



अर्थशास्त्र Economics

कक्षा / Class XII
2025-26

विद्यार्थी सहायक सामग्री
Student Support Material





संदेश

विद्यालयी शिक्षा में शैक्षिक उत्कृष्टता प्राप्त करना एवं नवाचार द्वारा उच्च – नवीन मानक स्थापित करना केन्द्रीय विद्यालय संगठन की नियमित कार्यप्रणाली का अविभाज्य अंग है। राष्ट्रीय शिक्षा नीति 2020 एवं पी. एम. श्री विद्यालयों के निर्देशों का पालन करते हुए गतिविधि आधारित पठन-पाठन, अनुभवजन्य शिक्षण एवं कौशल विकास को समाहित कर, अपने विद्यालयों को हमने ज्ञान एवं खोज की अद्भुत प्रयोगशाला बना दिया है। माध्यमिक स्तर तक पहुँच कर हमारे विद्यार्थी सैद्धांतिक समझ के साथ-साथ, रचनात्मक, विश्लेषणात्मक एवं आलोचनात्मक चिंतन भी विकसित कर लेते हैं। यही कारण है कि वह बोर्ड कक्षाओं के दौरान विभिन्न प्रकार के मूल्यांकनों के लिए सहजता से तैयार रहते हैं। उनकी इस यात्रा में हमारा सतत योगदान एवं सहयोग आवश्यक है - केन्द्रीय विद्यालय संगठन के पाँचों आंचलिक शिक्षा एवं प्रशिक्षण संस्थान द्वारा संकलित यह विद्यार्थी सहायक- सामग्री इसी दिशा में एक आवश्यक कदम है। यह सहायक सामग्री कक्षा 9 से 12 के विद्यार्थियों के लिए सभी महत्वपूर्ण विषयों पर तैयार की गयी है। केन्द्रीय विद्यालय संगठन की विद्यार्थी सहायक-सामग्री अपनी गुणवत्ता एवं परीक्षा संबंधी सामग्री संकलन की विशेषज्ञता के लिए जानी जाती है और शिक्षा से जुड़े विभिन्न मंचों पर इसकी सराहना होती रही है। मुझे विश्वास है कि यह सहायक सामग्री विद्यार्थियों की सहयोगी बनकर निरंतर मार्गदर्शन करते हुए उन्हें सफलता के लक्ष्य तक पहुँचाएगी।

शुभाकांक्षा सहित।

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ECONOMICS (Subject Code 030)

CLASS - XII (2025-26)

Theory: 80 Marks

3 Hours

Project: 20 Marks

Units		Marks
Part A	Introductory Macroeconomics	
	National Income and Related Aggregates	10
	Money and Banking	06
	Determination of Income and Employment	12
	Government Budget and the Economy	06
	Balance of Payments	06
		40
Part B	Indian Economic Development	
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	Current Challenges facing Indian Economy	20
	Development Experience of India – A Comparison with Neighbours	08
	Theory Paper (40+40 = 80 Marks)	40

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1	UNIT-I	National Income
2	UNIT-II	Money and banking
3	UNIT-III	Determination of Income and Employment
4	UNIT-IV	Government Budget and Economy
5	UNIT-V	BOP and Foreign Exchange
6	UNIT-VI	Development experience (1947 to 1990) and Economic reforms since 1991
7	UNIT-VII	Current challenges facing Indian Economy <ul style="list-style-type: none">➤ Human Capital Formation➤ Rural Development➤ Employment➤ Sustainable Economic Development
8	UNIT-VIII	Development experience of India –A comparison with neighbours

NATIONAL INCOME AND RELATED AGGREGATES (10 marks)

GIST OF THE LESSON

MACRO ECONOMICS –Deals with the decision-making behaviour of the economy as a whole or aggregate economy.

Examples –National income accounting, Aggregate Demand, Government budget. **NATIONAL INCOME:** National Income is the sum total of the money value of all final goods and services produced by the normal resident of the country within or outside the domestic territory during a financial year.

FINAL GOODS: Goods used for final consumption and not again subjected to the process of production or value addition(cross the production boundary) are called final goods. Final goods itself are of two types- consumption goods and Capital goods.

CONSUMER OR CONSUMPTION GOODS: Goods are not subjected to a further process of Production and used by the Consumer directly are called consumer or consumption goods. e.g. Pen, pencil.

PRODUCER GOODS OR CAPITAL GOODS: Goods once produced and which can be used again for Production is called Producer or Capital Goods. e.g. Machines, buildings.

INTERMEDIATE GOODS: Goods used as an input for producing other goods are called Intermediate goods. e.g. wood in a paper factory, leather in a shoe factory.

INVESTMENT: Investment means Capital formation. It is the addition to the existing stock of Capital. It is a flow variable.

GROSS INVESTMENT: Total durables or Capital goods produced during a year in an economy are called Gross Investment.

NET INVESTMENT: The addition to the existing stock of capital is Net Investment. It is the new capital formation.

NET INVESTMENT = GROSS INVESTMENT – DEPRECIATION

DEPRECIATION OR CONSUMPTION OF FIXED CAPITAL: The loss of value of fixed assets due to wear and tear is called Depreciation. It is also called Consumption of fixed capital.

The other names are Consumption of Fixed Capital, Replacement Investment, Capital Consumption Allowances etc.

STOCK VARIABLE: A Variable that can be measured at a point of time is called a STOCK. It is a static concept. It has no time limit. It is measured at a particular point of time. E.g. Wealth, Capital, Inventory.

FLOW VARIABLE: A Variable that is measured in a specific period of time is called FLOW. It is a dynamic concept. It is measured over a period of time. e.g. Consumption, income, changes in inventory.

INVENTORY The quantity of output that a firm could not be sold is called Inventory. In short, it is the unsold stock. Inventory is a stock variable. It may accumulate or de cumulates. **Change in inventory = Closing stock – Opening stock.**

NET INDIRECT TAX (NIT): Indirect Tax is the tax imposed by the government on goods and services. Government sometimes gives Subsidies to encourage producers. The difference between Indirect Tax and Subsidies is called Net Indirect Tax.

NET INDIRECT TAX = INDIRECT TAX – SUBSIDIES.

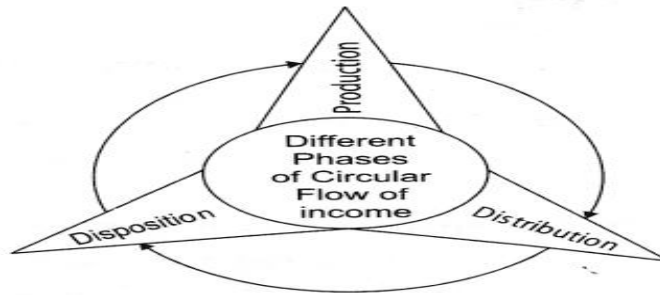
PHASES OF CIRCULAR FLOW

There are three phases of circular flow:

Generation (PRODUCTION PHASE): Production of goods and services by the firms.

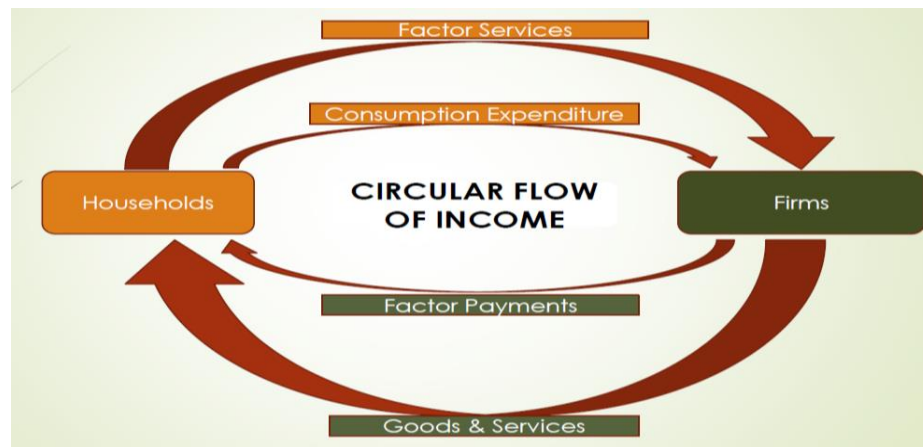
Distribution (INCOME PHASE): Flow of factor income from firms to households.

Disposition (EXPENDITURE PHASE): Consumption expenditure by household on the goods and services produced by firms.



CIRCULAR FLOW OF INCOME IN A TWO SECTOR ECONOMY.

It is a flow which shows how goods and services and income of an economy circulate different sectors in an economy. The two sectors exist in an economy are Firms and Households. Firms are the Production units, and they receive factors of production from the households and give rewards for the factors of production. The households spent the entire income received from the forms for purchase final goods and services produce by the firm. This is shown by the flow chart.



Two Types of Circular Flow

1. Real / Product / Physical Flow: Real flow of income implies the flow of goods and services between household sector to firm in the form of land, labour, capital and organization and Good and services.

2. Money / Monetary / Nominal Flow : Money flow of income implies the flow of factors payments between producing sector to the household sector in the form of rent, labour, interest and profit and expenditure to Good and services.

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

Domestic Territory Includes

1. Ships and aircraft owned and operated by the resident between two or more countries.
2. Fishing vessels, oil and natural gas rigs and floating platforms operated by the residents of a country in the international waters or areas where the country has exclusive rights for operation
3. Embassies, consulates and military establishments of the country located abroad.

Domestic Territory does not include.

1. Territorial enclaves (like embassies) used/ administered by foreign governments.
2. All International organizations which are physically located within geographical boundaries of a country. Their offices form a part of international territory.

Normal Resident

A normal resident is said to be a person (or an institution) who ordinarily resides in a country (at least one year) and whose centre of economic interest lies in that country.

Normal Residents Includes

1. Both nationals and non-nationals residing in a country for more than a year.
2. The staffs of international bodies are treated as normal residents of the country in which the international body operates.
3. Local employees working in foreign embassies located in their country are treated as normal residents.
4. Workers from across the border who cross the border in the morning to work in the other country and return in the evening are treated as normal resident of the parent country.

Normal Residents Does Not Include

1. International Bodies (like World Bank, World Health Organization or International Monetary Fund) are not considered residents of the country in which these organizations operate but are treated as residents of international territory.
2. Students and medical patients staying abroad are treated as normal residents of their home country, even if their stay in the host country is for more than one year

Market Price

Market Price = Factor Cost + Indirect Taxes – Subsidies or Factor Cost + Net Indirect Taxes (Net Indirect Tax = Indirect Taxes – Subsidies)

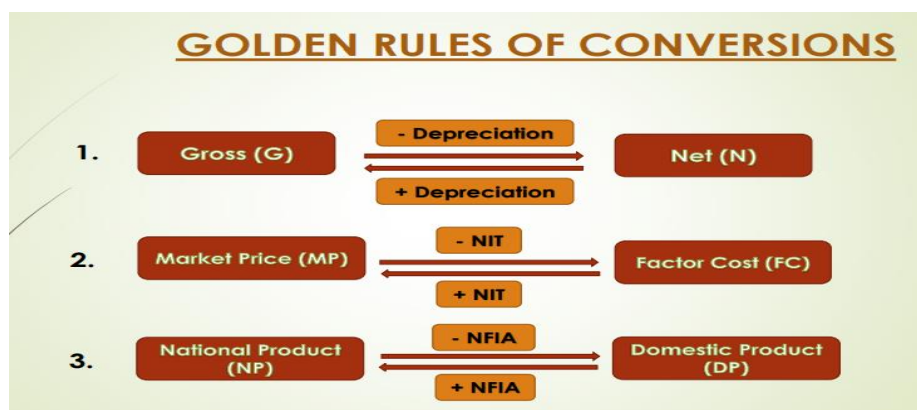
Net Factor Income from Abroad (NFIA)

NFIA = factor income earned from abroad by normal residents or country – the factor income earned by non-residents (foreigners)

Value of Output

Money value of output of an enterprise is obtained by multiplying its physical output of goods and services with its market price

GOLDEN RULES OF CONVERSIONS



1. VALUE ADDED METHOD

CONCEPT OF VALUE ADDED METHOD

- Measures NI in terms of value addition by each producing enterprises in the economy during an accounting year.
- Value Added = Value of Output – Intermediate Consumption.
- Value of output is the market value of the goods & services produced by a firm during an accounting year.
- Intermediate Consumption includes value of intermediate products (raw materials) used in the production process.

STEPS OF VALUE ADDED METHOD

1. Value of output = Production for self-consumption + Sales + Change in stocks.
 - ❖ Sales = Domestic sales + Exports / Price X Quantity
 - ❖ Change in stocks = Closing stocks – Opening stocks.
2. Intermediate Consumption = Purchase of raw materials + Misc. charges.
 - ❖ Purchase of raw materials = Domestic purchase + Imports.
 - ❖ Misc. charges include electricity charges, water charges, etc.
3. Value added (VA) = Value of output – Intermediate consumption.
4. Gross Value Added (GVA at MP) = Sum of Value Added = Σ VA.
5. GDP at MP = Σ GVA at MP (GDP at MP = GVA at MP if there is only one commodity/sector)
6. NI = NNP at FC = GDP at MP – DEPRECIATION + NFIA – NIT

PRECAUTIONS OF VALUE ADDED METHOD

Items not included:

- ❖ Intermediate goods are not to be included in the NI as it leads to double counting.
- ❖ Sale and purchase of second-hand goods is not included in the NI as they were already included in the year in which they were produced.
- ❖ Production of services for self-consumption are not included in NI since it is difficult to measure their market value.

Items included:

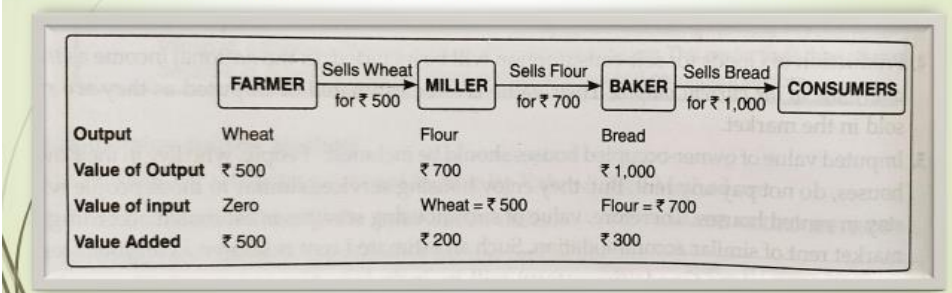
- ❖ Production of goods for self-consumption will be included as they contribute to the current output.
- ❖ Imputed value of owner-occupied houses should be included in NI since they enjoy housing services similar to those who stay in rented houses. This type of rent is known as imputed rent.
- ❖ Change in stock of goods will be included in NI as it is a part of capital formation.

PROBLEM OF DOUBLE COUNTING

Double counting refers to counting of an output more than once while passing through various stages of production.

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Double counting refers to counting of an output more than once while passing through various stages of production.



HOW TO AVOID DOUBLE COUNTING?

- **Final Output Method:** Value of only final goods should be added to determine the national income.
- **Value Added Method:** Sum total of the value added by each producing unit should be taken in the national income

2. INCOME METHOD

Compensation of Employees (COE)

COE refers to amount paid to employees by employer for rendering productive services. It consists of 3 elements:

- Wages and salaries in cash:* includes all monetary benefits, like wages, salaries, bonus, etc.
- Wages and salaries in kind:* includes non-monetary benefits, like rent free home, free car, etc.
- Employer's contribution to social security schemes:* includes contributions made by employer for the social security of employees, like contribution to provident fund, gratuity, etc.

$$\text{COE} = a + b + c$$

OPERATING SURPLUS (OS)

It refers to sum total of income from property (rent + royalty + interest) and income from entrepreneurship (profit).

a. Rent:

Rent is that part of national income which arises from ownership of land and building.

b. Royalty: Royalty refers to income received for granting leasing rights of sub-soil assets.

c. Interest: Interest refers to amount received for lending funds to a production unit.

d. Profit: Profit is the reward to the entrepreneur for his/her contribution to the production of goods and services. This is used for 3 purposes:

- Corporate Tax / Business Tax / Profit Tax
- Dividend / Distributed Profits
- Retained Earnings/ Undistributed Profits/ Saving of Private Sector/ Reserves & Surplus.

$$\text{Profit} = i + ii + iii$$

$$\text{Operating Surplus} = \text{Rent} + \text{Royalty} + \text{Interest} + \text{Profit}$$

MIXED INCOME (MI)

The income generated by own-account workers or self-employed persons (like farmers, barbers, etc.)

The income generated by unincorporated enterprises (like retail traders, small shopkeepers, etc.)

Since factors of production are not hired/ purchased from the market, separate estimation of wages, rent, interest, profit is not possible.

These incomes are mixture of wages, rent, interest, profit. That is why it is called Mixed Income.

E.g.: income of a doctor running a clinic at his residence.

STEPS OF INCOME METHOD

1. Identify and classify the production units by Primary, Secondary and Tertiary sectors.

2. Estimate the factor income paid by each sector.

3. Calculate Domestic Income (NDP at FC).

$$\text{NDP at FC} = \text{COE} + \text{OS} + \text{MI}$$

$$\text{NDP at FC} = \text{COE} + [\text{Rent \& Royalty} + \text{Interest} + \text{Profit}] + \text{MI}$$

4. Estimate Net Factor Income from Abroad (NFIA) to arrive at NI.

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

PRECAUTIONS OF INCOME METHOD

Transfer Incomes are not included in the NI.

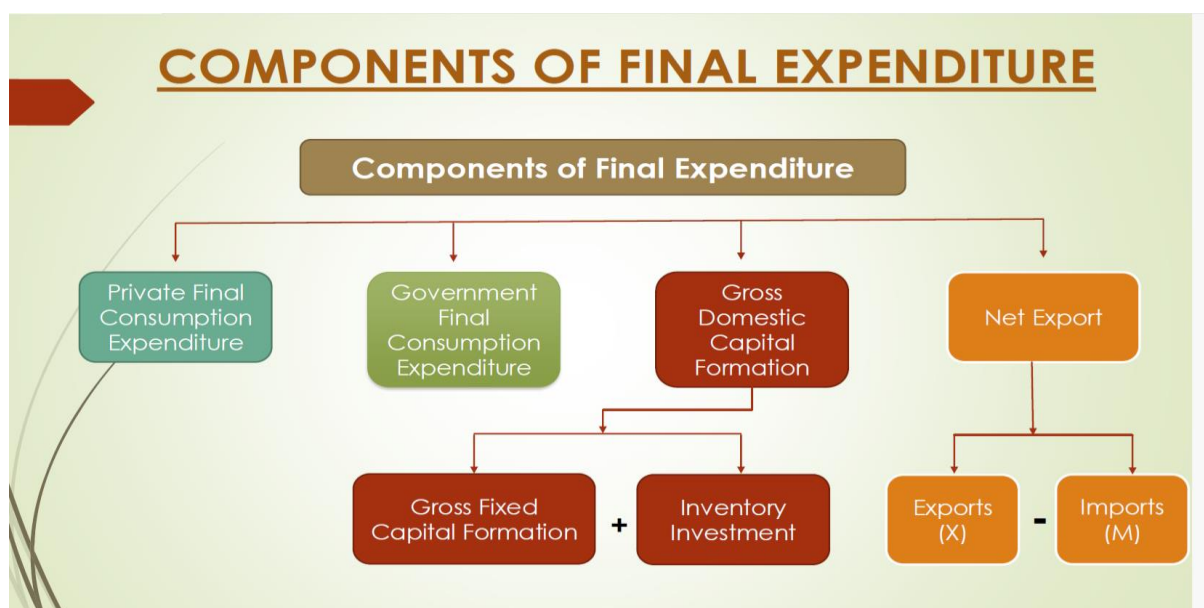
Income from sale of second-hand goods will not be included in NI as their original sale has already been counted.

Income from sale of shares, bonds and debentures will not be included.

Windfall gains are not included in NI.

Imputed value of services provided by owners of production units will be included in NI.

3. EXPENDITURE METHOD



PRIVATE FINAL CONSUMPTION EXPENDITURE (PFCE)

PFCE refers to expenditure incurred by Households and private non-profit institutions serving households on all type of consumer goods, i.e. durable, semi-durable, non-durable goods and services.

It includes expenditure incurred by normal residents, whether in the domestic territory or abroad.

PFCE = Household Final Consumption Expenditure + Private Non-profit Institutions Serving Households

Final Consumption Expenditure

GOVERNMENT FINAL CONSUMPTION EXPENDITURE (GFCE)

GFCE refers to expenditure incurred by general government on various administrative services like defence, law and order, education etc.

It is equal to cost of goods and services produced by government for collective use by the public.

GROSS DOMESTIC CAPITAL FORMATION (GDCF)

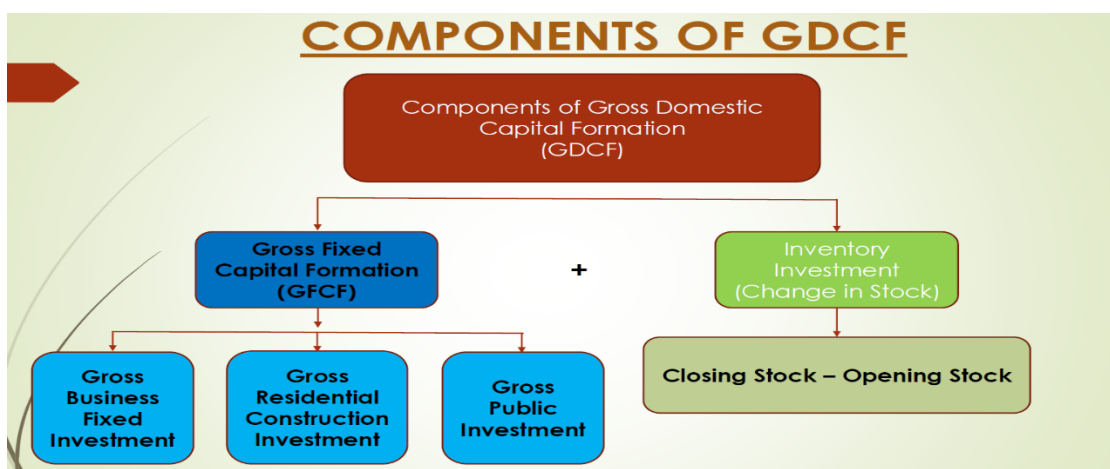
GDCF refers to the addition to capital stock of the economy.

It is also known as Gross Investment.

It has two components

Gross Fixed Capital Formation (GFCF) and Inventory Investment / Change in Stock i.e. (Closing Stock – Opening Stock)

GDCF = Gross Fixed Capital Formation + Inventory Investment.



GDCF CALCULATION FORMULAE

GDCF = Gross Fixed Capital Formation (GFCF) + Inventory Investment (II).

GDCF = Net Domestic Capital Formation (NDCF) + Depreciation.

GDCF = Net Domestic Fixed Capital Formation (NDFCF) + Depreciation + II.

STEPS OF EXPENDITURE METHOD

1. Identify the Economic Units incurring Final Expenditure by Household Sector, Government Sector, and Producing Sector & Rest of the World.
2. Classification of Final Expenditure under the following heads: PFCE GFCE GDCF Net Exports

3. Calculate Gross Domestic Product at Market Price (GDP at MP).

$$\text{GDP at MP} = \text{PFCE} + \text{GFCE} + \text{GDCF} + (\text{X}-\text{M})$$

4. Calculate Domestic Income (NDP at FC).

$$\text{NDP at FC} = \text{GDP at MP} - \text{Depreciation} - \text{Net Indirect Taxes}$$

4. Estimate Net Factor Income from Abroad (NFIA) to arrive at NI.

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

PRECAUTIONS OF EXPENDITURE METHOD

Expenditure on Intermediate goods will not be included in NI as it is already included in the value of final expenditure.

Transfer Payments are not included in the NI as such payments are not conducted with any productive activity and there is no value addition.

Purchase of second-hand goods will not be included in NI as such expenditure has already been included when they were originally purchased.

Purchase of financial assets (shares, bonds etc.) will not be included as such transaction do not contribute to current flow of goods & services.

CONVERSION OF NATIONAL INCOME AT CURRENT PRICE INTO CONSTANT PRICE

$$\text{National Income at Constant Price} = \text{National Income at Current Price} / \text{Current Price Index} \times 100$$

Price Index is an index number which shows the change in price level between two different time periods.

NOMINAL & REAL GDP

When GDP of a given year is estimated on the basis of price of the same year, it is called **Nominal GDP**.

When GDP of a given year is estimated on the basis of price of the base year, it is called **Real GDP**.

