, consumption is equal to national income.
(iii) APC is less than 1: beyond the break-even point. Consumption is less than national income.
(iv) APC falls with increase in income.
(v) APC can never be zero: because even at zero level of national income, there is autonomous consumption.

CONSUMPTION AND AUTONOMOUS CONSUMPTION.

Consumption is a vital component of aggregate demand in the chapter determination of income and employment. The most important determinant of consumer demand is household income. Consumption changes as income changes and to study this relationship, we have a consumption function.

Consumption Function refers to the relationship between consumption and income.

Autonomous Consumption refers to when consumption takes place even when the income is zero.

Consumption Function is shown as C = C + bY

Where C is the consumption expenditure by households and it consists of two components autonomous consumption C and induced consumption (bY).

According to the determination of income and employment, autonomous consumption is denoted by $\bar{C}$and shows the consumption, which is independent of income. The induced component of consumption, bY refers to the dependence of consumption on income.

MPC = ΔC/ΔY = b

When income changes, change in consumption can never exceed the difference in income. The maximum value which c can take is 1.

The consumer may choose not to change consumption even when his/her income has changed. In this case **MPC = 0.**

Generally, **MPC lies between 0 and 1**. If the consumer does not increase his/her consumption as his/her income increases then **MPC = 0.** If the consumer increases his/her consumption with an increase in income, it is **MPC = 1** or he/she uses a part of the change in income for changing consumption, it is **0< MPC<1**.

Consumption and Savings

We may derive the 20 savings function from consumption function.

The equation below says that income that is not spent on consumption is saved, that is S = Y – C.

This equation tells us that saving is equal to income minus consumption.

The consumption function, along with the above equation, implies a savings function. The savings function relates the level of saving to the level of income.

Substituting the consumption function into the above equation we can get the saving function.

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

= Y – ($\bar{C}$ – bY)

= -$\bar{C}$ + Y - bY S

= - $\bar{C}$+ (1 - b)Y

From the savings function, we can find out the average savings - income ratio.

At any particular level of income, the Average Propensity to Save (APS) is the ratio of savings to income.

We have APC = C/Y and APS = S/Y

Now, the ***sum of the APC and APS is always equal to one***. This is because income is either consumed or saved. From the relationship between income, consumption and saving, we have Y = C + S Dividing both sides of the equation by Y we have Y/Y = C/Y + S/Y.

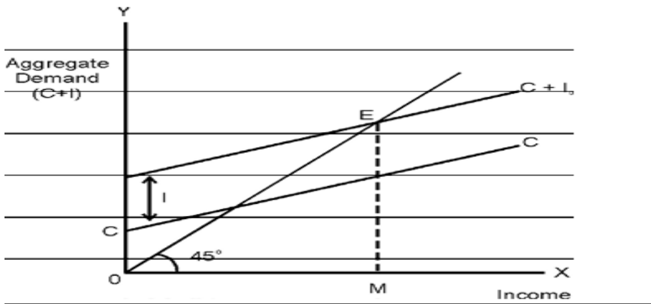
Thus, **I = APC + APS** Using the earlier examples of consumption function and savings function we can calculate the values of APC and APS for every level of income.

Relation between MPC and MPS : MPC + MPS = 1

Determination of Equilibrium Level of Income:

1. Consumption plus Investment Approach

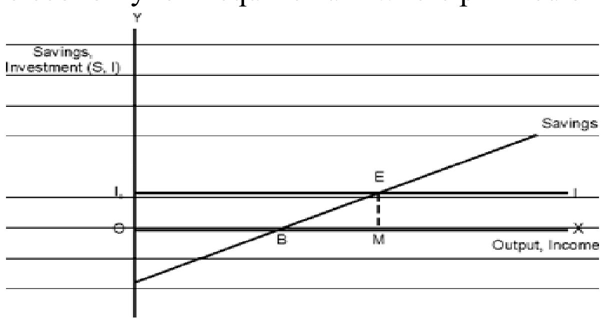
According to this approach the economy is in equilibrium where AD = AS OR planned demand = planned output.