Real GDP is affected by the change in physical output only, whereas Nominal GDP is affected by both price & output changes over the period.

Real GDP truly reflects the growth of the economy & facilitates international comparisons.

Hence Real GDP is a better measure compared to Nominal GDP.

GDP DEFLATOR

GDP deflator measures the average level of prices of all goods & services that make up the GDP.

It is used to eliminate the effect of price changes and determine the real change of output in an economy.

$$\text{GDP def (price index)} = \text{Nominal GDP} / \text{Real GDP} \times 100$$

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

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

GDP & WELFARE

Welfare means sense of material well-being among the people.

GDP is often considered as an index of welfare of the people.

Higher GDP is generally taken as greater welfare of people.

However, this generalisation may not be correct due to some reasons.

REASONS/LIMITATIONS

Externalities: It refers to benefits or harms of an activity caused by a firm or an individual, for which they are not paid or penalised.

Activities which results in benefits to others are termed as *positive externalities*.

Activities which results in harm to others are termed as *negative externalities*.

Since these external effects do not form part of market transactions, these are not considered in GDP.

Thus it can be concluded that GDP may not be taken as a satisfactory measure of economic welfare as the limitations suggest.

Yet it does reflect some index of economic welfare so its importance cannot be overlooked

MULTIPLE CHOICE QUESTIONS (MCQs)

(Each question is of 1 mark)

1. Which of the following is a flow concept?

(a) Capital Formation (b) Change in stock (c) GDP at MP (d) All of the above.

Ans: (d)

2. If the money value of final goods and services produced by normal residents of a country in a year, measured at the prices of the current year, then it is called as:

(a) Real GDP (b) GDP at constant Price (c) National Product (d) GDP at current price

Ans: (d)

3. Which of these is transfer income?

(a) Rent (b) Wages (c) Gifts received from abroad (d) Profit.

Ans: (c)

4. The net value at Market Price of final goods and services during an accounting year within the domestic territory of a country is known as

(a) GDP_{fc} (b) NNP_{fc} (c) NDP_{mp} (d) GDP_{mp}

Ans: (d)

5. Which of the following is intermediate product?

(a) Pulses purchased by consumers (b) Machine purchased by a firm (c) Wheat used by flour mill (d) Wheat used by household.

Ans: (c)

6. Depreciation means:

(a) Destruction of a factory due to fire (b) Loss in fixed assets due to normal wear and tear (c) Loss in fixed assets due to earthquake (d) Shut-down of a factory due to strike

Ans: (b)

7. $GDP_{fc} = GDP_{mp} - \dots\dots\dots$

(a) Indirect Tax (b) Depreciation (c) NFIA (d) NIT

Ans: (d)

8. Domestic income is greater than National Income if

(a) NFIA is positive (b) NFIA is zero (c) NFIA is negative (d) None of these.

Ans: (c)

9. Which of these is not a component of operating surplus?

(a) Interest (b) Rent (c) Royalty (d) Wages

Ans:- (d)

10. While estimating national income, depreciation is measured from:

(a) Durable Consumer goods (b) Capita Goods (c) Intermediate goods (d) Final Goods

Ans: (b)

11. Which of the following is also known as domestic factor income?

- (a) NDP_{fc} (b) NNP_{mp} (c) GDP_{fc} (d) NNP_{fc}

Ans: (a)

12. Which of these is not an example of leakage?

- (a) Savings (b) Taxes (c) Imports (d) Intermediate goods

Ans: (d)

13. Which of the statement is correct?

- (a) GNP_{mp} will be greater than GDP_{mp} when NFIA will be less than zero.
(b) GNP_{mp} will be greater than GDP_{mp} when NFIA will be zero.
(c) GNP_{mp} will be greater than GDP_{mp} when NIT will be zero.
(d) GNP_{mp} will be greater than GDP_{mp} when NFIA will be more than zero.

Ans: (d)

14. Which of the following is included in national income?

- (a) Sale of bonds by a company (b) Expenditure on transportation by a firm (c) Interest payment on loan by households to banks (d) None of these.

Ans: (c)

15. Which of these is not transfer payment/

- (a) Indirect Tax (b) Subsidies (c) Scholarship (d) None of these

Ans: (d)

16. When the value of same output is counted more than once while measuring national income it results:

- (a) Less Measurement of N.I (b) More Measurement of N.I (c) Correct Measurement of N.I (d) None of the above.

Ans: (b)

17. Which of the following is not a component of NFIA

- (a) Net compensation of employees (b) Net income from property and entrepreneurship
(c) Net retained earnings from abroad (d) None of these.

Ans: (d)

18. Which item from the following will be included in national income?

- (a) Employees contribution to the social security schemes
(b) Expenditure on the maintenance of building
(c) Expenditure on the construction of building
(d) Interest payment by employees on loan given from employer.

Ans: (c)

19. Which of the following is not a component of gross domestic fixed capital formation?

- (a) Gross Government Investment (b) Inventory Investment (c) Gross Residential construction investment
(d) Gross business fixed investment.

Ans: (b)

20. Which of the following is a leakage?

- (a) Export (b) Import (c) Investment (d) Both (a) and (b)

Ans: (b)

21. A person of an institution who normally resides in a country and whose economic interest lies in that country is known as:

- (a) Normal Resident of a country (b) Non-resident of a country (c) Both (a) and (b)
(d) None of these.

Ans: (a)

22. Find out factor payment from the following:

- (a) Subsidies (b) Old age pension (c) Profit (d) Income tax

Ans: (c)

23. Corporation tax is not a component of:

- (a) Personal Income (b) National Income (c) Domestic Income (d) Private income

Ans: (a)

24. Old age pension given by Government of India comes under:

- (a) Factor Income (b) Capital Transfer (c) Current Transfer (d) Domestic Factor Payment.

Ans: (c)

25. Which of the following is not a normal resident of a country?

- (a) An Indian working in WHO situated in India (b) An American tourist in India
(c) An Indian working in American Embassy (d) A branch of WHO in India.

Ans: (b)

26. A firm's value added is equal to:

- (a) Sales (b) Profit (c) Sales – Intermediate consumption
(d) Sales + Intermediate consumption

Ans: (c)

27. Which of the following is not in intermediate goods for a farmer?

- (a) Seeds (b) Fertilizer (c) Tractor (d) All of these

Ans: (c)

28. Medicine supply to the Earthquake victim in India by British Government is :

- (a) Factor Income (b) Capital Transfer (c) Net factor Income from abroad
(d) Current Transfer.

Ans: (d)

29. Which of the following is a final expenditure?

- (a) Computer purchased by a school (b) Scooter purchased by a dealer (c) Vegetables purchased by a restaurant (d) Milk purchased by a tea-maker.

Ans: (a)

30. Change in stock will be negative when:

- (a) Closing Stock > Opening Stock (b) Closing Stock < Opening Stock (c) Closing Stock = 0 (d) Opening Stock = 0

Ans: (b)

AR BASED MCQs

Read the following statement - Assertion (A) and Reason(R)

Choose one of the correct alternatives 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) are true but Reason (R) are true but (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.

Q1Assertion (A):- Exports of goods and service are included in Gross Domestic Product.

Reason (R):- It will be included in national income as the sum total of expenditure of the domestically produced goods and services during an accounting year is called GDP.

Q2.Assertion (A):-To calculate the value of output, we will add sales and exports.

Reason (R):- Sales are equal to the Value of output if there is no change in stock.

Q3.Assertion (A):- An American working in the World Bank in India for more than a year is considered as Normal resident of India.

Reason (R):- Normal resident is said to be one who ordinarily resides in the country concerned and whose centre of economics interest lies in that country.

Q4.Assertion (A):- Services of a housewife cannot be properly evaluated as there are no appropriate data for the same.

Reason (R):- The services of a housewife cannot be properly evaluated as there are no appropriate data for the same.

Q5.Assertion (A):- An item that is meant for final use and will not pass through any more stages of production or transformation is called a final good.

Reason (R):- It will not undergo any further transformation at the hands of any producer, but many such final goods are transformed during their consumption.

Q6.Assertion (A):- Purchase of a car by a consumer is included in the calculation of National income.

Reason (R):- Gross Domestic Capital formation is a part of National Income.

Q7.Assertion (A):-GDP can be greater than GNP.

Reason (R):- NFIA can never be negative.

Q8.Assertion (A):- Factor incomes contributed to an increase in GDP.

Reason (R):- Scholarship will be added in National Income as it is a factor payment.

Answers:-Assertion & Reasoning- 1.(a) 2.(d) 3.(c) 4.(a) 5.(a) 6.(b) 7.(c) 8.(c)

SELECTIVE PREVIOUS YEAR QUESTION AND ANSWERS

Question 1: “Final goods include only those goods which are consumed by the households”. Defend or refute the given statement with valid reason. (3)

Answer: The given statement is refuted, as final goods include those goods which are either consumed by the households or purchased by a producer for investment purposes. **(to be marked as a whole) (No marks are to be allotted if reason is not/wrongly given)**

Question 2: “Circular flow principle is based on the assumption that one’s expenditure will become other’s income.” Explain the given statement. (3)

Answer: In a two sector economy, households and firms exist to run the economy. Households render factor services to the firms and earn factor incomes from them. Whereas; firms produce and sell goods and services to households and earn their income by an equal magnitude. Thus, in a circular income mode, the axiom that one’s expenditure is other’s income holds true. **(to be marked as a whole) (Diagram not mandatory)**

Question 3: What do you mean by a direct and indirect tax? (4)

Answer: **Direct tax** refers to a compulsory payment to the government whose impact and incidence falls on same person. It is progressive in nature. Example-Income tax and Property tax. **Indirect tax** refers to a compulsory payment to the government whose impact and incidence falls on different persons. It is regressive in nature. Example- VAT, custom duty.

Question 4: “Higher Gross Domestic Product (GDP) means greater per capita availability of goods in the economy.” Do you agree with the given statement? Give valid reason in support of your answer. (6)

Answer: I do not agree with the statement that “Higher gross domestic product (GDP) means greater per capita availability of goods in economy” as higher GDP does not mean high per head availability of goods and services.

1. It depends upon the population of the country. If GDP is higher but population is equally high then per head availability of goods and services will be low.

2. It also depends on the fact that whether the income is equally distributed or unequally distributed. If income is equally distributed then share of goods and services for each individual will be equal but if it is unequally distributed, the rich will take more share in comparison to a poor.

7: What are 'externalities'? State its types with suitable examples. (4)

Answer: Externalities refer to the benefits/harms caused by a firm/individual to the Society in general, without being penalised.

There are two types of externalities:-

(i) Positive externalities – Social benefits. E.g. saving of time/fuel with construction of better roads in a country.

(ii) Negative externalities - Social harms for example pollution caused by stubble burning in some states of India. **(Any other suitable definition/example to be allotted marks)**

Question 5: Distinguish between stock and flow variables with suitable examples. (3)

Stock	Flow
(i) Stock relates to a point of time, e.g. your saving as on January 1, 2014, are Rs 10,000.	(i) Flow relates to the period of time, e.g. your pocket expenses, of ₹ 20 per day.
(ii) Stock is not time -dimensional.	(ii) Flow is time-dimensio-nal as per hour, per month, per year.
(iii) Stock influences the flow, greater the stock of capital, greater is the flow of goods and services.	(iii) Flow influences the stock. For example, a monthly increase in the supply of money leads to an increase in the quantity of money.
(iv) Example – Popula-tion of a country, Bank deposit etc.	(iv) Expenditure of money, interest on capital etc.

Work sheet – 1

Max. Marks – 20

Time 30 Min.

Q. 1 Assertion (A): Macroeconomics is essential for government policy making.

Reason (R): It provides data on individual preferences.

A. Both Assertion and Reason are true and Reason is the correct explanation.

B. Both Assertion and Reason are true but Reason is not the correct explanation.

C. Assertion is true but Reason is false.

D. Assertion is false but Reason is true.

1

Q. 2 **Assertion:** The value-added method takes into account the value of only final goods and services.

Reason: Intermediate goods are not included in the calculation of national income using the value-added method.

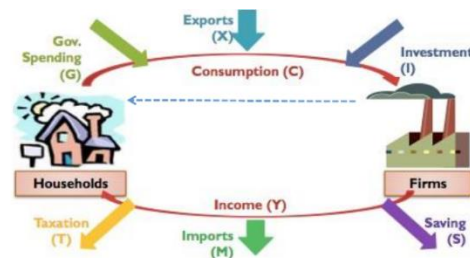
Which of the following options is correct?

- A. Both Assertion and Reason are true and Reason is the correct explanation.
- B. Both Assertion and Reason are true but Reason is not the correct explanation.
- C. Assertion is true but Reason is false.
- D. Assertion is false but Reason is true.

Q. 3 Assertion (A): Net investment is a better indicator of economic growth than gross investment.

Reason (R): Net investment considers depreciation, showing the actual increase in productive assets.

- A. Both Assertion and Reason are true and Reason is the correct explanation.
- B. Both Assertion and Reason are true but Reason is not the correct explanation.
- C. Assertion is true but Reason is false.
- D. Assertion is false but Reason is true.



Q.4 Find the correct option based on the above picture

- A Leakage – Tax, Saving & Exports
- B Injection – Govt. Exp., Export & Investment
- C Injection – Govt. Exp., Export & Imports
- D. Leakage – Tourism, Saving & Export

Q. 5 Macroeconomics does not consider international trade. (True/False)

1

Q. 6 Statement 1. Real GDP is better indicator of economic growth than nominal GDP.

Statement.2. Real GDP eliminates the change in prices.

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

1

Q. 7 Identify, which of the following is **not** considered as 'Normal Resident of India? (1)

- (A) An Indian citizen working in U.S.A. embassy located at New Delhi.
- (B) An Indian officials working in Indian embassy in China.
- (C) An Indian diplomats visiting Canada for a summit.
- (D) An Indian working in an American Company located in New York for a period of more than one

1

Q. 8 Suppose the Gross Domestic Product (GDP) of Nation X was Rs. 2,000 crores in 2018-19, whereas the Gross Domestic Product of Nation Y in the same year was Rs. 120,000 crores. If the Gross Domestic Product of Nation X rises to Rs. 4,000 crores in 2019-20 and the Gross Domestic Product of Nation Y rises to Rs. 200,000 crores in 2019-20.

Compare the rate of change of GDP of Nations X and Y, taking 2018-19 as base year. (3)

Q.9 In response to an economic slowdown, the government of Country X introduced a series of stimulus measures aimed at increasing national income. These measures included significant tax cuts for individuals and businesses, increased government spending on public infrastructure projects, and low-interest loans for small businesses to stimulate investment. As a result of these policies, the country's Gross Domestic Product (GDP) grew by 4% in the following year, up from 1.5% the previous year. The increase in government expenditure on infrastructure directly boosted aggregate demand, leading to job creation in construction and related sectors. At the same time, lower taxes increased household disposable income, encouraging greater consumer spending on goods and services. However, the country's net exports remained negative as imports of capital goods, such as machinery for infrastructure, exceeded exports. Despite this, the overall increase in investment and consumption led to a significant rise in national income. Economists predict that as infrastructure improves and industrial productivity increases, the country will see long-term growth in exports, further enhancing national income.

A) What were the key measures implemented by the government of Country X to boost

National Income?

1

B) How did government spending on infrastructure affect national income in the short term?

1

C) Why did net exports remain negative despite the increase in national income, and what were the main imports?

2

Q.10 (A) As per a report, India's solar power generation capacity reaches 50 GW in 2024-25. Analyze the likely impacts of this development on Gross Domestic Product (GDP) and Welfare.

4

(B). Riya is analysing the economic performance of her country. She found that the value of all final goods and services produced within the country during the year was Rs.200 lakh crore. She also found that the value of net factor income from abroad was Rs.5 lakh crore. Using this information, answer the following:

1. What is the Gross Domestic Product at Market Price (GDPMP) of the country?

2. Calculate the National Income (NNP at Factor Cost). (2)

Answer Hint

Q. 1 (C) By adding up the value added at each stage of production

Q. 2 (A) Both assertion and reason are true, and the reason is the correct explanation of the assertion.

Q. 3 (C) Assertion is true, but the reason is false

Q. 10 A- The increase in solar power generation capacity is likely to have a positive impact on both GDP and welfare.

GDP Impact:

- Increased investment in the renewable energy sector will contribute to GDP growth.
- Job creation in the solar power industry will add to economic activity.
- Reduced dependence on imported fossil fuels will save foreign exchange.

Welfare Impact:

- Cleaner energy will reduce air pollution, improving public health and welfare.
- Increased access to renewable energy can improve energy security and reduce energy poverty.
- The growth of the solar power industry can also promote sustainable development and reduce greenhouse gas emissions.

This development is likely to have a positive impact on both GDP and welfare, contributing to sustainable economic growth and development.

1. Gross Domestic Product at Market Price (GDPMP) of the country = Rs.200 lakh crore
2. National Income (NNP at Factor Cost)= Rs.205 lakh crore

Unit – I National Income and Related Aggregate

Work sheet – 2

Max. Marks – 20

Time 30 Min.

Q. 1 An economy that invests more in capital goods than in consumption goods may sacrifice present comfort for future growth.

Which of the following best illustrates this trade-off?

- A) Increasing food imports for immediate needs
- B) Buying luxury cars for private use
- C) Building more factories instead of shopping malls
- D) Increasing wages to boost consumer spending 1

Q. 2 Assertion (A): Macroeconomics deals with the study of national income.

Reason (R): National income is a part of individual household budgets.

- A. Both Assertion and Reason are true and Reason is the correct explanation.
- B. Both Assertion and Reason are true but Reason is not the correct explanation.
- C. Assertion is true but Reason is false.
- D. Assertion is false but Reason is true. 1

Q. 3 Assertion: The value-added method is useful for calculating national income in economies with complex production processes. (1)

Reason: This method not helps to identify the contribution of each sector to national income.

Which of the following options is correct?

- A. Both Assertion and Reason are true and Reason is the correct explanation.
- B. Both Assertion and Reason are true but Reason is not the correct explanation.
- C. Assertion is true but Reason is false.
- D. Assertion is false but Reason is true.
- Q. 4 Write down the name of two negative externalities based on given picture.



- Q. 5 Statement I: Macroeconomic models help forecast economic trends.

- (a) Both statement(A) and (R) are true and(R)is correct explanation of (A).
 (b) Both statement (A) and (R) is true bute R is not correct explanation of (A)
 (c) Statement A is true but R is false.
 (d) Statement (A) is fals but (R) is true.

- Q. 6 Goods used in the production of other goods and services are called _____ goods.

- Q. 7 Identify whether the following is a stock or a flow:

Case Study:

- 8.1 What is the value added by XYZ Inc. in the production process?

- Q.8.2 If the company sells the components for Rs.1,20,000, what is the additional value added?

- Q. 8.3 What is the total value added by XYZ Inc. in the entire process?

(Total value added = Value added in production + Additional value added = Rs.50,000 + Rs.20,000 = Rs.70,000)

Q. 9 “ Higher GDP means greater per capita availability of goods in the economy. “ Do you agree with the given statement? Give valid reason in support of your answer.

Q. 10 (A) Calculate the value of ‘Change in Stock’ from the following data. 3

S. No.	Items	Amount (in Rs.Crores)
1.	Sales	400
2.	Net Value Added at Factor Cost (NVAFC)	200
3.	Subsidies	10
4.	Change in Stock	?
5.	Depreciation	40
6.	Intermediate Consumption	100

(B) Which among the following are final goods and which are intermediate goods ? Give Reasons.
3

(1) Milk Purchased by a tea stall

(2) Bus Purchased by a School

Answer Hint

Q. 1 C

Q. 3 A and R are both true, and R is the correct explanation of A.

Q. 4 A

Q. 8.1 (D) ₹50,000

8.2 (A) ₹20,000

8.3 (B) ₹70,000

Q. 10A. National Income (NI)=50,000+20,000+10,000+25,000+5,000+8,000

National Income (NI)=₹1,18,000\text{National Income (NI)} = ₹1,18,000National Income (NI)=₹1,18,000

b. National Income (NI)=1,50,000+40,000+30,000+60,000+25,000+20,000+10,000

National Income (NI)=₹3,35,000\text{National Income (NI)} = ₹3,35,000National Income (NI)=₹3,35,000

Unit 2 Money and Banking (6 Marks)

GIST OF THE LESSON

Money: Money is something which is generally accepted as a medium of exchange, measure of value, standard of deferred payment and store of value.

Supply of money : Total stock of money held by the people of a country **at a point of time.** (Stock concept)

Component of supply of money :

$M1 = C + DD + OD$

C = currency held by the people (coins and paper notes)

DD = Demand deposits of the people with the commercial banks.

OD = Other Demand deposits with RBI of (i) domestic financial institutions like IDBI, LIC

(ii) foreign financial institutions like IMF, World Bank and (iii) foreign Central Banks and Governments.

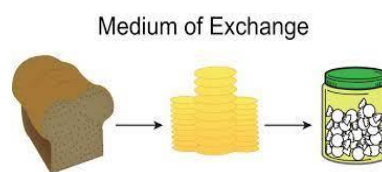
Functions of money :

Money is a matter of function four,

Medium, Measure, Standard, Store

(1) Medium of exchange: It means that money act as a medium for the sale and purchase of goods and services. In the absence of money goods were exchanged for goods. Use of money as medium of exchange has removed the major difficulty of 'double coincidence of wants' of the barter system.

Exchange is now become much simpler. It saves lot of time and labour. Seller and consumer can sell or purchase the goods and services whenever they desire. It allows purchase and sale to be conducted independently of each other. It facilitates multilateral trade and gives the economic freedom to the people.



2) Measure of value OR Unit of value: It means each goods and services is measured by money.

Measurement of value of any commodity is difficult in barter system. One good was valued in term of other good. There was no common unit of value.

Introduction of money has removed this difficulty. Values of all goods & services are expressed in terms of money. Money works as a common parameter.

Price of car, house, computer, mobile are expressed in term of money.

By money we are able to construct development plans, we can calculate cost, revenue, profit, national income, PCI etc.

3) Store of value : Store of value means storing of purchasing power for future use. Individuals try to save a part of their income for their future requirement.

It was not possible to store value in barter system. In barter system purchasing power was stored in form of goods or livestock. Goods might depreciate and livestock may die.

Money is good standard for store of value as long as its value remain constant.

4) Standard deferred payment: Deferred payment refers to those payments which are made sometimes in the future. Payment of loans also refers to the deferred payments. Millions of transactions are made in which payments are not made immediately.

When we borrow money from somebody, we have to return both the principal as well as interest amount. It is difficult to make such transactions in term of goods and services.

Suppose, you have taken loan from somebody in term of wheat. At the time of return of the loan, it may not be possible to return wheat of the same quality. Therefore the lender has to face the loss for the giving loan. But in monetary system it is easy to return the loan amount. Money is accepted as standard of deferred payments because its price remains stable.

Process of Credit Creation of Commercial Bank

(1) Credit creation is a process of creating new deposits from initial deposits.

This process depends on amount of Initial Deposits and Legal Reserve Ratio(LRR).

LRR is that part of deposits which are legally required to be kept by banks as Cash Reserve.

If LRR is 20% then 80% of deposits can be given on loan.

(2) How many times Initial Deposits get converted into New Deposits is determined by LRR. The multiple (how many times) is called money multiplier.

Money Multiplier = $1 \div \text{LRR}$

If LRR = 20% then Money Multiplier will be 5 and. If LRR = 10% then Money Multiplier will be 10 It means that Lower the LRR , Higher the Money Multiplier and more the Money Creation.

(3) Assumption for money creation : (i) All banks are interlinked (2) All transactions are completed by using Cheques iii) Public does not hold cash.

(4) Process of Credit Creation with Example :

Deposit Creation by Commercial Banks Round	Deposits (₹)	Loans (₹)	Cash Reserves (LRR=20%)
Initial	100	80	20
Round I	80	64	16
Round II	64	51.20	12.80
--	--	--	--
--	--	--	--
Total	500	400	100

As per above schedule suppose the initial deposit in bank is ₹100 and the LRR is 20% then banks can keep ₹20 as cash reserve and remaining ₹80 can be given as a loan. The bank opens the deposit account in the name of borrowers and deposits the loan amount of ₹80 in that account. The people who receive ₹80 as loans they will issue Cheques for making their payments. Those who receive these Cheques will deposit the cheques in their account. The deposits will increase by ₹80 with banks.

The LRR is 20% therefore banks can keep ₹16 as cash reserve and remaining ₹64 can give as a loan. The process of deposit creation comes to an end when : Total of LRR = Initial Deposit

Money Multiplier = 5 ($\text{MM} = 1 \div \text{LRR}$, $\text{MM} = 1 \div 20\% = 5$)

Money Creation(New Deposits) = ₹500 ($\text{MC} = \text{Initial Deposit} \div \text{LRR}$, $\text{MC} = 100 \div 20\%$)

So, the banks will create New Deposits of ₹500 from initial deposit of ₹100 if LRR is 20%.

CENTRAL BANK

The central Bank is the apex institution of a country's monetary system. Controls the entire banking system of the country. It is the sole agency of note issuing and controls the supply of money in the economy. It serves as banker to the government and manages foreign exchange reserves of the country. Reserve bank of India (RBI) is the central bank of India.

FUNCTIONS OF THE CENTRAL BANK

Bank of Note 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.

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 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.

As a banker's bank: - • Custodian of cash reserves.

- Clearing house function.
- It provides additional Fund those Bank temporary difficulties.
- . As a supervisor:- • Periodic inspection of banks. • C.B. supervises, regulates and controls the commercial banks.

Lender of the last Resort:- Lender of last resort means that if a commercial bank fails to get financial accommodation from anywhere, it approaches the C.B.as a last resort

- C.B. advances loan to such a bank against approved securities.
- By offering loans to the commercial banks in situations of emergency.
- The C.B. ensures : (i) The banking system of the country does not suffer any set-back. (ii) That money market remains stable.

Custodian of Foreign Exchange Reserves :- Central bank is the custodian of nation's foreign exchange reserves.

- Maintain Foreign Exchange Rate.
- It is also exercises 'managed floating'
- Minimize the Fluctuations in the Foreign Exchange Rate.
- C. B. buys or sells foreign currencies in the Market.
- C.B. is the custodian of the nation's foreign exchange reserves.

Controller of Credit:

Quantitative Control: - Controls Volume of Credit

- Bank Rate.
- Repo Rate
- Reverse Repo Rate
- Open Market Operation.
- Cash Reserve Ratio.
- Statutory Liquidity Ratio.

Qualitative Control: - Selective Credit Control

- Margin Requirement.
- Moral Suasion.
- Direct Action.

Measures of credit control by RBI

1) Bank Rate: The rate of interest at which the Central Bank gives loan to commercial banks for long term.

On the basis of bank rate commercial banks determine the rate of interest on loan which is required by borrower.

Bank rate affects the demand for loan (credit) by customer.

If **bank rate is High** than demand for loan reduces by customers therefore **supply of money decreases** in the market. This policy is used by Central bank when there is **Excess demand** in the economy

If **bank rate is less** than demand for loan rises by customer therefore **supply of money increases** in the market. This policy is used by Central bank when there is **Deficient demand** in the economy.

2)Repo rate: The rate of interest at which the commercial bank borrow the loan from central bank against securities for short term.

If **repo rate is High** than demand for loan reduces by customers therefore **supply of money decreases** in the market. This policy is used by Central bank when there is **Excess demand** in the economy

If **repo rate is Less** than demand for loan rises by customer therefore **supply of money increases** in the market. This policy is used by Central bank when there is **Deficient demand** in the economy.

3) Reverse repo rate: The rate of interest at which the central bank borrow the loan from commercial bank for short term. High reverse repo rate encourage the commercial bank to provide more credit to the central bank and provide less credit to the public. So money supply in the economy fall, AD fall, purchasing power of the people fall and inflation control.

In case of deflation central bank will decrease Reverse Repo rate.

4) CRR (Cash Reserve Ratio) : It refers to the minimum percentage of a bank's total deposits that commercial bank have to keep with central bank.

This CRR is fixed by Central Bank. It changes time to time to control the supply of money in the market.

CRR specifies the maximum limit of loan that commercial banks are able to give to their customer.

CRR is decreased to increase the supply of money in the market **during the situation of Deficient demand** in the economy. Now the bank has more money with them to give more amount of loan to their customer.

CRR is increased to decrease the supply of money in the market **during the situation of Excess demand** in the economy. Now the bank has less money with them to provide loan to their customer.

5) SLR (Statutory Liquidity Ratio) : It refers to the minimum percentage of a bank's total deposits that commercial bank have to keep with themselves in the form of cash or liquid assest.

This SLR is fixed by Central Bank. It changes time to time to control the supply of money in the market.

SLR specifies the maximum limit of loan that commercial banks are able to give to their customer

SLR is decreased to increase the supply of money in the market **during the situation of Deficient demand** in the economy. Now the bank has more money with them to give more amount of loan to their customer

SLR is increased to decrease the supply of money in the market **during the situation of Excess demand** in the economy. Now the bank has less money with them to provide loan to their customer.

(Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

6) Open market operations: Open market operation means buying and selling of government securities by Reserve Bank of India in open market.

Buying and selling of securities by Central Bank affect the supply of money in the market. Buying of securities by the Central Bank increases the supply of money in the economy. Selling of securities by the Central Bank decreases the supply of money in the economy.

Buying of securities leads to increase in the supply of money with Public and Commercial Banks.

During the situation of Deficient Demand the Central Bank buys securities.

Selling of securities leads to decrease in the supply of money with Public and Commercial Banks.

During the situation of Excess Demand the Central Bank sells securities.

7) Margin requirement: It is the difference between value of securities and the loan granted by the bank against this security.

Example: When $MR = 20\%$

If a person produces securities of rupees 1 lakh to bank than bank gives him loan of rupees 80,000

This MR is fixed by Central Bank. It changes time to time to control the supply of money in the market.

If MR decrease to 10% then for 1 lakh security bank will provide rupees 90,000 loan. Similarly if MR raise to 40% then loan amount becomes rupees 60,000

MR specifies the maximum limit of loan that commercial banks are able to give to their customer

MR is decreased to increase the supply of money in the market **during the situation of Deficient demand** in the economy. Now the bank has more money with them to give more amount of loan to their customer.

MR is increased to decrease the supply of money in the market **during the situation of Excess demand** in the economy. Now the bank has less money with them to provide loan to their customer.

8) Moral suasion: In this policy cb request the commercial bank regarding credit creation for the particular sector of the economy. It include oint discussion, meetings, sending letters etc.

BANKING CHAPTER QUESTIONS

OBJECTIVE TYPES QUESTIONS

1. Which of the following agency is responsible for issuing Rs. 1 Currency note in India?

- (a) Reserve Bank of India (b) Ministry of Commerce (c) Ministry of Finance (d) NITI Aayog

Ans: (c) Ministry of Finance

2. Who regulates money supply?

- (a) Government of India (b) Reserve Bank of India (c) Commercial Bank (d) Planning Commission

Ans: (b) Reserve Bank of India

3. What is the value of money multiplier when initial deposits are Rs. 500 crores and LRR is 10%?

- a) 0.1 b) 0.2 c) 10 d) 20

Ans: c) 10

4. A reduction in marginal requirements encourages the people to borrow more. (True / False)

Ans: True

5. To absorb the liquidity from the market, to control inflation, which is the correct measure?

- a) Government securities should be purchased by RBI b) Government securities should be sold by RBI c) Repo rate should be decreased d) Cash reserve ratio should be decreased

Ans: b) Government securities should be sold by RBI.

6. **Assertion (A):** Repo rate is fixed by the Reserve bank of India, while Reverse repo rate is fixed by the commercial bank themselves.

Reason (R): Both repo rate and reverse repo rate are the credit control policy of RBI.

- 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.

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

7. **Assertion (A):** Money Multiplier refers to the process of creation of credit by the commercial Bank.

Reason (R): Money creation by commercial bank raises the National Income.

- 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

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

8. **Assertion (A):** Commercial Banks issues currency.

Reason (R): Commercial Bank is an institutions that provides accepting deposits and providing loans to the public

- 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

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

9. RBI acts as the banker to the central government and commercial banks act as banker to the state governments. (T/F)

Ans.: False

10. **Assertion (A):** An increase in CRR results in decrease in the value of Multiplier.

Reason (R): Banks lend money many times more than their cash reserves.

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

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

11. Rakesh Sharma, an economics teacher, was explaining the concept of 'minimum percentage of the total deposits to be kept by any commercial bank with the Central Bank of the country, as per norms and statute prevailing in the country'.

From the following, choose the correct alternative which specifies towards the concept explained by him ?

(a) Cash Reserve Ratio (b) Repo Rate (c) Bank Rate (d) Statutory Liquidity Ratio

Ans: (a) Cash Reserve Ratio

12. Read the following statements carefully.

Statement-1 : Money is created by the Central Bank

Statement-2 : Money creation is controlled by the Commercial Banks

In the light of the given statements, choose the correct alternatives :

(a) Statement 1 is true and statement-2 is false (b) Statement 1 is false and statement-2 is true

(c) Both Statement 1 and statement-2 are true (d) Both Statement 1 and statement-2 are false

Ans. (d) Both Statement 1 and statement 2 are false

13. The total stock of money in circulation among the public Is called as 'Money supply' .

(i) During a period of time, (ii) During a calendar year

(iii) During a fiscal year, (iv) At a particular point of time

Ans. (iv) At a particular point of time

Short answer type questions (3 / 4 marks)

Q1. Explain the "bank of note issue" function of central bank.

Ans. Bank of Note Issue:- Central bank 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.

Q2.Explain how reverse repo rate can be helpful in controlling credit creation

Ans. Reverse Repo Rate refers to the interest received by the Commercial Banks from the Central banks against the parking of funds by the commercial banks. By increasing RRR, the RBI can encourage the Commercial Banks to park more funds so as to restrict the money supply in the economy. By reducing RRR, the RBI discourages the parking of funds which helps to induce more credit in the economy to resolve the issue of deflation.

Q3.Explain the lender of last resort function of the central bank'

Ans. Lender of the last Resort: - Lender of last resort means that if a commercial bank fails to get financial accommodation from anywhere; it approaches the C.B.as a last resort. • C.B. advances loan to such a bank against approved securities. • By offering loans to the commercial banks in situations of emergency. • The C.B. ensures : (i) The banking system of the country does not suffer any set- back. (ii) That money market remains stable.

Q4. Define credit multiplier. What role does it play in determining the credit creation power of the banking system? Use a numerical example.

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 of money it keeps as reserves

Money Creation = Initial Deposit x $1/\text{LRR}$,

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

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 = $1,000 \times 5 = 5,000$

Credit creation inversely related to the LRR

Example1: Initial deposit is Rs. 1000 and LRR= 20%, then

ROUND	DEPOSIT	LOAN	LRR (20%)
Round -1	1000	800	200
Round -1	800	640	160
Round -1	640	512	128
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TOTAL	5000	4000	1000

Q 5.Discuss the function of central bank as a Government Banker

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

Q 6. 'Reserve Ratio and Credit creation are inversely related'. Do you agree with the statement?

Justify your answer with a suitable numerical example.

Ans. Yes.

Money Multiplier = $1 / \text{Reserve Ratio}$

Credit creation = Initial Deposits X Money Multiplier

Suppose initial deposit is Rs 10000

Reserve Ratio	Money Multiplier	Initial Deposits	Credit Creation
10%	$1 / 0.1 = 10$	10,000	1,00,000

25% 1 / 0.25 10,000 40,000

Thus increase in Reserve Ratio reduces Credit Creation.

Q7. 'During the last few years initiatives such as Jan Dhan Yojna , Aadhar- enabled payment system, e-Wallets and others have strengthen the government 's resolve to go cashless '. Source : NCERT

Elaborate on how such initiatives may have affected the Indian economy.

Ans. These initiatives may affect the Economy by

1. Increasing total bank deposits
2. Lending capacity of banks increases due to more accounts
3. Easing of payment systems
4. Increasing availability of loan and Investment

All these lead to more money into the economy leading to the overall growth in National Income.

Q8. Find the missing figures and Choose the correct alternative :

Round	Deposits	Loans	Reserve Ratio (20%)
I	1000	800	200
II	800	(i)	160
III	-----	-----	-----
IV	-----	-----	-----
Total	(ii)	(iii)	(iv)

Alternatives :

- A. 640 , 1000 , 4000 , 5000 B. 640 , 5000 , 4000 , 1000
C. 640 , 4000 , 1000 , 5000 D. 960 , 5000 , 4000 , 1000

Ans. B. 640 , 5000 , 4000, 1000

WORKSHEET 1 **MONEY and Banking**

Maximum Marks: 20

TIME : 30

MINUTES

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

Q1. **Assertion (A):** Barter system lacked a standard unit of account.

1

Reason (R): It was difficult to measure and compare the value of goods in barter exchange.

Alternatives:

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

Q2. **Assertion (A):** Legal tender money is accepted compulsorily for transactions.

1

Reason (R): Acceptance of legal tender is backed by law.

Alternatives:

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

Q3. Read the statements given below and choose the correct option:

1

Statement I: Money serves as a medium of exchange, which eliminates the need for a double coincidence of wants.

Statement II: Under the barter system, transactions were easier as goods were exchanged directly.

Options:

- a. Both statements are true, and Statement II is the correct explanation of Statement I.
- b. Both statements are true, but Statement II is not the correct explanation of Statement I.
- c. Statement I is true, but Statement II is false.
- d. Both statements are false.

Q4. Read the statements given below and choose the correct option:

1

Statement I: Fiat money has intrinsic value.

Statement II: Money supply includes currency held by the public and demand deposits.

Options:

- a. Both statements are correct
- b. Both statements are incorrect
- c. Statement I is correct, Statement II is incorrect
- d. Statement I is incorrect, Statement II is correct

Refer to the image below and answer Questions



Q5. What type of money does the image represent?

1

- a) Commodity Money
- b) Digital Money
- c) Barter
- d) Token Money

Q.6 Read the following passage carefully and answer the questions:

Seema runs a tailoring business and accepts payments in cash, UPI, and through mobile wallets. She finds UPI fast and reliable, while some of her older clients still prefer cash. Her bank encourages her to use digital payments as it increases transparency. Seema maintains a savings account and uses net banking to pay for raw materials. She sometimes deposits her excess income into a fixed deposit to earn interest.

1. UPI and mobile wallets used by Seema are examples of:

1

- a. Near money
- b. Commodity money
- c. Digital money
- d. non-monetary assets



Q.7. Identify the function of money and explain with suitable example.

3

Q.8 Explain the medium of exchange function of money.

3

Q.9 Explain the significance of standard of deferred payment function of money.

4

Q.10 How does money overcome the problems of barter system? Explain briefly. 4

SUGGESTIVE ANSWER :-

1. A 2. A 3. C 4. C 5. D 6. C

7. Money is an asset that retains its value over time. People store their wealth in the form of money, without fearing for loss in its value. Money overcomes the problem of storing perishable item under barter system of exchange. With money, people hold liquidity and value in a much more convenient manner.

8. The primary function of money is, acting as a medium of exchange between two parties involved in a transaction. It avoids the practical problems of wastage of time and resources, involved in the barter system of an exchange and it improves the transactional efficiency. It also promotes allocational efficiency in the trade and production of goods and services. Hence, it can be said that money has separated the acts of sales and purchases.

9. Money simplifies the mechanism of deferred payments significantly. Deferred payments means future payment. When we take a loan from somebody, we not only pay the principal amount but also the interest amount. Under barter system of exchange, it was very difficult to make such transactions. As money maintains a standard value over a period of time, provided price remains constant, deferred payments can be easily made.

10. Money serves as a unit of value or common measure of value in terms of which the value of all goods and services are measured. This helps in measuring the exchange values of commodities. The prices of all the goods and services can be fixed in terms of money and the problem of expressing the value of each commodity in terms of quantities of other goods can be avoided.

The related problem of barter which this function of money has solved is the problem of Lack of common measure of value. In barter system, there was absence of a common unit of measurement in which the value of goods and services can be measured. In the absence of common unit, proper valuation was not possible.

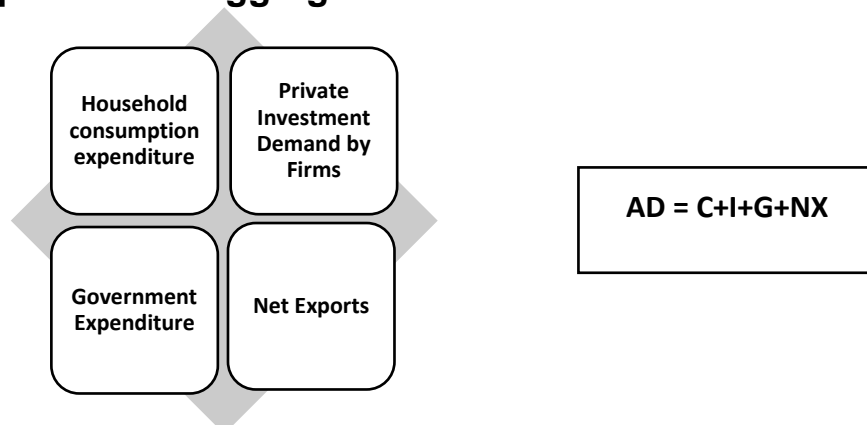
e.g. cloth is measured in metre (i.e. length) while milk is measured in litre (i.e. capacity), hence both cannot be measured in a single unit, thereby complicating the process of exchange. But the evolution of money has solved this problem, and now every good or service can be measured in terms of money.

DETERMINATION OF INCOME AND EMPLOYMENT (12 marks)

GIST OF THE LESSON

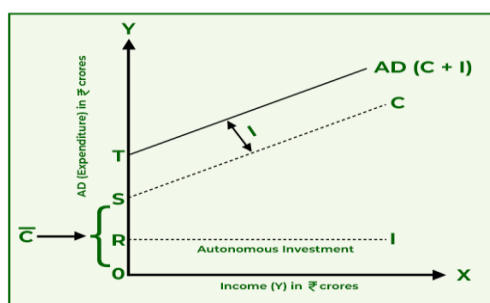
➤ **Aggregate Demand:** It is the value of all the final goods and services that all the sectors of the economy taken together are planning to buy at a given level of income during a given period of time.

➤ **Components of Aggregate Demand:**



However, for detailed understanding of the Keynesian Model, we will assume:

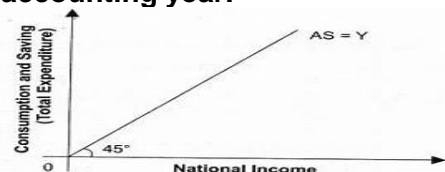
1. Only two sectors
 $AD = C + I$
2. General price level of the economy is given.



IMPORTANT POINTS:

- ✓ Minimum level of consumption, even when income is zero to fulfill the basic necessity to sustain life- **AUTONOMOUS CONSUMPTION**.
- ✓ Consumption curve slopes upwards because consumption increases with increase in income.
- ✓ Proportionate increase in consumption is less than that of income as people start saving a part of their income.
- ✓ Due to autonomous investment the investment expenditure curve is a straight line parallel to X- axis.
- ✓ AD curve starts from a point where $AD = \text{Autonomous consumption} + \text{Autonomous investment}$.
- ✓ AD curve is positively sloped.

➤ **Aggregate Supply:** It is the total value of final goods and services that all the producers in the economy are willing and able to sell at a given income during a **given period of accounting year**.



➤ **Propensity to Consume:** It means the proportion of income spent on consumption.
Types of Propensity to consume:

1. Average Propensity to Consume: It refers to the ratio of consumption expenditure to the corresponding level of income.

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

2. Marginal Propensity to Consume: It refers to the change in consumption expenditure to the change in total income.

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

Propensity to save: It means the proportion of income spent on savings.

Types of Propensity to save:

Average Propensity to Save: It refers to the ratio of consumption expenditure to the corresponding level of income.

$$APS = S/Y$$

Marginal Propensity to Save: It refers to the change in consumption expenditure to the change in total income.

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

IMPORTANT POINTS:

- ✓ APC = 1: At breakeven point when consumption is equal to income.
- ✓ APC > 1: When there is dissaving.
- ✓ APC < 1: When there is saving.
- ✓ APC can never be zero as consumption can never be zero.
- ✓ MPC = 1: This happens when change in consumption is equal to change in income.
- ✓ MPC < 1: This is not possible as change in consumption or change in income can never be negative.
- ✓ APS = 1: This is not possible because saving can never be equal to income or consumption can never be zero.
- ✓ APS > 1: This is not possible as saving cannot be greater than income.
- ✓ APS = 0: At breakeven point.
- ✓ MPS = 1: This happens when change in savings is equal to change in income or change in consumption is zero.
- ✓ MPS < 0: This is not possible as change in savings or change in income can never be negative.

➤ Consumption and Saving Functions:

$$C = C^* + bY$$

$$S = -C^* + (1-b)Y$$

$$APC + APS = 1$$

$$MPC + MPS = 1$$

- **Break-even point, Dissaving:** The break-even point is defined as t which consumption is equal to income and saving is zero.

Before the break-even point where saving intersects X-axis, saving is negative, this is called dissaving where consumption is greater than income.

- **Autonomous and Induced Investments:** Autonomous investments refer to the investment expenditure generally done by the government sector for social welfare and not for profit motive. It is unaffected by the changes in income level.

Induced investments refer to the investment expenditure driven by profit motive and is directly influenced by income level.

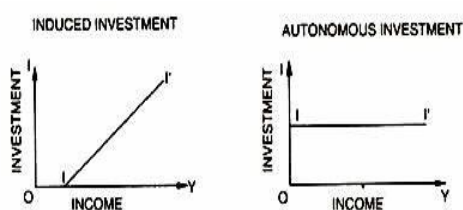


Fig. 18.1

Ex- ante and Ex- post: Ex-ante means planned and Ex-post means actual.

➤ **Full Employment, Voluntary Unemployment, Involuntary**

Unemployment:

Full employment is a situation in which all those people who are willing and able to work at the existing wage rate get work.

Voluntary unemployment refers to a situation in which people are not willing to work although suitable work is available.

Involuntary unemployment refers to a situation all those people who are willing and able to work at the existing wage rate do not get work.

- **Investment Multiplier and its Working:** When an economy raises a certain amount of investment, the level of income rises by a certain amount that is investment generates greater amount of income in the economy.

$K = \frac{\Delta y}{\Delta I}$, where K is investment multiplier.

Working: Multiplier process can be explained as the change in investments leads to change in income which further leads to change in consumption expenditure. This again results into further change in income. This process continues till consumption expenditure becomes zero. The resultant increase in income depends upon the existing MPC which determines the value of K. $K = 1 / (1 - MPC)$ or $1 / MPS$

- **SHORT-RUN EQUILIBRIUM OUTPUT; INVESTMENT.**

- **DETERMINATION OF EQUILIBRIUM LEVEL OF OUTPUT & EMPLOYMENT:**

Short run time period is the period, where technology does not play any role in the determination of the output in an economy. In other words, technology is constant. Output is only determined exclusively by the level of employment in the economy. It means, output can be increased by increasing employment and vice-versa.

The equilibrium level of national income is determined at the point where aggregate demand (AD) equals aggregate supply (AS).

$AD = AS$ ————— (i)

As, we have assumed that there is neither foreign trade nor government. Aggregate Demand AD is now reduced to the sum of private consumption expenditure (C) and Investment (I).

Therefore,

$AD = C + I$ (ii)

Aggregate supply is equal to the national income (Y). It is used either for consumption (C) or saving (S).

It can be expressed as:

$AD = Y = C + S$ ————— (iii)

Let's show how both approaches are same.

Putting (i), (ii) and (iii) together, we get: -

$AD = AS$

$C + I = C + S$, $I = S$ or $S = I$

The above derivation shows, the basic approach $AD = AS$ can also be expressed as

$S = I$.

DETERMINATION OF INCOME BY AD – AS APPROACH/CONCEPT OF EFFECTIVE DEMAND:

The equilibrium level of income in an economy is determined where Aggregate Demand AD is equal to the Aggregate Supply (AS) (The point where ex ante aggregate demand is equal to ex ante aggregate supply will be equilibrium)

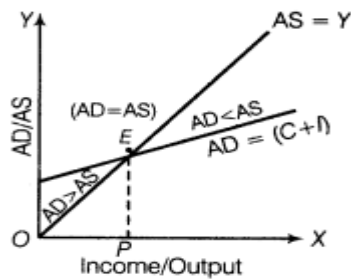
The point where $AD = AS$ is called Effective demand which is corresponding to the equilibrium levels of income in an economy, the demand is effective because the equilibrium is decided by levels of AD as AS is perfectly elastic.

Ex-Ante Aggregate Demand (AD) comprises two components, Consumption, and Investment. $AD = C + I$ income ($AS = Y$). It comprises of two components.

$AS = C + S$

The curve of the AS is represented by a 45-degree line.