The aggregate demand or (C + Io) curve shows the desired level of expenditure by consumers and firms corresponding to each level of output. The economy is in equilibrium at the point where the C + Io curve intersects the 45o line - point E in the above figure. At point E, the economy is in equilibrium because the level of desired spending on consumption and investment exactly equals the level of total income. The level of income corresponding to point E, is the level of income OM. Thus, OM is the equilibrium level of income.

2. Income Determination Using the Savings and Investment

According to this approach, the economy is in equilibrium where planned saving = planned output.



In the above figure, point E is the point of intersection of the savings curve and the investment curve. Thus, only at point E will planned savings of households equal planned investment of firms. When planned savings and planned investment are not equal, income will tend to adjust up or down till they are equal again.

MULTIPLIER

A change in the investment spending affects income. The operation of the multiplier ensures that a change in investment causes a change in income by an amplified amount, which is a multiple of the change in investment. **The multiplier is the number by which the change in investment must be multiplied in order to determine the resulting change in income.**

ΔY = ΔI X 1/ I – MPC = ΔI X 1/ MPS

The value of multiplier is directly related to the value of MPC and inversely related to MPS.

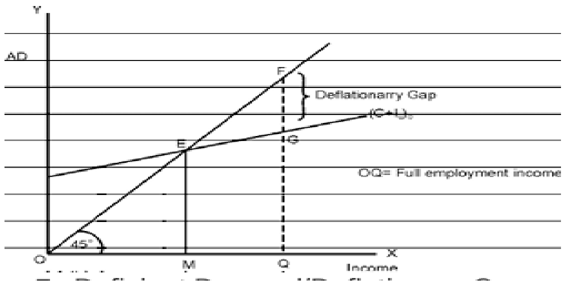
EXCESS DEMAND AND DEFFICIENT DEMAND

The equilibrium level of income, is determined solely by the level of aggregate demand. The economy will be in full-employment equilibrium if the aggregate demand is for an amount of income that is equal to the full-employment level of income aggregate supply. If the aggregate demand is for an amount of output less than the full employment level of output, then it is known as deficient demand. If the aggregate demand for a level of output is more than full-employment level of aggregate supply output, then it is known as excess demand.

Problem of Deficient Demand

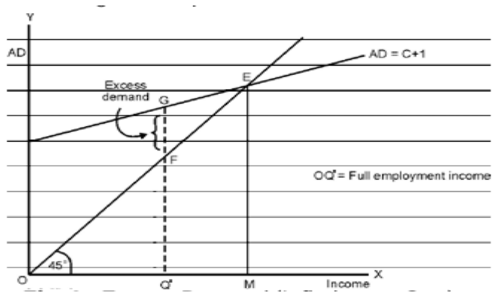
If aggregate demand is for a level of income less than the full-employment level, then a situation of deficient demand exists. Deficient demand gives rise to a 'deflationary gap', which causes the economy's income, to decline, thus pushing the economy into an under-employment equilibrium.

In the above diagram, the resulting deflationary gap created due to deficient demand is represented by FG.



Problem of Excess Demand

If aggregate demand is for a level of income more than the full employment level, then a situation of excess demand exists. Excess demand gives rise to an inflationary gap which causes a rise in the price level or inflation.



The inflationary gap is the amount by which the actual aggregate demand exceeds the level of aggregate demand required to establish the full-employment equilibrium. The inflationary gap is a measure of the amount of the excess of aggregate demand. In the above figure, FG represents inflationary gap.

Remedy for Deficient Demand

In order to remedy the problem of deficient demand, the aggregate demand has to be increased by an amount equal to the deflationary gap. This will move the economy to the full employment equilibrium.

The aggregate demand may be increased by taking recourse to fiscal policy, monetary policy or both.

(i) Increase in government expenditure

We shall first consider the fiscal policy measures to increase aggregate demand. This may be done by either increasing the level of government expenditure or by reducing the amount of taxes. We will consider only increase in government expenditure.

If the government expenditure is increased by an amount equal to the deflationary gap, it will restore the economy to the full-employment equilibrium.

(ii) Increase in availability of credit

The problem of deficient demand can also be solved by taking resort to monetary policy measures. The aim of the monetary policy measures is to cause an increase in the investment expenditure by firms. This may be done by increasing the availability of credit. More credit can be made available by taking recourse to the various instruments of credit regulation. These are explained under functions of Central Bank.