The determination of equilibrium level of income can be better understood with the help of the following schedule and diagram: -



The economy is in equilibrium at point E where the AD curve intersects at 45-degree line (AS). E is the equilibrium level as per the above diagram. At this point planned expenditure equals to the level of output (Ex-ante AD is equal to Ex-ante AS). Op is the equilibrium level of Income and output corresponding to point E.

Effective demand signifies the point where aggregate demand equals to aggregate supply. Thus, that level where aggregate demand equals aggregate supply is called Effective Demand.

ADJUSTMENT / CORRECTIVE MECHANISM IF $AD > AS$

Suppose AD is greater than AS. It means that buyers are planning to buy more goods and services than producers are planning to produce. Producers keep a certain stock of goods called inventory.

When AD is greater than AS, it means that buyers are buying faster than sellers are expecting. In this situation inventories start falling and come below the desired level. To bring back the inventories at the desired level producers expand production. This raises the income level which keeps on rising till the AD and the AS once again become equal. This brings the economy back to equilibrium $AD=AS$.

ADJUSTMENT / CORRECTIVE MECHANISM IF $AD < AS$

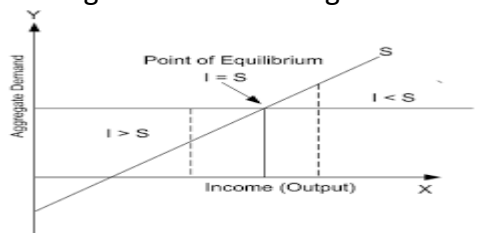
Now, suppose that AD is less than AS. It means that buyers are planning to buy less than what sellers are planning to produce. As a result, inventories start rising and move above the desired level. As a result, the producers cut back on production and lay off workers.

This reduces the income level, i.e. AS. The downward trend continues till AD and AS once again become equal. This brings the economy back to equilibrium.

DETERMINATION OF INCOME BY SAVINGS & INVESTMENT APPROACH

According to this approach, the equilibrium level of income is determined at a level, when planned saving (S) is equal to planned investment (I).

Let's understand it with the following schedule and diagram



The investment curve is parallel to the X axis as it is not affected by the level of income. The saving curve slopes upwards showing a positive relationship with income. The economy is in equilibrium at point E, where planned autonomous investment is equal to planned savings. OY is the equilibrium level of income and output corresponding to point E. The equilibrium level of income when ex-ante saving (Planned Saving) is equal to ex-ante investment (Planned Investment).

➤ ADJUSTMENT MECHANISM / What happens when $S < I$

When planned saving is less than planned investment. It implies households are planning to buy more than what the producer is planning to produce. As a result, planned inventory would fall below the desired level. In order to bring the inventory back to the desired level, firms would plan to increase the production till saving and investment become equal to each other.

➤ ADJUSTMENT MECHANISM/ What happens When $S > I$

When planned saving is more than the planned investment. It implies households are planning to buy less than what the producer is planning to produce. As a result, planned inventory would increase

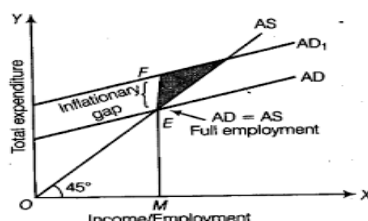
above the desired level. In order to bring the inventory back to the desired level, firms would plan to reduce the production till saving and investment become equal to each other.

➤ **Excess Demand / Inflation / Inflationary Gap:**

It is the situation when aggregate demand (AD) is more than aggregate supply (AS) corresponding to full employment level of output.

It is called inflation as this leads to a rise in general price level in the economy.

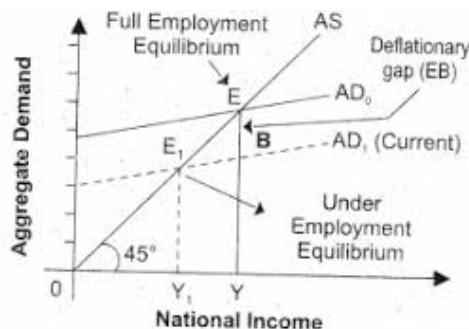
Inflationary gap is a gap by which actual AD is more than planned AD required to establish full employment.



➤ **Deficient Demand / Deflation / Deflationary Gap:**

Deficient demand refers to the situation when aggregate demand (AD) is less than aggregate supply corresponding to the full employment level of output in the economy.

Deflationary gap is a gap by which actual AD is less than planned AD required to establish full employment.



➤ **Reasons and Impact of Excess Demand and Deficient Demand:**

Reasons for Excess Demand	Reasons for Deficient Demand
• Increase in consumption expenditure	• Decrease in consumption expenditure
• Decrease in rate of tax	• Increase in rate of tax
• Increase in government expenditure	• Decrease in government expenditure
• Rise in investment expenditure	• Fall in investment expenditure
• Rise in export	• Fall in export
• Fall in import	• Rise in import

Impact of Excess Demand	Impact of Deficient Demand
No change in output	Fall in output
No change in employment	Fall in employment
Rise in general price level	Fall in general price level

➤ **Measures to correct Excess Demand and Deficient Demand:**

Measure	Tools used	Meaning	Action & Effect during Excess Demand	Action & Effect during Deficit Demand

Changes in Government Spending	Changes in Public (Government Expenditure)	Expenditure incurred by the public authorities for the maintenance of govt and social welfare	Govt will reduce its expenditure on public work like construction of roads, buildings etc. Government will reduce the non-development expenditure which in turn reduce the purchasing power of people and reduce the AD	Govt will increase its expenditure on public work like construction of roads, buildings etc. Government will increase the non-development expenditure which in turn boosts the purchasing power of people and raises the AD
Tax Policy	Increase & Decrease in both Direct and Indirect Taxes	Tax is the compulsory legal payment made by the citizens to the government for without any direct return	Govt will increase the rates of taxes and may introduce new taxes. To Reduce the disposable income in the hands of people to reduce the AD.	Govt will decrease the rates of taxes and may withdraw existing taxes. To increase the disposable income in the hands of people to pull the AD up.
Money supply Control Measures by Central Bank (RBI)	1.CRR (Cash Reserve Ratio)	Percentage of net total demand deposits of commercial banks retained with central Bank as reserves	Central bank will increase the CRR. This will reduce the lending capacity of the commercial banks and will reduce the money supply, hence AD falls	Central bank will decrease the CRR. This will rise the lending capacity of the commercial banks and will increase the money supply; hence AD rises.
Money supply Control Measures Central Bank (RBI)	2.SLR (Statutory Liquidity Ratio)	Percentage of net total demand deposits of commercial banks kept with themselves in the form of government securities, shares, gold etc	Central bank will increase SLR This will reduce the lending capacity of the commercial banks and will reduce the money supply, hence AD falls	Central bank will decrease SLR This will increase the lending capacity of the commercial banks and will rises the money supply; hence AD rises.
Money supply Control Measures by	3.Repo Rate	Interest rate at which Central	Central bank will increase Repo Rate. This will	Central bank will increase Repo Rate. This will

Central Bank (RBI)		bank lends to commercial banks on short term basis	make the loans taken by commercial banks expensive. Hence commercial banks increase their lending rates and thus reduce the credit availability and AD.	make the loans taken by commercial banks less expensive. Hence commercial banks decrease their lending rates and thus increases the credit availability and AD.
Money supply Control Measures by Central Bank (RBI)	4.Reverse Repo Rate	Interest rate at which the commercial banks park their surplus funds with central	Central bank will increase the reverse repo rate. This will encourage the commercial banks to park more funds with central bank and will reduce the lending capacity and AD.	Central bank will increase the reverse repo rate. This will encourage the commercial banks to park less funds with central bank and will increase the lending capacity and AD
Money supply Control Measures by Central Bank (RBI)	5.Open Market Operation	Buying and selling of government securities (Bonds) by the central Bank to public in open market.	Central bank sells the govt. Securities in the open market. By selling securities the central bank soaks the liquidity and reduces the AD	Central bank sells the govt. Securities in the open market. By buying back the securities the central bank releases the liquidity and rises the AD.
Money supply Control Measures by Central Bank (RBI)	6.Margin Requirement	Margin is the difference between the amount of loan and the market value of securities offered against the loan	Central bank increases the margin requirement. At higher margin requirement people tend to borrow less, hence AD falls.	Central bank increases the margin requirement. At lower margin requirement people tend to borrow more , hence AD rises.
Money supply Control Measures by Central Bank (RBI)	7. Bank Rate	Interest rate at which Central bank lends to commercial banks in long term.	Central bank will increase bank rate. This will make the credit costlier since commercial bank will	Central bank will Decrease bank rate. This will make the credit Cheaper since commercial bank will decrease

			increase the lending rates. Hence people may borrow less and decreases the credit creation and thus reduces AD	the lending rates. Hence people may borrow more and increases the credit creation and thus, rises AD
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Objective Type Questions/MCQ (1 Mark)

1. In a situation of excess demand at full employment level of income in an economy:

(a) $AD < AS$ (b) $AD > AS$ (c) $AD = AS$ (d) $S = I$

Ans: (b) $AD > AS$

2. In case of Underemployment equilibrium _____

(a) $AS = AD$ (b) there is excess capacity in the economy (c) resources are not fully utilised (d) all of these.

Ans: (d) all of these.

3. In a situation of deficient demand $AD < AS$ (True/False)

Ans: True

4. Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative from those given below.

Assertion (A): Deflationary gap can be corrected by increasing the level of AD

Reason (R): Inflationary gap can be corrected by increasing the availability of credit in the economy.

Alternatives:

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

b) Both Assertion (A) and Reason (R) are true, 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.

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

5. In the following question, Statement 1 is followed by statement 2. Mark the correct choice as:

(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.

Statement 1: In a situation of full employment equilibrium, there is zero unemployment in the economy.

Statement 2: Problem of unemployment is the problem of involuntary unemployment.

Ans: (d) Statement 2 is true and statement 1 is false.

6. To control deflation the central bank should increase the bank rate. (True/False)

Answer: False. The central bank should decrease the bank rate in order to control deflation.

7. To correct the deflationary gap, availability of credit should be increased.

Answer: True. Availability of credit should be increased to raise the level of aggregate demand.

8. What is the primary cause of excess demand in an economy?

a) Increased savings (b) Decreased investment

c) Excessive aggregate demand compared to aggregate supply (d) Low interest rates

Ans: c) Excessive aggregate demand compared to aggregate supply

9. What is the economic impact of excess demand?

a) Inflation and higher prices (b) Reduced employment

c) Decreased consumption (d) Lower interest rates

Ans: a) Inflation and higher prices

10. Which of the following is a measure to correct excess demand?

a) Increasing government spending (b) Decreasing the money supply

c) Lowering the bank rate (d) Increasing investment

Ans: b) Decreasing the money supply

11. Aggregate demand curve is represented by _____ curve in the income

determination analysis:

- (a) Consumption+saving+investment (b) Consumption+saving
(c) Saving+investment (d) Consumption+investment

OR

In a two sector economy, aggregate demand can be determined by adding ____

- a) Autonomous consumption, Induced investment, Induced consumption
b) Autonomous consumption, Autonomous investment, Induced investment
c) Autonomous consumption, Autonomous investment, Induced consumption
d) Autonomous consumption, Autonomous investment

Ans; 1. d 1. OR c

12. When planned saving is less than planned investment, it indicates a situation when:

- (a) $AD < AS$ (b) $AD = AS$ (c) $AD > AS$ (d) None of these

Ans: c

13. Statement 1 : The maximum value of marginal propensity to consume (MPC) can be unity.

Statement 2: As the income of an economy increases, the proportionate increase in the level of consumption is always more than the increase in the level of income.

- a) Both Statements are true. c) Statement 1 is true but Statement 2 is false.
b) Both Statements are false. d) Statement 2 is true but Statement 1 is false.

Answer: C

14. If planned savings are greater than planned investment, what will be its effect on Inventories? The inventories will _____. (a) Rise b) fall.

Answers B

15. When aggregate demand is greater than aggregate supply, inventories:

- (a) fall (b) rise (c) do not change (d) First fall then rise

Answers A

Short Answer Type Question with Answer (3-4 Marks):

1. Define inflationary gap. State two measures by which a central bank can attempt to reduce the inflationary gap.

Answer: When in an economy aggregate demand exceeds "aggregate supply at full employment level", the demand is said to be an excess demand and the gap is called inflationary gap.

- (a) Increase in cash reserve ratio.
(b) Increase in marginal requirement.

2. Give the meaning of deflationary gap. State two measures by which a central bank can attempt to reduce the deflationary gap.

Answer: When in an economy aggregate demand falls short of aggregate supply at full employment level, the demand is said to be deficient demand and the gap is called deflationary gap.

- (a) Decrease in cash reserve ratio.
(b) Decrease in marginal requirement.

3. Give the meaning of full employment. Is it necessary that equality between AD and AS is established at the full employment level?

Answer: Full employment equilibrium refers to the situation where aggregate demand = aggregate supply and all those who are able to work and willing to work (at the existing wage rate) are getting work.

No, it is not necessary that full employment occurs when $AD = AS$. Equilibrium can be achieved at full employment level, under employment level or at over full employment level.

4. Give the meaning of involuntary unemployment. What is underemployment equilibrium? What is the meaning of over full employment equilibrium?

Answer: Involuntary unemployment refers to a situation in which all able and willing persons to work at existing wage-rate do not find work. They are rendered unemployed against their wish. Hence, it is termed as involuntary unemployment.

Underemployment equilibrium refers to a situation when equilibrium is attained i.e., aggregate demand is equal to aggregate supply below full employment level or when resources are not fully employed. Over full employment level refers to a situation when equilibrium is attained, i.e., aggregate demand is equal to aggregate supply beyond the full employment level.

5. Explain the role of Government expenditure and Open Market Operation in reducing AD/excess demand.

Answer: Government Expenditure:

(i) Government has to invest huge amount on public works like roads, buildings, irrigation works, etc.
(ii) During inflation, government should curtail (reduce) its expenditure on public works like roads, buildings, irrigation works thereby reducing the money income of the people and their demand for goods and services.

(b) Open Market Operation:

(i) It consists of buying and selling of government securities and bonds in the open market by central bank.

(ii) In a situation of excess demand leading to inflation, central bank sells government securities and bonds to commercial bank. With the sale of these securities, the power of commercial bank of giving loans decreases, which will control excess demand.

6. Explain the concept of Deflationary gap with the help of diagram.

Deflationary gap is the deficiency of AD required to maintain full employment equilibrium. Full employment equilibrium is struck at point F. However, if the level of demand happens to be AD, it is short of its full employment level. Accordingly, deflationary gap occurs to the tune of FG.

7. What is aggregate demand (AD) . State its components.

Ans. Aggregate demand refers to the total demand for final goods and services in the economy during the period of one year.

Components of Aggregate Demand:

The main components of aggregate demand (aggregate expenditure) in a four sector economy are:

- i) Household (or Private) consumption Expenditure (C)
- ii) Private investment Expenditure (I)
- iii) Government demand for goods and services/ Government Expenditure (G)
- iv) Net Export demand. (X-M)

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

8. Give any three differences between Autonomous and Induced Investment.

Ans.

Basis	Autonomous investment	Induced investment
Meaning	If investment does not depend either on income/output or the rate of interest, then such investment is called autonomous investment.	Investment that is dependent on the level of income or on the rate of interest is called induced investment
Determinant	Social welfare	Profit , rate of interest etc
Relation with income	Income inelastic	Income elastic
Investment curve	Parallel to income axis	Positively sloped curve
Sectors	Generally done by the government.	Generally done by the private sector

09. What is the range of values of investment multiplier? Clarify the relation of investment multiplier with marginal propensity to consume MPC and the marginal propensity to save MPS

Ans. The range of values of investment multiplier varies between one and Infinity.

There is a direct relationship between investment multiplier and marginal propensity to consume (MPC). Higher the marginal propensity to consume greater is the size of the multiplier (K). On the contrary, lower the marginal propensity to consume smaller is the size of the multiplier. Multiplier is inversely related to marginal propensity to save (MPS). Higher the MPS, smaller the multiplier and the smaller the marginal propensity to save higher the multiplier will be. Thus

Multiplier (K) = $1 / 1 - \text{MPC}$ or $1 / \text{MPS}$

Numerical example : i) when $\text{MPC} = 0.5$, $K = 1 / 1 - \text{MPC}$

$$= 1 / 1 - 0.5 = 1 / 0.5 = 2$$

ii) when $\text{MPC} = 0.8$, $K = 1 / 1 - 0.8 = 1 / 0.2 = 5$

iii) When $\text{MPC} = 0.5$, $\text{MPS} = 0.5$ [$\text{MPC} + \text{MPS} = 1$]

$$K = 1 / \text{MPS} = 1 / 0.5 = 2$$

iv) When $\text{MPC} = 0.8$, $\text{MPS} = 0.2$

$$K = 1 / \text{MPS} = 1 / 0.2 = 5$$

Therefore, multiplier (K) is positively related to marginal propensity to consume (MPC) and inversely related to marginal propensity to save (MPS)

10. In an economy $C = 200 + 0.5 Y$ is the consumption function where C is the consumption expenditure and Y is the national income. Investment expenditure is Rs 400 crore. Is the economy in equilibrium at an income level Rs 1500 crore ? Justify your answer.

Ans. Given, Consumption expenditure (C) = $200 + 0.5 Y$; $I = 400$;

equilibrium level of income $Y = 1500$

At the equilibrium level, $AD = AS$

$$C + I = Y$$

$$200 + 0.5 Y + 400 = Y$$

$$600 = Y - 0.5 Y$$

$$600 = 0.5 Y$$

$$Y = 600 / 0.5 = 1200$$

The equilibrium level of income = Rs 1200 crore. The given income Rs 1500 crore is greater than equilibrium level of income Rs 1200 crore; therefore the economy is not in equilibrium.

11. The saving function of an economy is $S = (-) 200 + 0.25 Y$. The economy is in equilibrium when income is equal to Rs 2000. Calculate:

a) Investment expenditure at equilibrium level of income

b) Autonomous consumption

c) Investment multiplier

Ans. a) Given, $S = (-) 200 + 0.25 Y$; Income (Y) = Rs 2000 crore

At the equilibrium level of income, $S = I$

$$(-) 200 + 0.25 Y = I$$

$$(-) 200 + 0.25 (2000) = I$$

$$(-) 200 + 500 = I$$

$$I = 300$$

b) At $Y = 0$, $S = (-) 200 + 0.25 Y$

$$= (-) 200 + 0.25 (0) = (-) 200$$

$$\text{Since } Y = C + S; C = Y - S = 0 - (-) 200 = 200$$

At zero level of income, consumption expenditure (Autonomous consumption expenditure) = Rs 200 crore

c) Given, $S = (-) 200 + 0.25 Y$; $\text{MPS} = 0.25$

$$\text{Investment multiplier (K)} = 1 / \text{MPS} = 1 / 0.25 = 4$$

Long Answer Type Question with Answer (6 Marks):

Case Study-1:

A booming economy with high consumer spending and business investment leads to increased demand for goods and services. Factories are operating at full capacity, but demand for products is still outstripping supply.

(a) What is the economic condition described in the scenario? (1)

Answer: Excess demand, also known as an inflationary gap

(b) Explain how the scenario leads to a rise in prices. (1)

Answer: Since demand exceeds supply, businesses can increase prices without losing sales, leading to inflation

(c) What are the potential consequences of this situation? (1)

Answer: Rising inflation, potential for economic overheating, and government intervention to curb demand)

(d) How can the government use fiscal policy to correct this situation? (1)

Answer: The government could increase taxes, reduce government spending, or increase interest rates to cool down the economy and reduce aggregate demand)

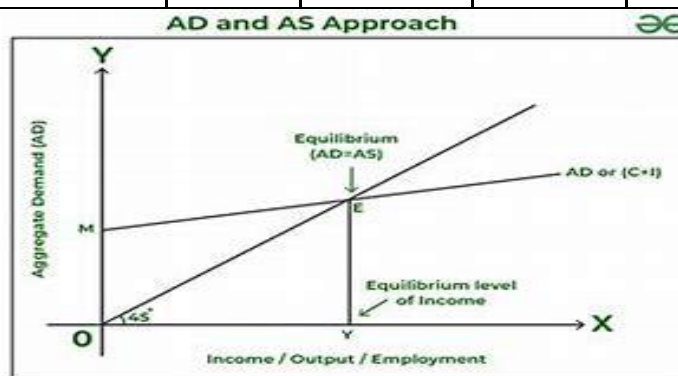
(e) What are the potential challenges of using monetary policy in this situation? (2)

Answer: Monetary policy may not be as effective in correcting excess demand as fiscal policy, and there are risks of slowing down the economy too much.

Q 2.Explain the determination of equilibrium level of income and employment through aggregate demand (AD) and aggregate supply (AS) curves. Also explain the changes that take place in an economy when the economy is not in equilibrium.

Ans. In an economy, equilibrium level of income in an economy is determined when aggregate demand (AD) is equal to aggregate supply(AS).According to Keynesian theory, AS may be assumed to be perfectly elastic in an economy where full employment (of resource) is yet to be achieved. Accordingly, AD becomes the principal determinant of equilibrium level of income. Schedule:

Employment (Lakhs)	Income (Y)	Consumption (C)	Saving(S)	Investment (I)	AD (C+I)	AS (C+S)	Remarks
0	0	40	-40	40	80	0	AD>AS
10	100	120	-20	40	160	100	
20	200	200	0	40	240	200	
30	300	280	20	40	320	300	
40	400	360	40	40	400	400	AD=AS
50	500	440	60	40	480	500	AD<AS
60	600	520	80	40	560	600	



In the figure , AD represents aggregate demand curve and 45° line is the line of reference where AS= AD .The economy is in equilibrium at point E, where AD= AS

OY is the equilibrium level of output corresponding to point E. It is a situation of effective demand where AS equals AD. The equality between AS and Ad implies that the desired level of output(AS) in the economy is exactly equal to the desired level of expenditure (AD), no undesired or unwanted inventories (stock of goods) with the producers.

When the economy is not in equilibrium, two possibilities exist: i) $AD > AS$

The opposite happens when $AD < AS$. Some of the goods remain unsold. To clear unwanted stocks, the producers would plan a cut in production. Consequently, AS would reduce to become equal to AD . This is how AS adapts itself to AD

Worksheet- 1

Q.No.	Question	Marks																				
1.	<p>Complete the following table by choosing the correct option:</p> <table><tr><th>Income (Y) (in Rs. crore)</th><th>Savings (S) (in Rs. crore)</th><th>Consumption (C) (in Rs. crore)</th><th>Average Propensity to Consume (APC)</th></tr><tr><td>0</td><td>.....(i).....</td><td>300</td><td>—</td></tr><tr><td>1000</td><td>0</td><td>.....(ii).....</td><td>1</td></tr><tr><td>2000</td><td>300</td><td>1700</td><td>0.85</td></tr><tr><td>3000</td><td>600</td><td>2400</td><td>0.8</td></tr></table> <p>(a) -300 , 1200 (b) 300 , 1200 (c) 0 , 700 (d) -300 , 1000</p>	Income (Y) (in Rs. crore)	Savings (S) (in Rs. crore)	Consumption (C) (in Rs. crore)	Average Propensity to Consume (APC)	0(i).....	300	—	1000	0(ii).....	1	2000	300	1700	0.85	3000	600	2400	0.8	1
Income (Y) (in Rs. crore)	Savings (S) (in Rs. crore)	Consumption (C) (in Rs. crore)	Average Propensity to Consume (APC)																			
0(i).....	300	—																			
1000	0(ii).....	1																			
2000	300	1700	0.85																			
3000	600	2400	0.8																			
2.	<p>Statement 1: Autonomous consumption is the consumption expenditure that is independent of the level of income. Statement 2: Induced investment refers to the investment expenditure that is determined by the rate of interest. (A) Both Statement 1 and Statement 2 are true. (B) Statement 1 is true, but Statement 2 is false. (C) Statement 1 is false, but Statement 2 is true. (D) Both Statement 1 and Statement 2 are false.</p>	1																				
3.	<p>Assertion (A): Excess demand in an economy leads to inflationary pressure. Reason (R): Excess demand occurs when aggregate demand is greater than aggregate supply at full employment level. (a) Both A and R are true, and R is the correct explanation of A. (b) Both A and R are true, but R is not the correct explanation of A. (c) A is true, R is false. (d) A is false, R is true.</p>	1																				
4.	<p>Assertion (A): The saving function shows the relationship between income and saving. Reason (R): Saving increases as income increases because people save a part of their additional income. (a) Both A and R are true, and R is the correct explanation of A. (b) Both A and R are true, but R is not the correct explanation of A. (c) A is true, R is false. (d) A is false, R is true.</p>	1																				
5.	<p>Explain why the Aggregate Supply curve is drawn at a 45-degree angle in the Keynesian model. How does this representation help in understanding the equilibrium level of income and output in an economy?</p>	3																				
6.	<p>The government invests ₹100 crores in rural manufacturing units. The MPC in the region is 0.75. Calculate the total increase in income and consumption expenditure resulting from this investment.</p>	3																				

7.	<p>In BharatLok, a health crisis struck in the form of a pandemic. Fear and uncertainty caused people to cut down their spending drastically. Many households started saving more, reducing their consumption expenditure. The marginal propensity to consume (MPC) fell to 0.5. At the same time, investment in the economy was ₹400 crore. This change in behavior had a visible impact on the national income, which did not grow as expected.</p> <ol style="list-style-type: none"> 1. Calculate the multiplier using the given MPC. 2. How will lower MPC affect the overall income generation in the economy? 3. Why does excessive saving during a crisis reduce economic growth, even if investment levels remain the same? <p>What kind of government measures could help restore consumption demand in such a situation?</p>	4
8.	<p>Riya reads in her Economics textbook that a small increase in investment by the government led to a much larger increase in national income. She is curious how this is possible and asks her teacher during a classroom discussion.</p> <p>Question: With reference to Riya's curiosity, explain the concept of the investment multiplier. How does the multiplier effect contribute to an increase in national income? Support your answer with a relevant example.</p>	6

Hints:

Ans. 1-D

Ans. 2- (B)

Explanation: Statement 1 is true, as autonomous consumption represents the basic level of consumption even with zero income. Statement 2 is false; induced investment is typically influenced by the level of income and profit expectations, while autonomous investment is independent of income. The rate of interest primarily influences the cost of investment, not necessarily whether it's induced or autonomous based on income.

Ans 3.(a) Both A and R are true, and R is the correct explanation of A.

Explanation: Excess demand beyond full employment causes inflation, and that's due to $AD > AS$.

Ans 4.(a) Both A and R are true, and R is the correct explanation of A.

Explanation: The saving function reflects the income-saving relationship, and savings rise with income.

Ans. 5. The 45-degree inclination of the Aggregate Supply Curve represents the equilibrium condition where Aggregate Demand (AD) equals Aggregate Supply (AS). It helps determine the equilibrium level of income and output.

Ans.6. Multiplier = $1 / (1 - 0.75) = 4$

$\Delta Y = 4 \times 100 = ₹400$ crores

Consumption = $0.75 \times 400 = ₹300$ crores

Ans 7 (i) Multiplier (K) = $1 / (1 - MPC) = 1 / (1 - 0.5) = 2$

Ans 7 (ii) Lower MPC means people are spending less, which results in a **lower multiplier** and **less increase in income** for a given investment.

Ans 7 (iii) Reduced consumption leads to **lower demand**, which causes firms to reduce output and employment, thereby **slowing economic growth**.

Ans 7 (iv) The government can **reduce taxes**, **increase subsidies**, or **provide direct cash transfers** to encourage spending.

Ans. 8. Write definition and make table also.

Worksheet- 2

CHAPTER - DETERMINATION OF INCOME AND EMPLOYMENT

Name-.....

Roll No.

Time: 35 Minutes

Maximum Marks: 20

Q. No.	Question	Marks
1.	<p>Statement 1: The propensity to consume (MPC) indicates the proportion of additional income that is saved.</p> <p>Statement 2: The value of the multiplier is inversely related to the marginal propensity to save (MPS).</p> <p>(A) Both Statement 1 and Statement 2 are true. (B) Statement 1 is true, but Statement 2 is false. (C) Statement 1 is false, but Statement 2 is true. (D) Both Statement 1 and Statement 2 are false.</p>	1
2.	<p>Statement 1: Full employment equilibrium implies a situation where there is no unemployment in the economy.</p> <p>Statement 2: Underemployment equilibrium occurs when the equilibrium level of output is less than the full employment level of output.</p> <p>(A) Both Statement 1 and Statement 2 are true. (B) Statement 1 is true, but Statement 2 is false. (C) Statement 1 is false, but Statement 2 is true. (D) Both Statement 1 and Statement 2 are false.</p>	1
3.	<p>If an upward sloping straight line consumption function makes an intercept at the Y-axis at a positive coordinate, it implies that Marginal Propensity to Consume (MPC)..... and Average Propensity to Consume (APC)..... as the income increases.</p> <p>(Choose the correct option to fill in the blanks)</p> <p>(a) remain constant, rises (b) rises, rises (c) remain constant, falls (d) falls, falls</p>	1
4.	<p>Assertion (A): When marginal propensity to consume (MPC) increases, the value of the multiplier also increases.</p> <p>Reason (R): Multiplier is inversely related to marginal propensity to consume.</p> <p>(a) Both A and R are true, and R is the correct explanation of A. (b) Both A and R are true, but R is not the correct explanation of A. (c) A is true, R is false. (d) A is false, R is true.</p>	1
5.	<p>Assertion (A): Autonomous consumption exists when income is zero.</p> <p>Reason (R): Autonomous consumption depends on income level.</p> <p>(a) Both A and R are true, and R is the correct explanation of A. (b) Both A and R are true, but R is not the correct explanation of A. (c) A is true, R is false. (d) A is false, R is true.</p>	1
6.	<p>During a classroom debate, students discuss the relationship between saving and investment. One student says, <i>“If people plan to save more than what firms plan to invest, it might disturb the economy.”</i></p> <p>Question: Using this scenario, explain what happens when ex-ante saving is greater than ex-ante investment. How does the economy adjust itself to reach equilibrium?</p>	3
7.	<p>The government of a country notices a rise in inflation. To control it, it decides to reduce its spending and increase taxes.</p> <p>Question: Using an Aggregate Demand–Aggregate Supply (AD-AS) diagram, explain how contractionary fiscal policy can help reduce an inflationary gap.</p>	3

8.	An economy reports declining consumer demand and falling prices for several months. Economists warn about a deflationary gap . Question: With the help of an AD-AS diagram , explain how a leftward shift in aggregate demand can lead to a deflationary gap . What could be the possible effects on employment and production?	3
9.	India's economy witnessed a sharp decline in consumption and investment demand during a global crisis. Factories remained underutilized, and unemployment increased. In response, the government introduced a stimulus package and increased public spending on infrastructure and welfare schemes. This led to a gradual revival in demand and employment levels. Based on the above case, answer the following: (a) Identify and explain the type of demand gap initially faced by the economy. (b) How does this gap affect employment and output levels? (c) Explain how government spending helps reduce this gap using the concept of multiplier.	6

Hints:

Ans: 1 (C) Explanation: Statement 1 is false because MPC indicates the proportion of additional income that is consumed, not saved. The propensity to save (MPS) indicates the proportion of additional income that is saved. Statement 2 is true; the multiplier formula is $1/(1-MPC)$ or $1/MPS$, showing an inverse relationship with MPS.

Ans: 2 (C) Explanation: Statement 1 is false. Full employment equilibrium does not mean zero unemployment; it means no involuntary unemployment. There can still be natural unemployment (frictional and structural). Statement 2 is true; underemployment equilibrium signifies that the economy is producing below its potential.

Explanation: Involuntary unemployment results from insufficient aggregate demand, even when people are willing to work.

Ans. 3-A

Ans. Ans 4.(c) A is true, R is false.

Explanation: Multiplier is directly (not inversely) related to MPC.

Ans 5.(C) A is True, R is false.

Explanation: Autonomous consumption exists even when income is zero; it is income-independent.

Ans.6. If ex-ante saving exceeds ex-ante investment, the economy will adjust through a decrease in income and output. As saving exceeds investment, inventories will pile up, leading firms to reduce production, thereby decreasing income until saving equals investment.

Ans.7 $AD > AS$, Diagram

Decreasing government spending, or

Increasing taxes

Ans.8 $AD < AS$, diagram

Potential Consequences:

Rising unemployment

Lower economic growth

Downward pressure on prices

Ans.9 (a) Deflationary gap: $AD < AS$ at full employment.

(b) Causes unemployment and lower output.

(c) Govt. spending raises AD; multiplier increases income and jobs.

Government Budget and the Economy (06 Marks)

GOVERNMENT BUDGET- MEANING

Government budget is an annual statement showing item-wise estimates of receipts and expenditures during a fiscal year. A fiscal year is taken from 1st April to 31st March.

Objectives of the Government Budget

1) **Reallocation of Resources** : Through budgetary policy, the government aims to reallocate resources under the economic (profit maximization) and social (public welfare) priorities of the country. Government can influence the allocation of resources through the :

a) Tax concessions or subsidies:

To encourage investment, the government can give tax concessions, subsidies, etc. to the producers. For example, the government discourages the production of harmful consumption goods (like liquor, Cigarettes, etc.) through heavy taxes and encourages the use of khadi products by providing subsidies.

b) Directly producing goods and services :

There are many non-profitable economic activities, which are not undertaken by the private sector. Like water supply, sanitation, law and order, national defence, etc. These are called public goods. Such activities are necessarily undertaken by the government in the public interest and to raise social Welfare.

2) Reducing Inequalities in Income & Wealth :

Economic inequality is an inherent part of every economic system. The government aims to reduce such inequalities of income and wealth, through its budgetary policy. The government aims to influence the distribution of income by imposing taxes on the rich and Spending more on the welfare of the poor. It will reduce the income of the rich and raise the standard of living of the poor, thus reducing inequalities in the distribution of income.

3) Economic Stability :

Economic stability means the absence of large-scale fluctuation in prices. Such fluctuations create uncertainties in the economy. Government can exercise control over these fluctuations through taxes and expenditures. Inflationary tendencies emerge when aggregate demand is higher than aggregate supply. Government can bring down aggregate demand by reducing its expenditure. During deflation, the government can increase its expenditure and give tax concessions and Subsidies. In short, policies of the surplus budget during inflation and deficit budget during deflation help to Maintain the stability of prices in the economy.

4) **Management of Public Enterprises:** These are large numbers of public sector industries (especially natural monopolies), which are established and managed for the social welfare of the public. The budget is prepared with the objective of making various provisions for managing such Enterprises and providing them with financial help.

5) Economic Growth: Economic growth implies a sustainable increase in the Real GDP of an economy, i.e. an increase in the Volume of goods and services produced in an economy. A budget can be an effective tool to ensure economic growth in a country. If the government provides tax rebates and other incentives for Productive ventures and projects, it can stimulate savings and Investments in an economy.

COMPONENT OF BUDGET :- Broad components of the government budget are :

A. Revenue Budget

B. Capital Budget

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

Budget Receipts: -Budget receipts are classified as: (1) Revenue receipts (2) Capital receipts.

(1)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.

(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 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.

(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.

BALANCED & UNBALANCED BUDGET

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

Balance budget: - Government Receipts = Government Expenditure

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 = 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.

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

Primary Deficit = Fiscal Deficit – Interest Payments. (PD = FD – IP)

Sources of Financing the Fiscal Deficit

Borrowings

✓ Fiscal deficit can be met by borrowings from the Internal sources (public, commercial banks etc)

✓ or External sources (foreign governments, international Organizations etc.).


Deficit Financing

(Printing of New Currency)

✓ Government may borrow from the RBI against its Securities to meet the fiscal deficit. RBI issues new Currency for this purpose. This process is known as deficit financing.

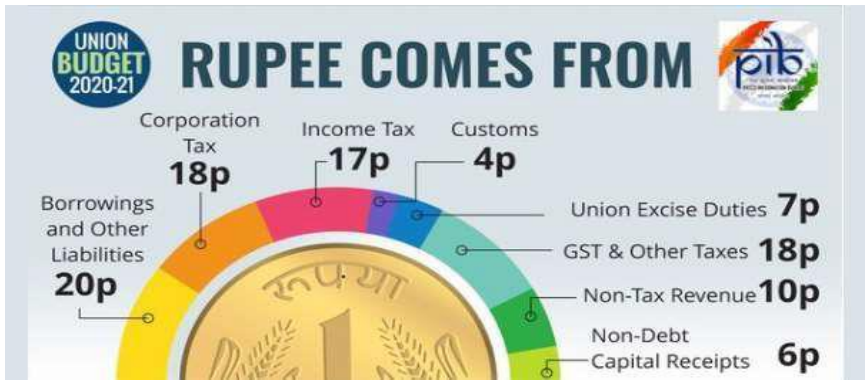
✓ Borrowings are considered a better source as they do not increase the money supply, Which is regarded as the main cause of inflation. On the other hand, deficit financing may Lead to inflationary trends in the economy due to more money supply.

<u>Q1</u>	<p>"In the Annual Budget 2023-24, the Government of India set up disinvestment targets of 65,000 crore". Such proceeds from disinvestment can be classified as..... receipts in the Government Budget as it leads to..... of the Government. (Choose the correct alternative) (a) capital, decrease in assets (b) revenue, increase in assets (c) capital, increase in liabilities (d) revenue, decrease in liabilities Ans) a) capital, decrease in assets</p>	<u>1</u>
<u>Q2</u>	<p>Read the following statements – Assertion (A) and Reason (R): Choose the correct alternative among those given the below: Assertion: In the process of development, construction of dams, new schools, new plants, and repayment of loans is essential. Reason: Capital expenditure creates the assets of the government and causes reduction in the liabilities of the government. Choose the correct option from the following. (a) Both A and R are true and R is the correct explanation of A. (b) Both A and R are true but R is not the correct explanation of A. (c) A is true but R is false. (d) A is false but R is true, Ans) (a) Both A and R are true and R is the correct explanation of A.</p>	<u>1</u>
Q3	<div style="text-align: center;"><pre>graph TD; A[A] --- RB[Revenue Budget]; A --- CB[Capital Budget]; RB --- B[B]; RB --- RE[Revenue Expenditure]; CB --- C[C]; CB --- CE[Capital Expenditure]</pre></div> <p>Choose the correct alternatives to be filled in given blanks A, B and C. (a) A - Revenue receipts, B- Capital receipts C - Government budget (b) A - Capital receipts, B - Government budget, C- Revenue receipts (c) A - Capital receipts, B - Revenue receipts, C-Government budget (d) A-Government budget, B Revenue receipts, C-Capital receipts Ans) (d) A-Government budget, B Revenue receipts, C-Capital receipts</p>	<u>1</u>

Q4	 <p>Identify the budgetary situation in the economy.</p> <p>a) Deficit budget b) Surplus budget c) Balanced budget d) None of the above.</p> <p>Ans) a) Deficit budget</p>	<u>1</u>
Q5	<p>If primary deficit is 3,500 and interest payment is 500, then fiscal deficit is: (a) 2,900 (b) 4,000 (c) 4,100 (d) 4,200</p> <p>Ans(b) 4,000</p>	<u>1</u>
Q6	<p>'Govt. of India spends 2.5 crore for Olympic medallist Mirabai Chanu in 5 years; This will be categorized as (a) Revenue Nature Income (b) Capital Nature Income (c) Capital Nature Expenditure (d) Revenue Nature Expenditure</p> <p>(Ans) (d) Revenue Nature Expenditure--- (iv) Revenue Receipts</p>	<u>1</u>
Q7	<p>According to 'Pradhan Mantri Garib Kalyan Anna Yojana': During the period May-November 2021, more than 1.35 crore people will be provided 5 kg free wheat/rice per person/month along with 1 kg free whole chana to each family per month to safeguard the interest of poor section during Covid-19 pandemic. Which objective does the government aim to satisfy with this? (a) Economic Stability (b) Reallocation of Resources (c) Economic Growth (d) Reducing inequalities in income and wealth</p> <p>Ans) (d) Reducing inequalities in income and wealth</p>	<u>1</u>
Q8	<p>Fiscal deficit in Government Budget indicates..... (a) Excess of capital expenditure over capital receipt (excluding borrowings) (b) Excess of revenue expenditure over revenue receipt (c) Borrowing requirement of the State Governments only (d) Excess of total expenditure over revenue receipts and non-debt creating capital receipts</p> <p>Ans) (d) Excess of total expenditure over revenue receipts and non-debt creating capital receipts</p>	<u>1</u>
Q9	<p>Tax, the impact of which lies on the person on whom it is legally imposed, is known as: (a) indirect tax (b) direct tax (c) value added tax (d) none of these</p> <p>Ans) (b) DIRECT TAX</p>	<u>1</u>
Q10	<p>Progressive tax is a tax which is: (a) charged at a decreasing rate when income of the individual increases (b) charged at an increasing rate when income of the individual increases (c) a fixed percentage of an individual income (d) none of these</p> <p>ANS) (b) charged at an increasing rate when income of the individual</p>	<u>1</u>

	increases	
Q11	<p>Choose the correct alternative :</p> <p>Alternatives :</p> <p>(a) Both (A) and (R) are true and (R) is the correct explanation of (A)</p> <p>(b) Both (A) and (R) are true and (R) is not the correct explanation of (A)</p> <p>(c) (A) is true but (R) is false</p> <p>(d) (A) is false but (R) is true</p> <p>Assertion (A) : Expenditure on Ujjwala Yojana is a revenue expenditure</p> <p>Reason (R) : It does not cause increase in asset or reduction in liability</p> <p>Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)</p>	
Q12	<p>“Govt of India has recently implemented various measures like cash transfer to senior citizens and widows” .</p> <p>The Govt is trying to achieve the objective of using such measures.</p> <p>(i) Reallocation of resources ,</p> <p>(ii) Redistribution of income ,</p> <p>(iii) Regional inequality,</p> <p>(iv) Economic instability</p> <p>Ans. (ii) Redistribution of income</p>	

(MCQ + ARQ + T/F)
Short Answer Q (3/4 marks)

Q1	<p>Giving reasons, categorise the following into revenue expenditure and capital expenditure:</p> <p>(i) Grants given to state government.</p> <p>(ii) Repayment of loans</p> <p>(iii) Construction of school building.</p> <p>(Ans)</p> <p>(i) Grants given to state government--- Revenue expenditure</p> <p>(ii) Repayment of loans ---- capital expenditure</p> <p>(iii) Construction of school building -- capital expenditure</p>	
Q2	 <p>a) Interpret the given image on source of revenue of government of India (as per union budget 2020-21) and write the inference.</p> <p>b) Distinguish between revenue receipts and capital receipts with examples.</p> <p>Ans (a) Tax and borrowings are the major sources of revenue of the government by which the government funds its expenditures. In 2020-21, while the net tax revenue of the government is 64 paise out of 1 rupee</p>	

earning and borrowings and liabilities is 20 paise. Besides this, the government also generates revenue from non-tax sources and via capital receipts. Non-tax revenue is 10 paise. On debt capital receipts is 6 paise. Tax revenue constitute 64 % of its receipt, borrowing was the second-biggest source of revenue at 20%.

Ans (b)

Capital Receipt	Revenue Receipt
They either create liability or reduce the assets of the government	They neither create liability nor reduce the assets of the government
Non-Recurring in nature	Recurring in nature
Borrowings from public, Receipts from sale of shares of a public sector undertaking etc	GST, income tax, corporate tax, fees ,fines etc

Q3

Two friends, Deepak and Mohan were discussing the impact of increase in GST rates on luxury items, as recently undertaken by the Government. Mohan was of the view that most of the luxury items (like foreign travel, imported cigarettes, etc.) should be taxed exorbitantly, while the items related to daily consumption of poor and middle class should be tax-free.

(Ans)

Re-allocation of Resource: - Through the budgetary policy, Government aims to reallocate resources in accordance with the economic (profit maximisation) and social (public welfare) priorities of the country. Government can influence allocation of resources through:

Tax concessions or subsidies: To encourage investment, government can give tax concession, subsidies etc to the producers. For example -Government discourages the production of harmful consumption goods (like liquor, cigarettes etc.) through heavy taxes and encourages the use of 'Khadi products by providing subsidies.

Directly produce goods and services: -There are many non-profitable economic activities, which are not undertaken by the private sector like, water supply, sanitation, law and order, national defence, etc

Q4

Revenue deficit can be managed through borrowing or disinvestment. But fiscal deficit can be managed only through borrowing. Do you agree? State reason in support of your answer.

Ans. The statement is true. Because disinvestment is already included as an item of capital receipt in the estimation of fiscal deficit. So that, borrowing is the only window available to manage fiscal deficit. On the other hand, estimation of revenue deficit does not account for borrowing as well as disinvestment. So that, both these windows are available to manage revenue deficit.

Q5

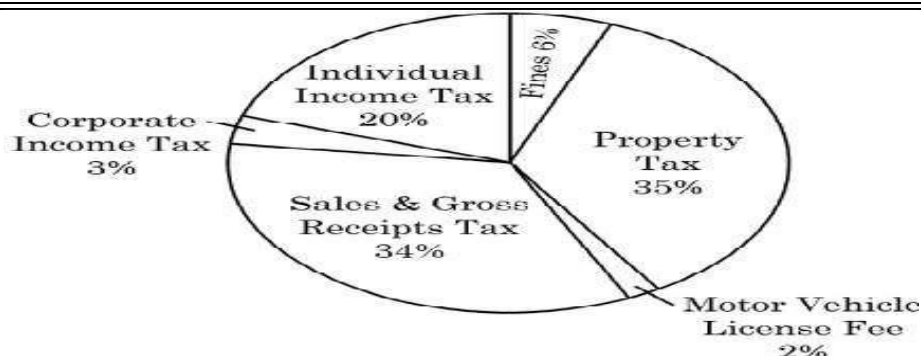
Budgetary deficit points to failure of the government to manage its budget. Defend or refute.

Ans. The above statement is incorrect. Budgetary deficit reflecting borrowing by the government may in fact be a part of designed strategy of the government to accelerate the pace of growth or to achieve macro stability in the economy.

Q6	<p>What is Primary Deficit ? What does zero primary deficit imply ?</p> <p>Ans. Primary deficit = Fiscal deficit – Interest payment on previous borrowings. If Primary deficit = 0, then Fiscal deficit = Interest payment i.e. Borrowing = Interest payment. The govt is borrowing only to pay interest on previous borrowing.</p>	
Q7	<p>Discuss briefly how the Govt Budget can be used as an effective tool in the process of employment generation.</p> <p>Ans. (i) Govt through its budgetary policy can allocate funds for employment generation schemes for providing employment. (ii) Govt may ensure setting up of industries even in backward regions of the nation. This will promote balanced regional development and generates employment in those regions.</p>	
Q8	<p>Read the passage and answer the questions : “Two friends Sujit and Suman were discussing the impact of increase in GST rates on luxury items , as recently undertaken by the govt. Suman was of the view that most of the luxury items should be taxed exorbitantly , while the items related to daily consumption of poor & middle class should be tax free.” Identify the objective of Govt budget Suman is suggesting and explain it.</p> <p>Ans. Objective of Govt budget – Redistribution of Income & wealth Explanation : (a) Govt alters the inequalities in income and wealth in the society through its taxation and expenditure policy (b) Govt imposes taxes on the rich (eg. Tax on goods consumed by the rich) and offers subsidies to the poorer section of the society (free education & health facilities, daily needs at subsidised rate etc). I This reduces the gap between the rich & poor.</p>	
Q9	<p>State giving reasons whether the following statements are true or false :</p> <p>(iii) High tax on higher income group aims to achieve ‘reallocation of resources’ Objective of the govt. (iv) Borrowings are the revenue receipts of the govt. (v) Fiscal deficit always leads to inflation.</p> <p>Ans. (vi) False. High tax on higher income group aims to reduce inequality in income through redistribution of income and wealth. (ii) False. Borrowings are capital receipts of the govt as it leads to increase in their liabilities. (vii) False. Fiscal deficit may not always be inflationary in nature. It is inflationary only when the borrowings are taken from RBI in the form of printing notes.</p>	
Q10	<p>“Taxation is an effective tool to reduce the inequalities of Income” . Justify.</p> <p>Ans. (i) The Govt may impose / increase taxes on the richer section of the society. This will reduce income of the rich. (ii) The amount collected through taxation may be used in offering subsidies to the people who are below poverty line . This will increase the standard of living of the poor. This helps to reduce inequalities in income & wealth.</p>	

Long Answer (Case based etc.)