Remedy for Excess Demand

If aggregate demand is for a level of income greater than the full employment level of income, then a situation of excess demand exists. In order to remedy the problem of excess demand, the aggregate demand has to be reduced by an amount equal to the inflationary gap. This will keep the economy at full employment equilibrium but will lower the price level and thus combat the inflation. The aggregate demand may be reduced by taking recourse to fiscal policy or to monetary policy.

(i) Reduce Government Expenditure

Reduction in government expenditure will reduce aggregate demand and remove the inflationary gap. The fall in government expenditure should be equal to the inflationary gap.

(ii) Reduce availability of credit

The monetary policy measures, explained under functions of Central bank will combat the problem of excess demand through a reduction in the availability of credit. This decrease in investment demand would cause a decrease in aggregate demand until the inflationary gap is eliminated.

GOVERNMENT BUDGET AND THE ECONOMY

SYLLABUS;- Government budget - meaning, objectives and components, Classification of receipts - revenue receipts and capital receipts, classification of expenditure – revenue expenditure and capital expenditure. Measures of government deficit - revenue deficit, fiscal deficit, primary deficit their meaning.

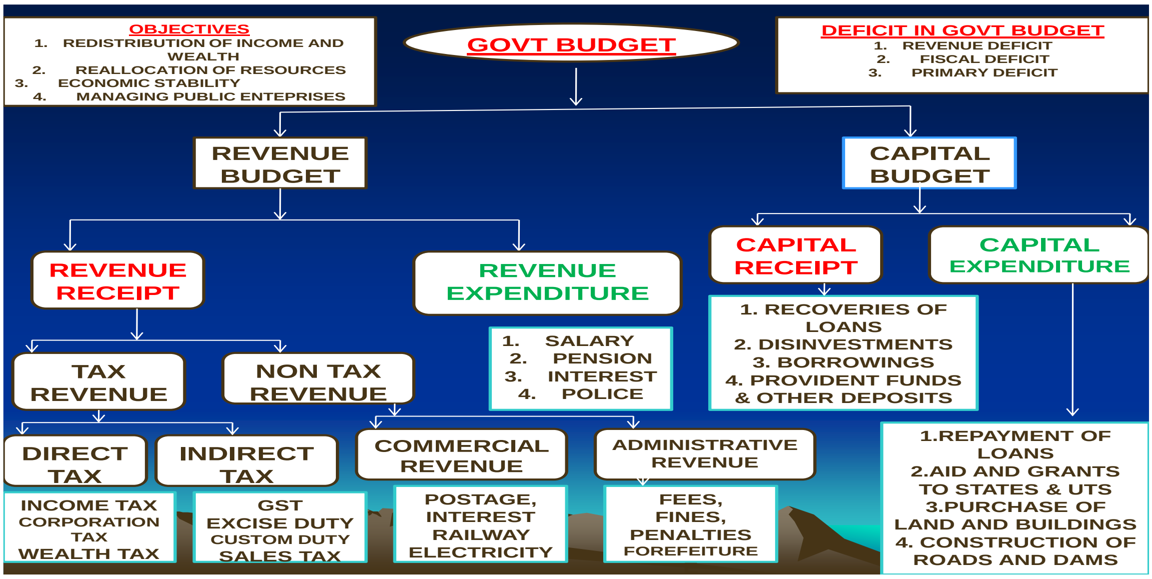
Q.1 What do you mean by government budget?

Budget is basically an estimation of receipts and expenditure of government for an accounting year.

Q.**2 what are the objectives of government budget?** **(RRGEMS)**

- Redistribution of Income and wealth
- Reallocation of Resources
- Economic stability
- Managing Public Enterprises
- Self Sufficincy
- Economic Growth

COMPONENTS OF GOVERNMENT



Q.3 **What do you mean by revenue receipt?**

Ans:- Revenue receipts are those receipts which neither reduce asset nor create liability of repayment. Examples are:- Tax revenue and non tax revenue.

Q.3. **What do you mean by tax?**

Ans:- Tax is a compulsory contribution made by the citizens to the government to meet the expenses incurred in the common interest of all.

Tax is of two types such as **Direct tax and Indirect tax**.