Q1	<p>There is a constitutional requirement in India (Article 112) to present before the Parliament a Statement of estimated receipts and expenditures of the government in respect of every financial Year which runs from 1 April to 31 March. This 'Annual Financial Statement' constitutes the Main budget document of the government. Although the budget document relates to the receipts and expenditure of the government for a Particular financial year, the impact of it will be there in subsequent years. There is a need therefore to have two accounts- those that relate to the current financial year only are included in the revenue account (also called revenue budget) and those that concern the assets and liabilities of the government into the capital account (also called capital budget). In order to understand the Accounts, it is important to first understand the objectives of the government budget.</p> <p>Q1. Revenue budget do not affect: A) Assets and liabilities B) Only assets C) Both A and B D) None of these Ans. A</p> <p>Q2. Capital expenditure: A) Either create assets or reduce liabilities B) Either create liabilities or reduce assets C) Both A and B D) None of these Ans. A</p> <p>Q3. Which of the following is indirect tax? A) Income tax B) Corporate tax C) Wealth tax D) None of these Ans. D</p> <p>Q4. Who present the Union Budget in Parliament? A) Defence minister B) Finance minister C) Home minister D) Commerce and textile minister Ans. B</p>	
Q2	<p>A: Is high fiscal deficit always inflationary? Explain with valid reason. B: Classify the following expenditure into revenue expenditure and capital expenditure giving reason.</p> <p>i. Interest Payment ii. Repayment of Loan iii. Subsidies Ans. Hints :</p> <p>A. Meaning of Fiscal deficit and correct explanation (Not always. If the borrowing is not used for productive purpose then it may be inflationary) B.</p> <p>i. Interest Payment : Revenue Expenditure as there is no change in asset and liability status ii. Repayment of Loan: Capital expenditure as it reduces liability iii. Revenue expenditure as there is no change in asset and liability status</p>	
Q3	<p>Study the given picture carefully: Sources of State and Local government tax revenues for a financial year 2023-24.</p>	



Answer the following questions based on common knowledge and picture:

- (a) Categorise the given items in the picture into tax /non-tax receipts.
 (b) "Government has started spending more on providing free services like education and health to the poor." In the light of above statement, explain how the government can use the budgetary policy in reducing inequalities of income.

(Ans) (a) **Tax receipts—corporate tax, income tax, property tax, sales tax**

Non tax receipts - fines , License fee

(b) The given statement is appropriate. The government may impose higher taxes (both direct and indirect taxes) on the richer class, reducing their purchasing power. Government may use the same tax revenue to provide goods and services (free or at subsidized price) to the poorer section of society to support them. Spending on free services to the poor raises their standard of living and at the same time helps in reduction in income inequalities. It also helps in raising production potential of the country by raising the efficiency level of the working class among the poor.

WORKSHEET: 1

Time allowed: 30 minutes

Max Marks: 20

Q. N.	QUESTION	MAR K
1	Receipts which do not affect assets or liability status of the government, (a)Capital Receipts (b) Revenue Receipts (c) Budgetary Receipt (d) None of these	1
2	Example of non-debt creating capital receipts a. Borrowings (b) Extension of Borrowings (c) Recovery of loans (d) None of these	1
3	Statement -1 : Tax is legally compulsory payment Statement -2 : Directs are capital receipts of the government . (a)Both the statement is true (b) Both the statement is false. (c). Statement 1 is true, but Statement 2 is false (d.) Statement 2 is true, but Statement 1 is false	1
4	ASSERTION (A) : In case of public goods ,Nonpaying users are known as free riders . REASON (R) : Public goods are rivalrous and non-excludable in nature. 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.	1

	D. Assertion (A) is false but Reason (R) is true.																
5	<u>CASE STUDY</u> India's fiscal deficit touched 115% of the budgeted target in the first half of 2020 – 21 as 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. <u>Questions:</u> Q1. Why fiscal deficit touched 115% of the budget target in the first half of 2020-21.?	1															
6	Government budget helps maintaining economic stability. (True/False).	1															
7	Fiscal deficit equals: (a) interest payments (b) borrowings (c) Interest payments less borrowings (d) borrowings less interest payments	1															
8	On the basis of following data calculate the value of revenue deficit. <table border="1"> <thead> <tr> <th>SN</th><th>ITEMS</th><th>AMOUNT (In crores)</th></tr> </thead> <tbody> <tr> <td>1</td><td>Tax Receipts</td><td>1542</td></tr> <tr> <td>2</td><td>Revenue Expenditure</td><td>1927</td></tr> <tr> <td>3</td><td>Direct Taxes</td><td>670</td></tr> <tr> <td>4</td><td>Non-Tax Receipts</td><td>303</td></tr> </tbody> </table>	SN	ITEMS	AMOUNT (In crores)	1	Tax Receipts	1542	2	Revenue Expenditure	1927	3	Direct Taxes	670	4	Non-Tax Receipts	303	3
SN	ITEMS	AMOUNT (In crores)															
1	Tax Receipts	1542															
2	Revenue Expenditure	1927															
3	Direct Taxes	670															
4	Non-Tax Receipts	303															
9	Giving reason categories the following into revenue receipts and capital receipts: a. Recovery of loans b. (B) cooperation tax c. Dividends on investment made by government d. Sale of public sector undertaking	4															
10	(a) "Through its budgetary policy, a government allocates resources as per the requirements of the country" Do you agree with the given statement? Support your answer with a valid reason. b. Define direct tax.	3*2=6															

ANSWERS-WORKSHEET-1

Q1(b) Revenue Receipts **Q2-(c)** Recovery of loans
Q3-(c) . Statement 1 is true, but Statement 2 is false
Q4- (c) Assertion (A) is true but Reason (R) is false
Q5- It is due to covid-19 pandemic. **Q6-True**
Q7-(b) borrowings **Q8- Ans. 82 crores**
Q9- Marks will be accorded on the basis of valid reason.
Q10- (i)Yes (Marks will be accorded on the basis of valid reasons.)
 Correct explanation of the objectives of govt. budget.
 (viii) The tax which burden cannot be transferred on some one other....as Income Tax

BALANCE OF PAYMENTS AND EXCHANGE RATE (6 MARKS)

UNIT - V

Gist of the Lesson

Meaning:

Balance of Payments is the systematic record of all economic transactions between the residents of the reporting country and the residents of foreign countries during a financial year.

- BOP takes in to account the exchange of both visible and invisible items
- Hence the BOP represents a complete picture of country's economic transaction
- In accounting sense BOP always balances but in operational sense it may be surplus or deficit
- It is surplus when receipts are more than payments and deficit when payments are more than receipts.

Balance of Trade (BOT)

BOT is the systematic record of only visible economic transactions between the residents of the reporting country and the residents of foreign countries during a financial year.

- BOT takes in to account the exchange of only visible items i.e. import and export of goods only
- Hence the BOT represents a partial picture of country's economic transactions
- The difference between exports and imports of goods is called Trade balance

Trade Balance = Exports – Imports

- It may be Surplus , deficit of balance

Basic principles of BOP

- BOP is based on the principles of Double Entry Book Keeping System
- It means every transaction have dual entries. Each credit entry have its equivalent debit entry and each debit entry have equivalent amount of credit entry

Entries in BOP

Basis	Balance Of Payments (BOP)	Balance Of Trade (BOT)
Meaning	BOP is the systematic records of all economic transactions between the residents of the reporting country and the residents of foreign countries during a financial year	BOT is the systematic records of only visible economic transactions between the residents of the reporting country and the residents of foreign countries during a financial year.
Components	Visible as well invisible items	Only visible items
Scope	Broader , as it represents the complete picture of economic transactions	Narrower , as it is a part of BOP and represents partial picture of economic transactions
Nature of transactions	Includes current as well capital transactions	Includes only current transactions
Position	In accounting sense it is always balances , may not be in operational sense	It may be balanced, surplus or deficit

BOP statement has two entries. i.e. credit entry (+) and debit entry (-)

Those transactions by which there is inflow of foreign exchange its value will be entered in credit (+) side and those transactions by which there is outflow of foreign exchange its value will be entered in to debit (-) side

Note: It is not the nature of transactions rather the inflow or outflow of foreign exchange that determines entries in BOP

Structure /Components of BOP

- A BOP has two components
Current A/c and Capital A/c
- A BOP has two entries (Double Entry)
Credit entries (+) and Debit entries (-)

(a) Current A/c

- A current account records all the transactions which do not affect the assets and liabilities of a country
- These transactions are current nature only

Components of Current A/c

(i) Import and export of goods (Merchandise trade)

- It includes all types of physical goods exported and imported
- Example: export and import of clothes , machinery , car etc
- Export of goods are recorded in credit(+) side as these causes inflow of foreign exchange and the imports of goods are recorded in debit(-) side as this causes outflow of foreign exchange

(ii) Import and export of Services (Invisible Trade)

- It includes all types of services sold to and purchased by the residents of a country to rest of the world
- Example: import and export of services like banking, shipping, insurance etc.
- Export of services are recorded in credit(+) side as these causes inflow of foreign exchange and the imports of services are recorded in debit(-) side as this causes outflow of foreign exchange

(iii) Unilateral Transfers (Unrequited Transfers)

- These are receipts which residents of a country receive or payments that the residents of a country make without getting anything in return i.e. receipts and payments for which no quid-pro-quo
- Example: Gifts , remittances , donations ,aid etc. to and from foreigners
- Receipts from abroad are entered in to credit side and payments abroad are entered in to debit side.

(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
- It does not have direct effects on income , employment and output of the country
- 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 Capital A/c

Borrowings and Lending

- This includes all the borrowings and lending by the private individuals , business houses and government
- All borrowings from abroad are recorded in to credit (+) side as this causes inflow of foreign exchange and lending to abroad are recorded in debit (-) side as this causes outflow of foreign exchange
- Example: Indian government borrows money from IMF , World Bank etc.

(i) Private transactions:

- These are transactions that are affecting assets and liabilities by individuals ,business houses and other non-government entities

- The bulk of foreign investment is private

(ii) Official transactions

- These are transactions that affect the assets and liabilities by the government and its agencies

(iii) Direct Investments:

- It is the act of purchasing an asset and at the same time acquiring control of it (other than the ability to re-sell it)
- Example: the acquisition of a firm in one country by a firm in another country

(iv) Portfolio Investment:

- It is the acquisition of an asset that does not give the purchaser control over the asset
- Example : Purchase of shares in foreign company or of bonds issued by a foreign government of loans made to foreign firms or government

(v) Official Reserve Transactions

- The transactions carried out by monetary authority of a country which cause change in official reserves are called official reserve transactions (ORTs)
- Transactions by a central bank that cause changes in its official reserves. These are usually purchases or sales of its own currency in the exchange market in exchange for foreign currencies or other foreign currency-denominated assets.
- In the balance of payments a purchase of its own currency is a credit (+) and a sale is a debit (-).
- Official reserve transactions are crucial for maintaining a country's currency stability, managing economic shocks, and ensuring that it can meet its international obligations. Their role in the **Balance of Payments** is to reflect how a country's central bank manages the inflow and outflow of reserve assets. By influencing exchange rates and stabilizing the economy, these transactions play a pivotal role in a country's financial health and its position in the global economic system.

Structure of BOP (amount in Rs. Crore)

Sl. No.	Items	Credit (+)	Debit (-)
A. Current A/c			
1.	Import and export of goods	300	200
2.	Import and export of services	200	500
3.	Unilateral transfers	400	250
Current A/c Balance (A)		(+) 900	(-) 950
B. Capital A/c			
4.	Borrowings/Lending	500	300
5.	Investments	300	500
6.	Gold Movements	100	50
Capital A/c Balance (B)		(+) 900	(-) 850
Net Balance (A+B)		(+) 1800	(-) 1800

Balance of payments always balances:

BOP always balances. This statement can be proved from the following arguments

- BOP is based on the principles of Double Entry Book Keeping Systems
- Accordingly each transactions have dual entries (Contra entries)
- Each credit/debit entry has its equal size of debit/credit entry
- Hence the overall balance is zero
- So BOP always balances in accounting sense

- 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

(a) Autonomous Items

- It refers to the international economic transaction that take place due to some independent motive , may be economic motive such as profit maximization
- These transactions are independent of the state of country's BOP
- These items are recorded in both current A/c and Capital A/c of the BOP
- As these are above the statement of BOP , these are also called "Above the Line Items"

(b) Accommodating Items :

- It refers to the international economic transaction that take place other activities in BOP such as government financing
- These transactions are carried out to correct the disequilibrium arise in BOP
- For example: The Official settlements are seen as an accommodating items in order to keep the BOP identity
- These are recorded only in Capital A/c of the BOP
- As these are within the BOP , these are also called "Below the Line 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 transaction that take place other activities in BOP such as government financing
Purpose	Independent motive , may be economic like profit maximization	to correct the disequilibrium arise in BOP
Relation with BOP	Independent with the statement of BOP	Transactions carried out to establish BOP identity
Entries in accounts	Entered in both Current A/c and Capital A/c	Entered only in Capital A/c
Alternative Names	Above the Line Items	Below the Line Items
Example	Export , import by private individuals	Official settlement account

IMPORTANT QUESTIONS

1. Merchandise Balance is
 - (A) Export of goods-import of goods
 - (B) Export of services-import of services
 - (C) Investment income+ compensation of employee
 - (D) None of these

Ans: A

2. Invisibles are included in the :-
 - (A) Balance of trade account of BOP
 - (B) Current account of BOP

(C) Capital account of BOP

(d) none of these

Ans: B

3. Current account of BOP records

(A) Export and import of goods

(B) Export and import of services

(C) Unilateral transfer

(D) All of these

Ans: D

4. Current account Balance=

(A) Trade balance+ Goods and services balance

(B) trade balance-Goods and services balance

(C) Trade balance+ invisible balance

(D) Trade balance-invisible balance

Ans: C

5. Balance of payment is in equilibrium when:-

(A) Current account balance+ capital account balance>Zero

(B) Current account balance+ capital account balance<Zero

(C) Current account balance+ capital account balance=zero

(D) All of these

Ans: D

Competency Based Questions

The essence of international payments is that just like an individual who spends more than her income must finance the difference by selling assets or by borrowing, a country that has a deficit in its current account (spending more than it receives from sales to the rest of the world) must finance it by selling assets or by borrowing abroad. Thus, any current account deficit must be financed by a capital account surplus, that is, a net capital inflow.

Current account + Capital account= 0

In this case, in which a country is said to be in balance of payments equilibrium, the current account deficit is financed entirely by international lending without any reserve movements.

i) What is deficit? How a country manages deficit in its current account? 2

Ans: The deficit occurs when a country spends more than it receives from sales to the rest of the world. It manages deficits by selling more goods and services, selling assets or by borrowing from abroad.

ii) What do you mean by "Balance of Payments equilibrium" ? 2

Ans: Balance of payment equilibrium refers to a situation in which the total payments are equal to the total receipts and there is neither surplus nor deficit.

1. A company located in India receives a loan from a company located abroad. How is this transaction recorded in India's balance of payments account? (1)

(a) Credit side of current account (b) Debit side of current account

(c) credit side of capital account (d) Debit side of capital account Ans.: C

2. Accommodating transactions are undertaken by

(a) Private sector (b) government sector

(c) both of the above (d) neither (a) nor (b). (1) Ans-b

1. Assertion (A): Shipping service provided by an Indian company to foreign companies will be recorded in current account of Balance of Payments.

Reason(R): Current account of Balance of Payments does not alter the status of the assets or liabilities of the residents of India. (1)

A. Both (A) and (R) are correct and (R) is the correct explanation of (A)

B. Both (A) and (R) are correct and (R) is not the correct explanation of (A)

C. (A) is true but (R) is false

D. (A) is false but (R) is true

Ans :A

2. Define current account surplus. (1)

(AISSCE-2025)

Ans: Current Account surplus refers to the excess of receipts over payments made to the rest of the world.

3. Distinguish between Balance of Payments and Balance of Trade.(3)

And: Refer above in gist.

(AISSCE-2025)

4. Distinguish between Autonomous and Accommodating transactions of Balance of Payments Account.(4)

And: Refer above in gist.

5. What is meant by 'Official reserve transaction'? Discuss their importance in Balance of Payments.(6)

Ans: Official Reserve Transactions refer to the transactions that a country's central bank or monetary authority conducts to manage its official reserves, which include foreign currency holdings, gold reserves, Special Drawing Rights (SDRs), and other reserve assets. These transactions occur in the context of the country's balance of payments (BOP) and help maintain the stability of the national economy by ensuring that there are adequate reserves to meet external obligations or stabilize the currency.

Official reserves are typically used to:

Maintain exchange rate stability: By buying or selling foreign currencies, a central bank can influence the value of its own currency relative to others.

Meet external payment obligations: Reserves are crucial for settling international debts or trade deficits, as they allow a country to pay for imports, service loans, or meet other financial obligations.

Components of Official Reserves

Foreign Exchange Reserves: Currency held by the central bank in the form of foreign currencies (like USD, EUR, etc.).

Gold Reserves: The central bank's holdings of gold.

Special Drawing Rights (SDRs): An international type of monetary resource in the International Monetary Fund (IMF) that operates as a supplement to the existing reserves of member countries.

Reserve Position in the IMF: The amount of financial resources a country holds in the IMF.

Worksheet

Time 35 min

MM - 20

S.No	Questions	Marks
1.	The measurement of Balance of Payments deficit is based on _____ transaction a) Accommodating b) Autonomous c) Current account d) Capital account	1
2.	Assertion (A): Trade of invisible items between two nations is a part of capital account of Balance of Payment Reason(R): Transactions that affect the asset-liability status of a country in relation to the rest of the world are known as Capital Account transaction. A statement of Assertion (A) followed by a statement of Reason	1

	<p>(R) is given. Choose the correct answer out of the following choices. (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</p>	
3.	<p>Which of the following statement is <i>not</i> true? (A) Borrowing from the Asian Development Bank by the Government is an accommodating transaction. (B) Loans given to Sri Lanka by the Government are an accommodating transaction. (C) Buying of machinery from Japan is an accommodating transaction. (D) Borrowing from the public is an accommodating transaction.</p>	1
4.	<p>Agrawal group of real estate company received rent from a foreign firm in New York. This transaction would be recorded on _____ side _____ account of Balance of Payment. (A) Credit, Current (B) Debit, Current (C) Credit, Capital (D) Debit, Current</p>	1
5.	<div data-bbox="593 922 903 1167" data-label="Diagram"> <p>Based on the interpretation of above given picture should a current account deficit be always a cause for alarm?</p> </div>	3
6.	<p>Suppose balance of payment of current account of India in a year was (–) 2579 million US\$, whereas Balance on its capital account was 8409 million \$, how will it affect the foreign exchange reserve of India?</p>	3
7.	<p>Discuss the effect of the following on the Balance of Payments: (i) ‘Make in India’ Programme, (ii) Import of Petrol. Or Deficit or Disequilibrium in BOP may occur either due to autonomous transactions or due to accommodating transactions.’ Defend or refute.</p>	4
8.	<p>Are the following entered (i) on the credit side or the debit side and (ii) in the current account or capital account in the Balance of Payments account? You must give reason for your answer</p> <ol style="list-style-type: none"> Purchase of shares of TATA by Microsoft. Imports of computer spare parts from France. Borrowings from World Bank. Repayment of loan by Indian Government taken from Russia. <p>Or</p> <p>Case Study: - India’s Balance of Payments for the fiscal year 2023–24 showed a widening current account deficit, mainly due to increased imports of crude oil and gold. However, the capital account recorded a</p>	6

	<p>surplus owing to higher Foreign Direct Investment (FDI) and portfolio investment inflows. The country's foreign exchange reserves remained stable due to RBI's interventions in the forex market.</p> <p>During this period:</p> <ol style="list-style-type: none"> 1. Merchandise exports slightly declined due to a global economic slowdown. 2. Service exports, especially in IT and business outsourcing, grew significantly. 3. Remittances from overseas Indians increased. 4. Loan repayments to foreign lenders rose <p>Based on the above case study answer the following questions:</p> <ol style="list-style-type: none"> a) Identify two components of the Current Account mentioned in the case. b) Are remittances from overseas Indians included in the Current or Capital Account? Justify. 	
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ANSWER

1. b) Autonomous transaction.
2. (D) Assertion (A) is false but Reason (R) is true
3. (C) Buying of machinery from Japan is an accommodating transaction.
4. Agrawal group of Real Estate Company received rent from a foreign firm in New York. This transaction would be recorded on (A) Credit, Current account of Balance of Payment. (It's an inflow of income, hence credit, and relates to services/income from factors of production, hence current account).
5. Based on the interpretation of the picture (which is not provided, so I will answer generally about current account deficit), should a current account deficit always be a cause for alarm?
No, a current account deficit should not always be a cause for alarm.
A current account deficit essentially means a country is importing more goods and services than it is exporting, and/or net income from abroad is negative. While a persistent and large deficit can be problematic, signalling a country living beyond its means, it's not inherently alarming for several reasons:
6. Since the overall BOP is positive (a surplus of 5830 million US\$), it means that the country has received more foreign currency than it has spent. This surplus will lead to an increase in the foreign exchange reserves of India by 5830 million US\$.
7. Discuss the effect of the following on the Balance of Payments: (i) 'Make in India' Programme, (ii) Import of Petrol.
(i) 'Make in India' Programme: The 'Make in India' program aims to boost domestic manufacturing and reduce reliance on imports. Its effects on the Balance of Payments would likely be:
 - Reduced Imports, Current Account balance (specifically, the balance of visible trade) by reducing outflows.
 - Increased Exports
 - Increased Foreign Direct Investment (FDI)
 - Technology Transfer and Skill Development
- (ii) Import of Petrol: Import of petrol (crude oil) has a significant effect on the Balance of Payments:
 - Increased Imports:
 - Deterioration of Current Account:
 - Impact on Exchange Rate:
8. a. Purchase of shares of TATA by Microsoft.

- (i) Credit side: This is an inflow of foreign currency into India because Microsoft (a foreign entity) is investing in an Indian company (TATA).
- (ii) Capital Account: This is a foreign direct investment (FDI) or portfolio investment, which affects the asset/liability position of the country.
 - b. Imports of computer spare parts from France.
- (i) Debit side: This is an outflow of foreign currency from India as payment is made for goods imported from France.
- (ii) Current Account: This relates to the trade in visible goods.
 - c. Borrowings from World Bank.
- (i) Credit side: This represents an inflow of foreign currency into India as the country is receiving a loan from the World Bank.
- (ii) Capital Account: This is an external borrowing, which changes the country's external debt (a liability).
- e. Repayment of loan by Indian Government taken from Russia.
 - (i) Debit side: This is an outflow of foreign currency from India as the Indian government is sending money to Russia to repay its loan.
 - (ii) Capital Account: This transaction reduces India's external liability.
 - a)
 1. Merchandise exports
 2. Services.
 - b). Current Account of BOP because it does not affect assets/liabilities.

FOREIGN EXCHANGE RATE

GIST OF THE LESSON:

(MEANING OF FIXED AND FLEXIBLE EXCHANGE RATE & MANAGED FLOATING. DETERMINATION OF EXCHANGE RATE IN A FREE MARKET, MERITS & DEMERITS OF FIXED & FLEXIBLE EXCHANGE RATE)

Currency refers to the money in circulation in an economy. For any country its own currency is known as Domestic Currency. The other currencies of the Rest of the World are foreign currencies for that economy.

For example, Indian National Rupee INR is the domestic currency for India the US dollar British pound Japanese yen etc are the foreign currency for India.

For the transactions that take place within the domestic Territory of a country, the foreign currencies are not accepted. But to have international transactions we require the foreign exchange.

Foreign Exchange Rate refers to the rate at which one currency is exchanged for the other.

Ex: \$ 1 = Rs 80

CURRENCY DEPRECIATION:

Currency depreciation refers to decrease in the value of domestic currency in terms of foreign currency. It means we need to spend more domestic currencies to purchase the same unit of foreign currency.

Ex: Initially, \$ 1 = Rs 80

Now, \$ 1 = Rs 86

Effects of Depreciation of Domestic currency:

1. As the foreigners have to spend less dollars to purchase the same amount of goods they used to purchase earlier, they find the domestic goods cheaper. It will lead to an increase in Exports for the domestic economy.

2. The people of the domestic economy will find the foreign goods Expensive as they have to spend more to purchase the same amount which they used to purchase earlier. it will lead to decrease in imports.
3. Net Exports is a part of national income where the value of exports is added and the value of imports is subtracted. in case of depreciation of domestic currency, as exports will increase, it will lead to increase in national income.

CURRENCY APPRECIATION

Currency appreciation refers to an increase in the value of domestic currency in terms of the foreign currency it means we have to spend less domestic currency to purchase the foreign currency. the value of domestic currency increases in terms of the foreign currency
effects of appreciation of domestic currency:

1. the domestic people will find the foreign goods cheaper, because now they have to spend less money to purchase the same amount of good which the used to purchase earlier. this will lead to increase in imports
2. the foreigners will find our domestic goods expensive. as the domestic currency has appreciated the foreigners have to pay more to purchase the amount which the used to purchase earlier. this will lead to decrease in the demand for domestic goods. this will lead to decrease in Exports.
3. as the value of import is subtracted from the national income, and import increases as the result of appreciation of domestic currency, this will lead to fall in national income.

DEVALUATION OF DOMESTIC CURRENCY: when the Government of a country deliberately decreases the value of its domestic currency against the foreign currency to increase the exports of the country, it is called devaluation.

REVALUATION OF DOMESTIC CURRENCY: This refers to rise in the value of domestic currency against a foreign currency in a fixed exchange rate system where exchange rate is fixed by the government.

TYPES OF FOREIGN EXCHANGE RATE:

There are mainly Three Types of exchange rates system. They are

1. fixed exchange rate system or pegged exchange rate system
2. flexible exchange rate system or floating exchange rate system
3. managed floating rate system or dirty floating

FIXED EXCHANGE RATE SYSTEM: This refers to A system where exchange rate for a currency is fixed by the government. the basic purpose of adopting the system is to ensure stability in foreign trade and capital movements. under this system each country keeps value of its currency fixed in terms of some external standards. when the value of the domestic currency is tied to another currency, it is known as pegging. this is also known as the parity value of currency. (Initially, all the currencies were pegged against gold which was called gold standard. then it was replaced by the Bretton Woods standard, where gold was replaced by US dollar as the core of the system)

Merits Of Fixed Exchange Rate System:

- **Stability In the Exchange Rate:** As the exchange rate has been fixed by the government between any two currencies, there is no uncertainty with respect to exchange rate. this promotes international trade.
- **Promotes International Trade:** When the exchange rate will be fixed there will be no uncertainty or speculation. this will lead to more trade between the countries following fixed exchange rate.
- **Prevention Of Speculative Activities:** Any possibilities of speculation is automatically eliminated when the exchange rate between two countries has been fixed by the government under the fixed exchange rate system.
- **Better Planning for Macroeconomic Policies:** since the world is economically interdependent, there is the needs to coordinate the macro policies of different countries in order to keep the exchange rates fixed. it prevents countries from undertaking

arbitrary and competitive depreciation or evaluation of their current is which would be disadvantageous to their trading partners.

Demerits Of Fixed Exchange Rate System:

- Huge For an Exchange Reserves Required: Government has to maintain large reserves of foreign currencies to maintain the exchange rate at the level fixed by it. It restricts the movement of capital in different parts of the world and hampers the international growth.
- Difficulty In Fixing the Exchange Rate: Fixed exchange rate does not show the actual market value of the foreign currency. There may be over valuation or undervaluation of the currency.

FLEXIBLE EXCHANGE RATE SYSTEM:

When the exchange rate is determined by the market forces of demand and supply in the foreign exchange market, it is called flexible exchange rate or floating exchange rate.

Merits of Flexible Exchange Rate:

- It eliminates the problem of over valuation or undervaluation of currencies and always maintains the equilibrium.
- There is no need for huge foreign exchange reserves to be kept with the government as the exchange rate is determined in the market by the market forces.
- There is scope for optimum utilisation of resources.

Demerits of Flexible Exchange Rate System:

- As the exchange rate keeps fluctuating in the foreign exchange market, it creates uncertainty in the foreign exchange transactions. Such instabilities hamper foreign trade.
- There will be more speculative activities and manipulations due to the instabilities in the exchange market.

MANAGED FLOATING RATE SYSTEM: It refers to a system in which foreign exchange rate is determined by market forces and the Central Bank influences the exchange rate through interventions in the foreign exchange market. It is the market rate which can be influenced by the intervention of the Central bank to keep it within a particular range in the foreign exchange market. It is a tool to control unfavourable impacts of flexible exchange rate. This is also called Dirty Floating.

DETERMINATION OF EXCHANGE RATE IN A FREE MARKET

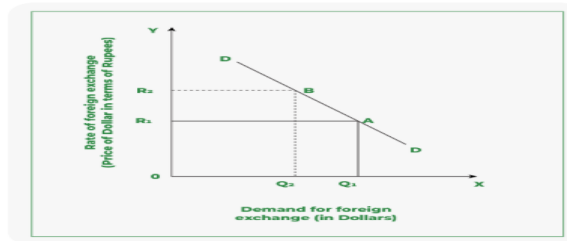
In a free market the Exchange Rate is determined by the forces of demand for foreign exchange and supply of foreign exchange.

The Demand for Foreign Exchange:

The demand or out flow of foreign exchange comes from those people who need it to make payments in foreign currency. People demand for foreign currency for the following reasons;

- To import goods and services from the foreign countries
- For tourism or to visit abroad
- Unilateral transfer or current transfer
- Purchase of assets in the foreign countries
- Speculation in the foreign exchange market
- To make foreign direct investment and foreign institutional investment

The demand curve for foreign currency is downward sloping from left to right which shows an inverse relation between the demand for foreign exchange and the Rate of foreign exchange or price of foreign exchange.

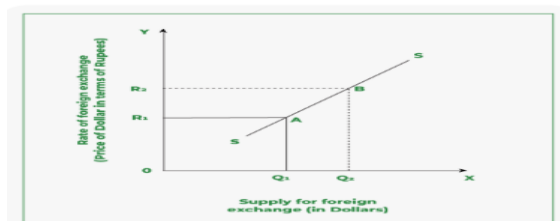


The Supply of Foreign Exchange:

When the domestic economy receives foreign currency, it is known as the supply of foreign exchange. Foreign exchange comes from the people due to the following reasons;

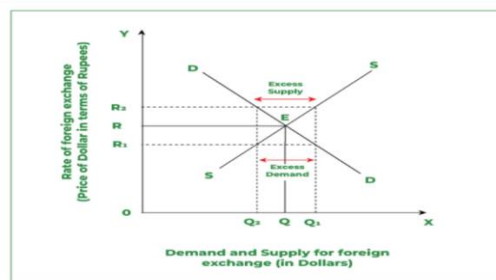
- When the domestic economy sells or exports goods and services abroad, it receives foreign exchange.
- Whenever the foreigners make any investment in the domestic economy then the supply of foreign exchange increases
- Unilateral transfers or current transfer from abroad
- Loan from the rest of the world

The supply curve of foreign currency is upward sloping from left to right which shows a direct relation between the supply of foreign exchange and the Rate of foreign exchange or price of foreign exchange.



Determination of Foreign Exchange rate:

In the foreign exchange market, the exchange rate is determined at that point where the demand curve for foreign exchange and supply curve of foreign exchange intersect each other. Equilibrium exchange rate is determined at that point, at which the market is cleared.

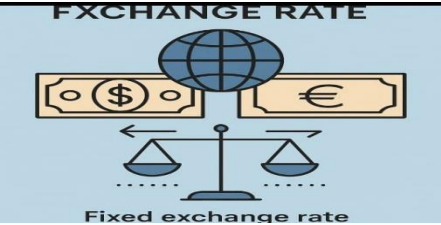


At OR_1 Exchange Rate there will be more demand and less supply of foreign exchange which will lead to Excess Demand for foreign exchange. When there will be excess demand, there will be competition among the buyers of foreign exchange to buy the foreign currency. This will lead to rise in the foreign exchange rate. Reacting to the increase in price of foreign currency, there will be movement along supply curve and supply of foreign exchange will gradually increase. On the other hand, there will be fall in demand reacting to rising price of foreign exchange. This will continue till both demand & supply matches at the exchange rate OR .

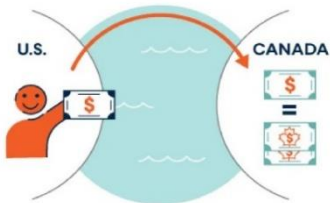
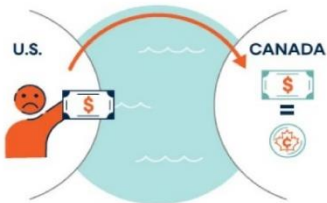
Similarly, at a high exchange rate OR_2 , there will be Excess supply in the market. The market forces will interact in such a way that automatically equilibrium will be obtained at point E.


QUESTIONS ON FOREIGN EXCHANGE RATE & FOREIGN EXCHANGE MARKET

Sl no		marks

1	 <p>The fixed exchange rate is decided by the market forces in a free market.</p> <p>Ans- False</p>	1
2	<p>Depreciation of the Indian Currency will lead to promotion of Indian exports.</p> <p>Ans-True</p>	1
3	<p>Statement-1: Due to the depreciation of US Dollar, purchasing power of the Indian National Rupee may increase.</p> <p>Statement-2: Appreciation of domestic currency may lead to a rise in exports</p> <ol style="list-style-type: none"> Both the statements are true Both the statements are false Statement 1 is true and Statement 2 is false Statement 2 is true and Statement 1 is false <p>Ans- C</p>	1
4	<p>Statement-1: Devaluation of the domestic currency makes import cheaper.</p> <p>Statement-2: Managed Floating Rate system is also known as Dirty Floating.</p> <ol style="list-style-type: none"> Both the statements are true Both the statements are false Statement 1 is true and Statement 2 is false Statement 2 is true and Statement 1 is false <p>Ans- d</p>	1
5	<p>Exports of COVID Vaccines manufactured in India has led to _____.</p> <ol style="list-style-type: none"> Inflow of Indian Currency Outflow of foreign currency Inflow of foreign currency & employment generation Outflow of foreign currency & employment generation <p>Ans- C</p>	1
6	<p>Identify which of the following is not a source of Demand for foreign exchange for Indian economy.</p> <ol style="list-style-type: none"> Import of goods and services Remittances by foreigners living in India to their families abroad Indian tourists visiting foreign countries Loans from the Rest of The World (ROW) <p>Ans-d</p>	1

7	<p>Assertion (A): Managed Floating Exchange Rate system is an amalgamation of fixed exchange rate and flexible exchange rate.</p> <p>Reason (R): Central Bank can manipulate the flexible exchange rate system.</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason is the correct explanation of Assertion. Both Assertion (A) and Reason (R) are true and Reason is not 	1
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	<p>the correct explanation of Assertion.</p> <p>c. Assertion (A) is true and Reason (R) is false.</p> <p>d. Assertion (A) is false and Reason (R) is true.</p> <p>Ans- C</p>	
8	<p>Assertion (A): Foreign exchange rate supports the comparison of international costs and prices.</p> <p>Reason (R): Foreign exchange rate is the price of one currency in terms of other commodities.</p> <p>a. Both Assertion (A) and Reason (R) are true and Reason is the correct explanation of Assertion.</p> <p>b. Both Assertion (A) and Reason (R) are true and Reason is not the correct explanation of Assertion.</p> <p>c. Assertion (A) is true and Reason (R) is false.</p> <p>d. Assertion (A) is false and Reason (R) is true.</p> <p>Ans- C</p>	1
9	<p>Due to change in value of rupees from Rs.80/\$ to Rs.84/\$, which of the following effect will not stand true?</p> <p>a. Exports will increase</p> <p>b. Domestic goods will become cheaper</p> <p>c. Decrease in imports</p> <p>d. National Income will fall</p> <p>Ans – d</p>	1
10	<p>Other things remaining unchanged, when in a country the price of foreign currency rises, National Income is :</p> <p>a. Likely to rise</p> <p>b. Likely to fall</p> <p>c. Likely to rise or to fall</p> <p>d. To remain unaffected</p> <p>Ans – a</p>	1
	Short Question-Answer (3/4 marks)	
1	<div> <div> <p>Strong dollar</p> <p>When the U.S. dollar is stronger, Americans can buy goods relatively cheaply when abroad.</p>  </div> <div> <p>Weak dollar</p> <p>When the U.S. dollar is weaker, the money does not go as far for Americans buying goods abroad.</p>  </div> </div> <p>On the basis of the given picture explain the impact of appreciation of foreign currency on the consumers of the domestic economy.</p>	3
Ans:	<p>When the foreign currency appreciates, it means the domestic consumers will find the foreign products expensive and foreigners will find domestic products cheaper. This will lead to,</p> <p>a. There will be increase in exports.</p> <p>b. There will be decrease in imports.</p> <p>c. Increase in National Income. As the exports will increase it will add to the national income.</p>	
2	Foreign exchange rate in India is on the rise recently. What impact is it likely to have on exports and how?	3

Ans:	Rise in the foreign exchange means that the foreign exchange can command more units of domestic currency in exchange. This leads to increase in the purchasing power of the foreign currency in the domestic market. As the foreigners can purchase more from the domestic market compared to earlier, the demand for domestic goods increase in the foreign markets. As a result the exports of the domestic country will increase.	
3	 <p>Write any 3 merits of the Flexible Exchange Rate as shown in the picture.</p>	3
Ans:	<p>Flexible exchange rate system refers to a system in which exchange rate is determined by forces of demand and supply of different currencies in the foreign exchange market. This market has the following merits,</p> <ol style="list-style-type: none"> 1. Maintains the equilibrium price of foreign exchange and eliminates the problem of over evaluation or under evaluation of currencies. 2. There is no need for the Government to hold large foreign exchange reserves 3. As there will be no need to maintain huge foreign exchange reserve, the resources of the economy will be optimally utilized. 	
4	Explain the relationship between fall in price of the US Dollar (\$) and its demand.	4
Ans:	There is an inverse relationship between price of foreign currency and its demand. When the price of Dollar decreases, we have to spend less Indian Rupee to purchase 1 US Dollar and vice versa. So, when the price of US Dollar falls, people demand more dollar for travelling to USA, import goods from USA, etc. This can be shown by a downward sloping Demand curve from left to right.	
5	Explain any two sources of supply of foreign exchange.	4
Ans:	<p>Two major sources of foreign exchange supply are exports of goods and services, and foreign tourism in the country. When the country sells its goods and services to foreign buyers, it receives the payments in foreign currencies, thus increasing the supply of those currencies in the country's financial market.</p> <p>Similarly when more foreigners visit a country for tourism purposes, they bring the foreign currencies with them which adds to the supply of foreign currency in the financial market.</p>	

	LONG Q/A (6 marks- CBQ, ETC)	
2	<p>The rupee declined 14 paise and touched the crucial 86.00-mark (provisional) for the first time against the U.S. dollar on Friday. (January 10, 2025) as it failed to resist pressure from a stronger</p>	6

American currency and huge outflow of foreign funds.

“Surging crude oil prices overseas and negative sentiment in domestic equity markets also weighed down the Indian currency,” forex traders said.

Source- The Hindu-Published - January 10, 2025

- i. In the above case there is _____.
 - a. Appreciation of Indian Rupee
 - b. Revaluation of Indian Rupee
 - c. Depreciation of Indian Rupee
 - d. Devaluation of Indian Rupee
- ii. Keeping other factors constant, due to outflow of foreign exchange there will be _____ in the price of foreign exchange
 - a. Rise
 - b. Fall
 - c. Unaltered
 - d. May rise or fall
- iii. If \$ 1 = Rs.86.00, then \$ _____ (approximately) would be needed to exchange Rs.1, 00,000. (Fill in the blank by choosing the correct alternative)
 - a. 1150.79
 - b. 1069.97
 - c. 1262.97
 - d. 1162.79
- iv. Due to fall in the value of Indian currency in the foreign exchange market, the Reserve Bank of India decides to buy Indian currency. This type of action by the Central Bank is possible under _____ exchange rate system.
 - a. Flexible
 - b. Managed floating
 - c. Fixed floating
 - d. Fixed
- v. Assertion (A): Other things remaining unchanged, when in a country the price of domestic currency rises, national income in the country is likely to rise.

Reason (R): Depreciation of domestic currency refers to decrease in the value of domestic currency in terms of foreign currency. Depreciation of domestic currency encourages exports and discourages imports.
 - a. Both (A) and Reason (R) are true and reason (R) is the correct explanation of Assertion (A)
 - b. Both (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.
- vi. Forward rate is the rate at which forward transactions take place in foreign Exchange market. (T/F)

- | | |
|------|--|
| Ans: | i. Depreciation of Indian Rupee
ii. Rise
iii. 1162.79
iv. Managed floating
v. Assertion (A) is false but reason (R) is true.
vi. True |
|------|--|

Worksheet

Time 35 min

MM - 20

S.No	Questions	Marks
9.	Which of the following best describes a flexible exchange rate system?	1

	<p>A. Fixed by the central bank</p> <p>B. Determined by government</p> <p>C. Determined by demand and supply in the market</p> <p>D. Fixed by international agreement</p>	
10	<p>Assertion (A): An increase in imports leads to a depreciation of the domestic currency.</p> <p>Reason (R): Higher imports increase the demand for foreign currency.</p> <p>Options:</p> <p>A. Both A and R are true, and R is the correct explanation of A</p> <p>B. Both A and R are true, but R is not the correct explanation of A</p> <p>C. A is true, but R is false</p> <p>D. A is false, but R is true</p>	1
11	<p>Assertion (A): Under a flexible exchange rate system, the central bank frequently intervenes in the foreign exchange market.</p> <p>Reason (R): Flexible exchange rate is determined by the forces of demand and supply.</p> <p>Options:</p> <p>A. Both A and R are true, and R is the correct explanation of A</p> <p>B. Both A and R are true, but R is not the correct explanation of A</p> <p>C. A is true, but R is false</p> <p>D. A is false, but R is true</p>	1
12	<p>Under a fixed exchange rate system, the value of currency is determined by the market forces of demand and supply.</p> <p>(True / False)</p>	1
13	<p>A student claims that if the exchange rate changes from ₹75 = \$1 to ₹70 = \$1, Indian exports will increase.</p> <p>a. Do you agree or disagree with the student? Justify your answer with economic reasoning. or</p> <p>b. How will this appreciation of the Rupee affect importers in India?</p>	3
14	<p>Ravi wants to visit Europe and exchange ₹1,00,000 for Euros.</p> <p>a. If the exchange rate changes from ₹90 = €1 to ₹100 = €1, how will it impact his travel budget? (2 marks)</p> <p>b. Explain how changes in foreign exchange rate affect international tourism. (1 marks)</p>	3

15	<p>ON A DECLINE India foreign exchange reserve (in \$ bn)</p> <p>Jan 5, '24 Sep 27, '24 Dec 13, '24</p> <p>617 705 653</p> <p>Compiled by BS Research Bureau Source: RBI</p> <p>: a) What does the sharp decline in "Foreign Exchange Reserves" as shown in the graph typically indicate about the country's Balance of Payments? (1 mark)</p> <p>b) Explain how the central bank (represented by the icon) might intervene using these reserves to manage the situation depicted in the graph and stabilize the economy. (3 marks)</p>	4
16	<p>Read the following case and answer the questions that follow:</p> <p>India is experiencing an increase in demand for foreign goods, resulting in a surge in demand for US dollars. At the same time, foreign investors are withdrawing their investments from the Indian stock market.</p> <p>a. What impact will the above situation have on the exchange rate of the Indian Rupee? (3 marks)</p> <p>b. Suggest any two government or RBI measures that can be taken to stabilize the Rupee. (3 marks)</p>	6

ANSWER

Q1. C. Determined by demand and supply in the market

Q2. A. Both A and R are true, and R is the correct explanation of A

Q3. D. A is false, but R is true

Q4. False

Q5. When the exchange rate changes from ₹75 = \$1 to ₹70 = \$1, it means that now ₹70 buys \$1, whereas previously ₹75 was needed to buy \$1. This signifies an appreciation of the Indian Rupee. An appreciation of the domestic currency (Rupee) makes Indian goods more expensive for foreign buyers

OR

b. An appreciation of the Rupee from ₹75 = \$1 to ₹70 = \$1 means that Indian importers now need to pay fewer Rupees to obtain the same amount of foreign currency. For example, to import goods worth \$1, an Indian importer now pays ₹70 instead of ₹75. This effectively makes imports cheaper for Indian importers. As a result, the cost of imported goods will decrease, which could lead to an increase in imports into India.

Q6. Analyze and Reason (3 marks) Ravi wants to visit Europe and exchange ₹1,00,000 for Euros. a. If the exchange rate changes from ₹90 = €1 to ₹100 = €1, how will it impact his travel budget? (2 marks) When the exchange rate changes from ₹90 = €1 to ₹100 = €1, it means that more Indian Rupees are now required to buy one Euro. This indicates a depreciation of the Indian Rupee against the Euro.

- At ₹90 = €1, Ravi would get: ₹1,00,000 / ₹90 = €1111.11
- At ₹100 = €1, Ravi would get: ₹1,00,000 / ₹100 = €1000 This change in the exchange rate will negatively impact Ravi's travel budget because he will get fewer Euros for the same amount of Indian Rupees (from €1111.11 to €1000). His purchasing power in Europe will decrease.

b. Explain how changes in foreign exchange rate affect international tourism. (1 mark)

- Depreciation of domestic currency
- Appreciation of domestic currency
- Q7. Answer: a) The sharp decline in "Foreign Exchange Reserves" typically indicates that the country is experiencing a Balance of Payments deficit. Sells foreign currency from its reserves:

- Impact on exchange rate:
 - Restores confidence:
- Q8. The situation described will lead to a depreciation of the Indian Rupee against the US dollar. Here's why:
- Increase in demand for foreign goods:
 - Foreign investors withdrawing investments:
 - Combined effect:
- b. Suggest any two government or RBI measures that can be taken to stabilize the Rupee. (3 marks)
- To stabilize the Rupee (i.e., prevent or reverse its depreciation), the government or RBI can take the following measures:
1. Intervention in the Foreign Exchange Market (RBI):
 2. Increase Interest Rates (RBI): The RBI can raise domestic interest rates.
 3. Encourage Foreign Direct Investment (FDI) and Exports (Government)

PART – B

INDIAN ECONOMIC DEVELOPMENT

UNIT – 6 INDIAN ECONOMY ON THE EVE OF INDEPENDENCE (12 MARKS)

GIST:-

DEVELOPMENT UNDER THE COLONIAL RULE

- Though agriculture was the main source of livelihood India had an independent, self-reliant and prosperous economy.
- The country's economy was also characterized by various other kinds of activities such as cotton and silk textile, metal and precious stone works.
- Handicraft product enjoyed worldwide market due to the reputation of its fine qualities of material used and high standard of craftsmanship.
- The economic policies pursued by the colonial government in India were concerned more with **the protection and promotion of the economic interest of their home country than with the development of the Indian economy.**
- The policies of British rule brought about a fundamental change in the structure of Indian economy-transforming the country into **a supplier of raw materials and consumer of finished industrial product from Britain.**

❖ AGRICULTURAL SECTOR

- India's economy under the British rule remained fundamentally agrarian – about 85% of country's population lived in villages and derived livelihood directly or indirectly from agriculture even though it was not self-sufficient for food and raw materials.

The main causes of stagnation in agriculture sector were as follows:

1. LAND SETTLEMENT SYSTEM:

- The introduction of "**ZAMINDARI SYSTEM**" by the colonial government was the main cause.
- Under this system, profits of agricultural sector went to zamindars instead of cultivators, in the form of lagaan irrespective of economic condition of the cultivators.
- Both zamindars and colonial government did nothing to improve the condition of agriculture.

2. REVENUE SETTLEMENT SYSTEM:

- The dates for depositing the specified sum of lagaan to British government were fixed failing which the zamindars would lose all their rights. This forced Zamindars to behave in such an arrogant and inhumane way.

3. COMMERCIALIZATION OF AGRICULTURE:

- It means production of crops was merely for sale in the market rather than for self-consumption.
- During British rule farmers were attracted by offering high prices for producing cash crops like jute or cotton instead of food crops, so that it can be used as raw material for British industries.
- This fall in production of food crops resulted in famines in India during British days.

4. LOW AGRICULTURAL PRODUCTIVITY:

- Due to widespread illiteracy, the farmers remained ignorant of the methods and techniques, to be used to increase the productivity.
- Agricultural tools and implements were obsolete.

❖ INDUSTRIAL SECTOR

Although agriculture had dominant place in the Indian economy during British rule but some Indian industries also enjoyed worldwide reputation. India was particularly world famous for its handicraft industries like textile handicrafts status and were spread over the whole country. But India could not develop a sound industrial base under the British rule.

1) Decline of handicraft industry:

- British government systematically destroyed Indian handicraft industries and did not allow modern industries to come up. It was worst hit by the policies of British.

2) Slow pace development of modern industries in India:

- During the second half of the nineteenth century, modern industry began to take roots in India but was too slow.
- Industrial development was confined to the setting up of cotton and jute textile mills.
- Cotton textile mills were located in western parts of the country, namely Maharashtra and Gujarat. These industries were mainly set up by Indians.
- Some of the iron and steel industries were set up at the beginning of the 20th century.
- TISCO was incorporated in 1907.