Direct taxes: are the taxes which are directly paid by the taxpayer to the government. These taxes are imposed on the income of the individual or profit of the business enterprises. **In this case the impact (immediate effect) of tax and incidence (ultimate effect) of tax fall on the same person.** Income tax, corporation tax, wealth tax, are the examples of direct tax.

Indirect taxes: are taxes which are indirectly paid by the taxpayer to the government. Here the burden of tax can be shifted from producer to the consumers. These taxes are imposed on goods and services. Here the impact and incidence fall on different individuals. Examples are:- GST, Custom duties

Q.4. **what do mean by non-tax revenue?**

Non tax revenue of the government includes commercial revenue and administrative revenue. Commercial revenue includes profit from the public enterprises like postage, railways, Electricity, Interest etc. Administrative revenue includes those receipts which are collected in the administrative process such as Fees, Fines, Penalties and Forfeitures.

Q,5 **What do you mean by revenue expenditure?**

Ans:- Revenue expenditure are those expenditures which neither creates assets nor reduce liability of repayment. Examples of revenue expenditure are:- payment of salary, pension, interest etc.

Q.6 Difference between Revenue receipt and Capital receipt

SL NO	REVENUE RECEIPT	CAPITAL RECEIPT
1	Neither reduce assets nor creates liabilities	Either reduce assets or creates liabilities
2	Recurring in nature	Non – recurring in nature
3	These receipts are in current period	These receipts have future obligation
4	Tax receipts, Not tax receipts	Disinvestment, borrowings, recoveries of loans, provident funds and other deposits

Q.7 Difference between revenue expenditure and capital expenditure

SL NO	REVENUE EXPENDITURE	CAPITAL EXPENDITURE
1.	Neither creates assets nor reduces liabilities	Either creates assets or reduce liabilities
2	Recurring in nature	Non recurring in nature
3.	These expenditures are incurred in current time period	These expenditures have future time aspects
4.	Payment of salaries, pensions, interest on govt borrowings, expenditure on police, defence etc	Repayment of loans, aid and grants to states and UTS, Purchase of land and buildings, construction of roads and dams etc.

Q.8 Deficit in Budget and types of deficit

Deficit in budget refers to a situation in which the total expenditure exceeds the total receipts of the government in a financial year. These deficit in budget is of following types

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

Q.9 what do you mean by revenue deficit and what are its implications?

Ans: - Revenue deficit is defined as the excess of revenue expenditure over revenue receipts of the government in a financial year**.**

Revenue Deficit = Revenue Expenditure – Revenue Receipt

Q.10 **what are the implications of revenue deficit**

1. The govt. may have to raise funds through borrowing. This raises liabilities of the government and lowers its credit worthiness.
2. Because of the revenue deficit, the government cut its expenditure on several welfare programmes in the country. This leads to loss of social welfare.
3. The government may be compelled for disinvestment i.e selling of public enterprises.
4. The ownership of public enterprises may be lost to foreign companies. Consequently, economic control of the foreigners may increase in the domestic economy.

Q.11 **what do you mean by fiscal deficit? What are its implication?**

1. A large fiscal deficit means large amount of borrowings of the government. This shows failure of the government.
2. This creates a large burden of interest payment and repayment of loan in future.
3. A large fiscal deficit may lead to inflationary situation in the economy.
4. A large fiscal deficit implies erosion of government credibility.

Q. 12 what do you mean by primary deposit?

Primary deficit is defined as the excess of fiscal deficit over interest payment of the government in an accounting year. Its formula

- Primary Deficit = Fiscal Deficit – Interest Payment

Q.13 what is Zero Primary Deficit?

Zero primary deficit means that the government has to resort to borrowing only to make interest Payment.

- **Primary Deficit = Fiscal Deficit – Interest Payment**
- **Zero (Primary Deficit) => Fiscal Deficit = Interest Payment**

Foreign Exchange Rate

Meaning of foreign exchange - Currencies of the foreign countries are called foreign exchange.
Meaning of **foreign exchange rate -** Rate at which one currencies is exchanged for the other currencies .
Eg .1$= Rs 80.
Foreign Exchange Market- Market where national currencies are traded for one another.
Two type of exchange rate -
Fixed exchange rate - exchange rate determined by the government or monetary authority of the country.
Merits -

1) Ensure stability in exchange rate
2) Promote Capital Movement.
3)Prevents Speculation
4 Proper Government check on inflation.

Demerits-

1) there may devaluation and revaluation of currency.
2) Difficult to fix equilibrium exchange rate.

Flexible exchange rate- Exchange rate determined by the market forces i.e demand and supply of the foreign
exchange of country .
Merits-

1) Eleminate problems of overvaluation and undervaluation of the currencies.
2) No need for the government to hold any reserve
3) Enhance efficiency in the economy.

Demerits

1) create situation of instability and uncertainty.
2) Wide fluctuation in the exchange rate hamper foreign trade and capital movement.

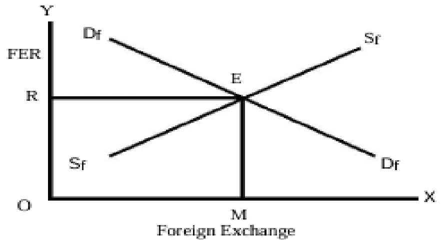
Managed Floating- it is the system in which the exchange rate is determined by the demand for and supply of foreign exchange, but the monetary authority has the discretionary to intervene in the process and influence the exchange rate .
Determination of foreign Exchange rate under the flexible exchange rate system- Determination of the FER – The rate is determined in the foreign exchange market by the interaction of the demand for and supply of foreign exchange..
Foreign Exchange Rate – It is a rate at which the currency of one country is exchanged with the currency of other country e.g., $1 = 48 or one Indian rupee 1/48 th $.
Demand for Foreign exchange: comes from –

1- Domestic residents purchase goods and services from other countries (imports),
2- for sending gifts to foreigners, by the domestic residents
3- to purchase financial assets in other country, s
4- peculative purpose and tourists going abroad etc.

There is inverse relationship between foreign exchange rate and demand for foreign exchange. So demand curve for foreign exchange is downward sloping.
Supply of Foreign exchange: comes from –

1- The foreigner's purchasing goods and services (exports),
2- the foreigners who invest in home country through joint ventures,
3- remittances from abroad,
4- foreign tourists come to visit a country.

There is direct relationship between foreign exchange rate and supply of foreign exchange. So supply curve of foreign exchange is upward sloping.

 	In diagram, Df, Df is demand and Sf Sf is supply curve of foreign exchange .They are equal at point E, so E is equilibrium point. At this point OR is determined as equilibrium foreign exchange rate.

DIFFERENTIATE BETWEEN FIXED EXCHANGE RATE AND FLEXIBLEEXCHANGE RATE

Sl. No.	Fixed Exchange Rate System	Flexible Exchange Rate System
i	The system in which exchange rate is officially declared by government or central bank of a country and only a very small deviation from this fixed value is possible is called ***Fixed Exchange Rate System***.	The system in which exchange rates are determined by the demand and supply forces of foreign exchange in the market is called ***Flexible Exchange Rate System***.
ii	**Advantages (Merits)** **1**-It ensures stability, in the exchange rate which encourages international trade. **2**- It prevents speculations in foreign exchange market. **3**- It helps co-ordination of macroeconomics policies across different countries of the world. **4**- It implies low risk and low uncertainty of future payments so.	**Advantages (Merits)** **1**-This system does not require huge reserves of gold and international currencies. **2**-This system **does not** require the huge back-up of international reserves so encourage the movement of capital across different parts of the world. 3-Deficit and surplus in BOP is automatically corrected.
iii	**Disadvantages (Demerits)** **1**-This system requires huge reserves of gold and international currencies. **2**-In this system the benefits of free markets are deprived.	**Disadvantages (Merits)** 1-It encourages speculation leading to fluctuations in exchange rate. 2- It discourages investment and international trade.

	Decrease in the Value of currency	Increase in the value of currency
By the Governmnet or monetary authority	Devaluation	Revaluation
By the Market forces ie demand and supply of foreign exchange	Depreciation	Appreciation

BALANCE OF PAYMENTS (BOP)

Meaning:
BOP is the systematic records of all international receipts and international payments between the resident country and the rest of the world during a financial year.
Balance of Trade (BOT) -BOT is the systematic records of only visible import and export of goods only between the resident's country and the rest of the world during a financial year.

- **The difference between exports and imports of goods is called Trade balancee.**

Exports of goods >imports of goods = Trade Surplus;
Exports of goods <imports of goods = Trade deficit;
Exports of goods =imports of goods = Trade balance

Basic principles of BOP -BOP is based on the principles of Double Entry Book Keeping System
Entries in BOP• BOP statement has two entries. i.e. credit entry (+) and debit entry (-) •
Credit (+) side - Those transactions by which there is inflow of foreign exchange its value will be entered in credit side.**Debit (-) side**- those transactions by which there is outflow of foreign exchange its value will be entered in to debit side.
Components of BOP- A BOP has two components Current A/c and Capital A/c
(a) Current A/c- records all the transactions which do not affect the assets and liabilities of a country. These transactions are current nature only.
(b) Capital A/c- A Capital A/c records all those transactions which affects the assets or liabilities of a country. Capital account is concerned with financial transactions.
• Capital A/c is prepared to overcome the weakness arise in Current A/c i.e. to rectify the surplus /deficit arise in Current A/c

Components of Current A/c

S.no	Components	Debit	Credit
A	Current Account (i)Import and export of goods (Merchandise trade) (BALANCE OF TRADE) (ii)Import and export of Services (Invisible Trade) (BALANCE OF SERVICES) (iii) Unilateral Transfers (Unrequited Transfers)	• Import of goods ii)Imports of services (Gifts, remittances, donations, aid) Payments abroad	Exports of goods ii)Export of services Gifts, remittances, donations, aid Receipts from abroad
B	**Capital Account** (i) Borrowings and Lending • Example: Indian government borrows money from IMF, World Bank etc (ii)Private transactions (iii) Official transactions (iv)Direct Investments (v) Portfolio Investment (vi) Official Reserve Transactions	lending to abroad	borrowings from abroad

Difference between BOP and BOT

BASIS	BALANCE OF TRADE	BALANCE OF PAYMENT
MEANING	BOT is a systematic record of the goods exported and goods imported between resident country and rest of the world.	BOP is the systematic record of all the economic transaction take place between resident country and rest of the world.
COMPONENTS	Exports and imports of goods only.	Exports and imports of all the items (visible and invisible items).
SCOPE	Narrower concept	Broader concept
NATURE OF TRANSACTION	Include only visible current A/c transaction.	Include Current A/c and Capital A/c transaction.

Difference between Current A\C and Capital A\C

BASIS	CURRENT ACCOUNT	CAPITAL ACCOUNT
Meaning	A current account records all the transactions which do not affect the assets and liabilities of a country.	A current account records all the transactions which affect the assets and liabilities of a country.
Components	It has mainly 3 components: 1)Exports and imports of goods 2) Exports and imports of services 3) Unilateral Transfer	It has mainly 3 components: 1) Borrowing from and to abroad 2) Investment from and to abroad **3)** Change in foreign exchange reserve

Balance of payments always balances: It is based on the principles of Double Entry Book Keeping Systems ,each transactions have dual entries (Contra entries)• In operational sense it may not be. It may be surplus or deficit.

Items transacted in BOP

• The items transacted in BOP are of two types: Autonomous Items and Accommodating Items

Difference between Autonomous Items and Accommodating Items

BASIS	Autonomous Items	Accommodating Items
Meaning	• It refers to the international economic transaction that take place due to some independent motive, may be economic motive such as profit maximization	It refers to the international economic transactions which are undertaken to cover BOP Surplus/ Deficit such as government financing
Purpose	Independent Motive, may be economic like profit maximization	To correct the disequilibrium, arise in BOP
Entries	Entered in both Current and Capital account	Entered only in Capital account
Alternative name	Above the line statements	Below the line statements

Disequilibrium in BOP- Arises in the form of surplus or deficit in BOP.

• These are occurred due to the following reasons

(a) Economic Factors

• Large scale developmental expenditure • Cyclical fluctuations in general business activity
• Higher rate of inflation in domestic country • Change in the pattern of demand by the people

(b) Political Factors

• Political instability may cause large scale capital outflow
• Changing government policies due to political disturbances causes loss of faith of investors

Social Factors

• Change in taste, preference and fashion may affect imports and exports
• Demonstration effect leads to higher imports

ALL THE BEST WISHES