3) Lack of capital goods industries:

- During the British rule there was hardly any capital goods industry to promote industrialization in India.
- Even British ruler did not pay attention in the promotion of capital goods industry as they always wanted Indians to be dependent on Britain for supply of capital good and heavy equipment.

4) Low contribution to GDP:

- The growth rate of new industrial sector and its contribution to the GDP remained very small.

5) Limited role of public sector:

- The limited area of operation of public sector was also a significant reason for the drawback of industrial sector.
- It remained confined only to the railways, power generation, communications, ports and some other departmental undertakings.

❖ FOREIGN TRADE

- India has been an important trading nation since ancient times.
- India was quite self-sufficient in food stuff and maintained a favorable balance of trade.
- However, there was drastic change in the composition, volume and direction of foreign trade because of the restrictive policies of commodity production and trade and tariff pursued by the colonial government. The state of India's foreign trade during British rule was as follow:

1. Exporter of primary products and importer of finished goods:

- India became exporter of primary product such as raw silk, cotton, wool, sugar, indigo, jute etc.
- It imported finished consumer goods like cotton, silk and woollen clothes and capital goods like light machinery, produced in the British industries.

2. Monopoly control of British rule:

- More than half of India's foreign trade was restricted to Britain while the rest was allowed with few other countries like China, Sri Lanka and Iran.
- The opening of the Suez Canal in 1869 served as a direct route for the ships operating between India and Britain.

3. Drain of Indian wealth during British rule:

- India became an importer of finished goods and exporter of primary products. There was huge export surplus due to excess exports.
- Furthermore export surplus did not result in any flow of gold or silver into India.
- However export surplus was used to:
 - ✓ To make payments for expenses incurred by an office set up by the colonial government in Britain.
 - ✓ To meet expenses on war fought by the British government.

❖ DEMOGRAPHIC CONDITION

- Demographic condition during British time revealed all features of stagnant and backward Indian economy.
 - The first official census was conducted in the year 1881 which revealed the unevenness in India's population growth.
 - From 1881 onwards census operation was carried out after every 10 years.
- The demographic condition during the colonial rule is described in the following points:

1. **High birth rate and death rate:** Both birth rate and death rate were very high at nearly 48 and 40 per thousand respectively. Such high rate indicates backwardness of a country and led to massive poverty prevailing all over the country.
 2. **Extremely low literacy rate:** The overall literacy rate was less than 16%. Out of this, the female literacy rate was at a negligible low of about 7%.
 3. **Poor public facility:** Public health facilities were either unavailable to large mass of population or highly inadequate. As a result, water and air-borne diseases were widespread.
 4. **High infant mortality rate:** Infant mortality rate refers to number of infants dying before reaching one year of age per 1000 live births in a year. It was quite alarming about 218 per thousand in contrast to present infant mortality rate of 25 per thousand.
 5. **Low life Expectancy:** Life expectancy refers to the average number of years for which people are expected to live. It was also very low- 32 years in contrast to the present 69 years.
- It can be concluded that British rule was the main reason to worsen the profile of India's population.

❖ OCCUPATIONAL STRUCTURE

It refers to distribution of working person across different industries and sectors.

The state of occupational structure during the British rule can be summarized as under:

Predominance of Primary Occupation: The agricultural sector accounted for the largest share of workforce with approximately 70-75%. The manufacturing and service sectors accounted for 10 and 15-20% respectively.

❖ INFRASTRUCTURE

- But the main objective behind development was not to provide basic facilities to the people of India but to subserve various colonial interests.

REASONS FOR INFRASTRUCTURAL DEVELOPMENT

The basic objective was not to provide basic facilities to the people but to serve their own colonial interest.

ROADS:

- I. For mobilizing the army

- II. For drawing out raw materials from countryside to nearby railways and ports.

RAILWAYS

- I. To have effective control and administration over the vast Indian territory.
- II. To earn profit through foreign trade by linking railways with major ports.
- III. To make profitable investment of British funds in India.

ELECTRIC TELEGRAPH was introduced at a high cost to serve the purpose of maintaining law and order.

POSITIVE CONTRIBUTIONS OF BRITISH RULE

- 1) Commercialization of agriculture initiated by British Government resulted in **self-sufficiency in food grain production**.
- 2) **Development of roads and railways** provided cheap and rapid transport system and opened up new opportunities of economic and social growth.
- 3) Roads and railways worked as a great **check on famines** as food supplies could be transported to the affected areas in case of drought.
- 4) British rule helped Indian economy to **shift from barter system of exchange to monetary system of exchange**.

he British Government had an efficient administration system, which served as a ready reckoned for Indian politicians.



INDIAN ECONOMY (1950-1990)

GIST:

ECONOMIC PLANNING

- After adopting the 'Mixed Economic System', the development of Indian economy, it was necessary for the government to 'plan' for the economy, known as Economic Planning.
- The Industrial Policy resolution of 1948 and the Directive principles of the Indian Constitution assigned a leading role to the public sector.
- To make economic planning effective, the government of India set up Planning Commission in 1950, with the Prime Minister as the Chairman.

GOALS OF FIVE YEAR PLANS

- The first five year plan was launched for a period starting from 1st April, 1951 and ending on 31st March, 1956.
- The basic goals are:
 1. **GROWTH**: Growth refers to increase in the country's capacity to produce the output of goods and services within the country.
 2. **MODERNISATION**: Indian planner has recognized that application of science and technology in production raises the output level and the pace of economic growth. It also requires a change in social outlook, such as gender empowerment or providing equal right to women.
 3. **SELF-RELIANCE**: self-reliant which mean overcoming the need of external assistance or development through domestic resources. To promote economic growth and modernization,

the five year plan stressed on the use of own resources, in order to reduce dependence on foreign countries

4. **EQUITY:** It is important to ensure that the benefits of economic prosperity are availed by all section of the economy.

AGRICULTURAL DEVELOPMENT

- At the time of independence, the land tenure system was characterized by intermediaries who merely collected rent from the actual tillers of the soil.
- The low productivity of the agricultural sector forced India to import food from USA.
- It accounted for the largest share of workforce with approx 70-75%. So agricultural development was focused right from the First Five Year Plan.
- The measures undertaken to promote the growth in the agricultural sector can be broadly categorized as 'Land Reforms' and 'Green Revolution'.

LAND REFORMS:

- Equity in agriculture called for land reform, which primarily refers to change in the ownership of landholdings.
- The idea behind this step was that ownership of land would give incentives to the actual tillers to make improvements, provided, sufficient capital was made available to them.

OBJECTIVE OF LAND REFORM:

- More rational use of scare land resources.
- Raise the production level by motivating farmers and by giving incentives
- Remove exploitation of poor farmers by redistributing agriculture land in favour of less privileged class of farmers.
- Improving terms and conditions for possessing land for cultivation by actual tillers, through abolition of intermediaries.

LAND CEILING:

- It refers to fixing the specified limit of land, which could be owned by an individual. Beyond the specified limit, all lands belonging to a particular person would be taken over by the Government and then the same be allotted to the landless cultivators and small farmers.
 - It helped to promote equity in the agriculture sector.
 - The main aim was to reduce the concentration of land ownership in few hands. The abolition of intermediaries meant that some 200lakh tenant came into direct contact with the government.
 - But the goal of equity was not fully served by abolition of intermediaries because of following reasons:
1. In some areas the former zamindars continued to own large areas of land by making use of some loopholes in the legislation.
 2. Tenants were evicted and zamindars claimed to be self-cultivators.
 3. Even after getting the ownership of land, the poorest of the agricultural labourers did not benefit from land reforms.
 4. It was challenged by the big landlords, which delayed its implementation.

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

GREEN REVOLUTION:

- Due to outdated technology and the absence of required infrastructure, the productivity in the agriculture sector was very low. It dependent only on monsoon.
- The stagnation in agriculture during the colonial rule was permanently broken by the 'Green Revolution'.
- It resulted in the large increase in production of food grains due to use of high yielding variety seeds (HYV), especially for wheat and rice.
- To derive benefit from HYV seeds, farmers need reliable irrigation facilities and financial resources, to purchase fertilizers and pesticide.
- **Indian economy experienced the success of green revolution in two phases:**

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

The spread of Green Revolution technology enabled India to achieve self-sufficiency in food grains.

ACHIEVEMENTS:

- It resulted in manifold increase in food production.
- Use of HYV seeds brought about sharp rise in the yield of land in respect of food grains.
- The adoption of this new technology increased the income of farmers. Peasants invested the increased income for the improvement of their farm organizations.
- It resulted in 'Marketable Surplus' which refers to that part of agricultural produce which is sold in the market by the farmers after meeting their own consumption.
- It enabled India to achieve self-sufficiency in food grains.

SHORTCOMINGS:

- It is confined to limited crops like wheat, rice, jowar, bajra.
- The new strategy has benefitted rich farmers, who could spend huge amount on fertilizers, pesticides. As a result, small farmers were in a disadvantageous position as compared to rich farmers in the use of new strategy.
- It increased the income inequalities in the villages. Rich farmers earned lot of income as compared to poor farmers.
- Increase in food production has taken place in some selected areas which widened the regional inequalities.

DEBATE OVER SUBSIDIES:

- Subsidy means that the farmers get inputs at prices lower than the market prices.
- It was necessary to grant subsidies, to provide an incentive for adoption of the new HYV technology.
- The government of India has always provided massive subsidies to farmers, to increase production and productivity in agriculture.

In favour of subsidies:

- Should continue with agriculture subsidies as farming in India continues to be a risky business.
- Majority of the farmers are very poor and will not be able to afford the required inputs without the subsidies.
- Eliminating subsidies will increase the income inequality between rich and poor farmers.

Against the subsidies:

- Subsidies were granted by the Government to provide an incentive for adoption of the new HYV technology. So, after the wide acceptance of technology, subsidies should be phased out as their purpose has been served.
- Subsidies do not benefit the poor and small farmers as benefits of substantial amount of subsidy go to fertilizers industry and prosperous farmers.

CRITICAL APPRAISAL OF AGRICULTURAL DEVELOPMENT (1950-1990)

- Between 1950 and 1990, there had been substantial increase in the agricultural productivity. India became self-sufficient in food production. Land Reforms resulted in abolition of zamindari system.
- The Proportion of GDP between 1950 and 1990 contributed by agriculture declined but not the population depending on it.
- Around 65% of the country's population continued to be employed in agriculture till 1990. The involvement of such a large proportion of the population in agriculture was regarded as the important failure of policies followed during 1950-1990.

INDUSTRIAL DEVELOPMENT

- In the pre-British period, India was industrially advanced country. But the British rule systematically destroyed the Indian industries.

- At the time, no serious efforts were made by the Britishers to develop industries, especially basic and heavy industries.
- As a result, India had a weak industrial base, poorly developed infrastructure and a stagnant economy. Textile and jute industries were mostly developed in India.
- There was two well-managed iron and steel firms: one in Jamshedpur and other in Kolkata. So there was need to expand the industrial base with variety of industries.

ROLE OF PUBLIC SECTOR

At the time of independence, the policy maker was to decide the pattern of ownership of industries. The aim was to determine the role of the government and the private sector in the industrial development. There was need for a leading role of the public sector due to the following reasons:

1. Private entrepreneurs did not have the capital to undertake investment in industrial ventures. Tatas and Birlas were the only well known private entrepreneurs. So the Government had to make investment through Public Sector Undertakings.
2. The objective of equity and social welfare of the Government could be achieved only through the direct participation of the state in the process of industrialization.

As a result, state had complete control over those industries that were vital for the economy.

The policies of the private sector had to be complementary to those of the public sector, with public sector leading the way.

INDUSTRIAL POLICY RESOLUTION 1956 (IRP)

- So, on April 30, 1956, a second Industrial Policy resolution was adopted in India. Following were the principal elements of IRP-1956.

1. **Three-fold Classification of Industries:** Industries were classified into three categories:

- I. Those which would be established and developed exclusively as public sector enterprises.
- II. Those which could be established both as the private and public sector enterprises.
- III. All industries other than above categories were left to private sector.

2. **Industrial licensing:** There was category of industry left to the private sector, the sector was kept under state control through the system of licenses.

- I. No new industry was allowed unless a license was obtained from the government.
- II. License to expand and diversify production was given only if the government was convinced that the economy required a larger quantity of goods.

3. Industrial Concession: This policy was used for promoting industry in backward regions.

In addition, units were given certain concessions such as tax benefits and electricity at a lower tariff.

Small-Scale Industry:

- A 'Small Scale Industry' is defined with reference to the maximum investment allowed on the assets of a unit.
- Initially the fixed capital investment limit of the small scale units was restricted to Rs. 5 lakhs but at present it is increase to rupees ten crore.

In favour of small scale industries:

- Small-Scale industries are more labour intensive so provides employment.
- It ensures more equitable distribution of national income and wealth.
- Small scale industries are playing an important role in dispersing the industrial units of the country in the various parts of the country.

TRADE POLICY: IMPORT SUBSTITUTION

- In the first seven plans trade was characterized by an inward looking Trade Strategy which was known as "Import Substitution".
- It refers to a policy of replacement or substitution of imports by domestic production.
- The basic aim was to protect domestic industries from foreign competition.
- The main objective was saving of precious foreign exchange and achieving self-reliance.
- For example- instead of importing vehicles made in foreign countries, domestic industries would be encouraged to produce them in India itself.

- Protection on import took two forms:

1. **Tariff** refers to taxes levied on imported goods. The basic aim for imposing heavy duty on imported goods was to make them more expensive and discourage their use.
 2. **Quotas** refer to fixing the maximum limits on the imports of a commodity by a domestic producer.
- The tariff on imported goods and fixation of quotas helped in restricting the level of imports. As a result, the domestic firms could expand without fear of competition from the foreign market.

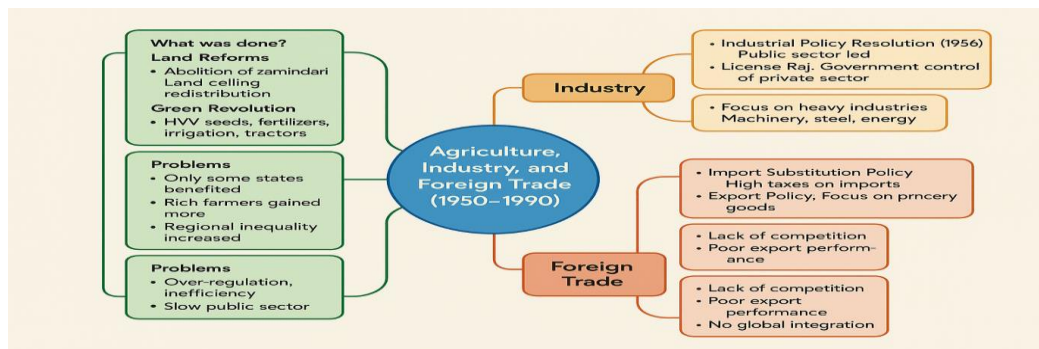
Reason for Import Substitution:

1. The policy of protection is based on the notion that industries of developing countries like India are not in a position to compete against goods produced by more developed economies. With protection they will be able to compete in the due course of time.
2. Restriction on import was necessary as there was a risk of drain of foreign exchange reserves on the import of luxury goods.

CRITICAL APPRAISAL OF INDUSTRIAL DEVELOPMENT (1950-1990)

The achievements of India's industrial sector during the first seven plans are impressive indeed.

1. The proportion of GDP contributed by the industrial sector increased in the period from 11.8% to 24.6%.
2. The industrial sector became well diversified by 1990, largely due to the public sector. It was no longer restricted to cotton textiles and jute.
3. The promotion of small scale industries gave opportunities to people with small capital to get into business.
4. Protection from foreign competition enabled the development of indigenous industries in the area of electronics and automobile sector, which otherwise could not have developed.
5. Licensing policy helped the government to monitor and control the industrial production. However excessive regulation by the government created two difficulties: misuse and time consuming.
6. Public sector made a remarkable contribution by creating a strong industrial base, developing infrastructure and promoting development of backward areas. However monopoly of public sector in production of certain goods and services was criticized by many scholars.



NEW ECONOMIC POLICY-1991

A new set of policy measures initiated by the government to bring changes in the direction of developmental strategy is known as New Economic Policy.

Why Economic Reforms?

- i) The need for reform of economic policy was widely felt in the context of changing global economic scenario, and the new economic policy was initiated in 1991 to make our economy more efficient.
- ii) In 1991, India met with an economic crisis relating to its external debt- the government was not able to make repayments on its borrowings from abroad. There was also not sufficient foreign exchange to pay the interest that needs to be paid to international lenders.
- iii) Depletion of Foreign Exchange Reserve-which dropped to the level that were not sufficient for even a fortnight.
- iv) Rising prices of essential goods (High Inflation).

v) The income from Public Sector Undertaking was also not very high to meet the growing expenditure.

vi) Imports grew at very high rate without matching growth of exports.

vii) The New Economic Policy consisted of wide ranging economic reforms .The thrust of the policies was towards creating a more competitive environment in the economy and removing the barriers to entry and growth of firms.

This set of policies can broadly be classified two groups:

a) The stabilization measures-short term measures, intended to correct some of the weaknesses that have developed in the balance of payments and to bring inflation under control (maintain sufficient foreign exchange reserves and keep the rising prices under control.

b) On the other hand structural reform policies are long-term measures, aimed at improving efficiency of the economy and increasing its international competitiveness by removing rigidities in various segments of the Indian economy.

The government initiated a varieties of policies which fall under three heads e.g, **Liberalization, privatization and globalization**. The first two are policy of strategy and the last one is the outcome of these strategies.

Liberalization: Liberalization refers to the removal or lessening of unnecessary restrictions imposed in various sectors of economy. This was

Introduced to put an end to these restrictions and open up various sectors of the economy in the following ways.

Industrial Sectors:

i) Deregulation of Industrial sector.

ii) Industrial licensing was abolished for almost all except few hazardous industries

iii) The only industries which are now reserved for the public sector are defense equipment, atomic energy generation etc.

iv) Many goods produced by small scale industries have now been deserved .

v) In many industries market has been allowed to determine the prices.

Financial Sector Reforms:

i) Financial sector includes financial institutions like commercial banks, investment banks, stock exchange operations and foreign exchange market. These financial institutions are controlled by Reserve Bank of India.

ii) 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 RBI.

iii) This reform led to the establishment of private sector banks, Indian as well as foreign. Thus they have been given freedom to set up new branches without the approval of the RBI and rationalize their existing branch networks.

iv) Certain institutions are regulated by RBI to safeguard the interest of the account holders such as merchant bankers, mutual funds and pension funds etc.

Tax Reforms:

i) Tax reforms are concerned with the reforms in government's taxation and public expenditure policies which are collectively known as Fiscal policy.

ii) 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.

iii) The rate of corporate tax which was very high earlier, has been gradually reduced.

iv) Indirect tax has also been reformed like introduction of VAT .

V) Tax paying procedures have been simplified for better compliance and convenience for the taxpayers.

Foreign Exchange Reforms:

i) As an immediate measure to resolve the balance of payment crisis 1991, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange.

ii) It also helped in free determination of rupee value in the foreign exchange market without government control. Now market determine exchange rate based on the demand and supply of foreign exchange.

Trade and Investment policy reforms:

- i) Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production.
- ii) This policy reform helped in increase in foreign investment and bring new technology in the country.
- iii) The aim was to promote the efficiency of the local industries and the adoption of modern technologies.
- iv) The trade policy reforms aimed at a) dismantling of quantitative restrictions on imports and exports b) reduction of tariff rates and c) removal of licensing procedures for imports.
- v) Import licensing was abolished except in case of hazardous and environmentally sensitive industries.
- vi) Quantitative restrictions on imports of manufactured consumer goods and agricultural products were also fully removed from April 2001.
- vii) Export duties have been removed to increase the competitive position of Indian goods in the international markets.

Privatisation:

Privatisation refers to the shedding of the ownership or management of a government owned enterprise. Government

Companies can be converted into private companies in two ways:

- a) By withdrawal of the government ownership and management of public sector companies and
- b) By outright sale of public sector companies.

Disinvestment: Privatisation of the public sector undertaking by selling off part of the equity of PSUs to the public is known

as disinvestment. The purpose of the sale, according to the government, was mainly to improve financial discipline and

facilitate modernization. It was also envisaged that private capital and managerial capabilities could be effectively utilized to

improve the performance of the PSUs. It was also hoped that privatization would provide strong impetus to the inflow of FDI.

The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions.

Globalisation:

Globalisation is the process of integration of own economy with the world economy. It is an outcome of the set of various policies that

aimed at transforming the world towards greater interdependence and integration. It involves creation of networks and activities

transcending economic, social and geographical boundaries. This attempts to establish links in such a way that the happenings in India can be influenced by events happening miles away. This is an attempt to create a borderless world.

Effects of Globalisation -

(A) Favourable Effects –

(i) Increasing share of exports in world trade,

(ii) Favourable effect on Export-Import Ratio,

(iii) Application of high technology,

(iv) Stable and strong exchange rate.

(B) Adverse Effects –

(i) Decrease in Revenue of Indian Industries,

(ii) Increasing share in capital and management by foreign entrepreneurs,

(iii) Increasing Regional disparities,

(iv) Export of Profit.

AN APPRAISAL OF LPG POLICIES

Merits of LPG Policies – Following observations highlights the merit of LPG

Policies –

- (i) Vibrant Economy, (ii) Stimulate to Industrial Production, (iii) A Check on Fiscal deficit, (iv) A Check on Inflation, (v) Consumer's Sovereignty, (vi) A Sustainable Increase in Foreign exchange Reserve,
- (vii) Flow of Private Foreign Investment, (VIII) A Shift from Monopoly Market to Competitive Market.

Demerits of LPG Policies – Following observations highlights the demerit of LPG

Policies –

- (i) Neglect of Agriculture, (ii) Urban Concentration of Growth Process,
- (iii) Economic Colonialism, (iv) Spread of Consumerism,
- (v) Lopsided Growth Process, (vi) Cultural Erosion.

Outsourcing:

Outsourcing is a process by which a company hires regular service from external sources, mostly from other countries, which was previously provided internal or from within the country. For example_ Legal service, computer service, advertisement, security etc. 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. Many of the services such as voice-based business processes (BPO), record keeping, accountancy, banking services, music recording, film cutting, book transcription, clinical advice or even teaching are being outsourced by companies in developed countries to India. With the help of modern telecommunication links including the Internet, text, voice and visual data in respect of these services is digitized and transmitted in real time over continents and national boundaries. The low wage rates and availability of skilled manpower in India have made it a destination for global outsourcing in the post-reform period.

World Trade Organisation (WTO)

WTO is the global trade organization to administer all multilateral trade agreements by providing equal opportunities to all countries in the market for trading purpose. It came into existence on 01 Jan 1995 with the following objectives:

- a) Setting rules for world trade to reduce tariffs.
- b) It is expected to establish a rule-based trading regime in which nations cannot place arbitrary restrictions on trade.
- c) Its purpose is also to enlarge production and trade of services, to ensure optimum utilization of world resources and to protect environment.
- d) The WTO agreements cover trade in goods as well as services to facilitate international trade, bilateral and multilateral.
- e) It takes steps provide greater market access to all member countries through removal of tariff as well as non-tariff barriers.

As an important member of WTO India has been in the forefront of framing fair global rules, regulations and safeguards and advocating the interests of the developing world. India has kept its commitments towards liberalization of trade, made in the WTO, by removing quantitative restrictions on imports and reducing tariff rates.

Demonetisation - It is the process of stripping a currency unit from its status as legal tender in the country. Demonetization results in change in national currency. The present Currency in circulation is pulled off and new currency is circulated.

Purposes sought by Demonetization –

- (i) Stripping corruption (ii) Combating inflation (iii) Curbing counterfeit currency (iv) Combating tax evasion
- (v) Increasing performance of economy

History of Demonetisation in India -

- (i) On 12/01/1946 all notes of denominations of Rs. 500 and Rs. 1000 were demonetized with a time limit of 10 days to exchange demonetized notes. Its purpose was to catch tax evaders.
- (ii) On 16/01/1978 all notes of denominations of Rs. 1000, Rs. 5000 and Rs. 10000 were

demonetised with a time limit of 3 days to exchange demonetised notes. Its purpose was to catch corrupt leaders and officials in predecessor governments.

(iii) On 08/11/2016 all notes of denominations of Rs. 500 and Rs. 1000 were demonetised with a time limit of 50 days in exchange demonetized notes from banks and some essential service stores.

GST: One Nation one Tax

Types of GST laws

- (i) At a center level called Central GST (CGST)
- (ii) At the state level State GST (SGST)

Benefits of GST

- (i) GST provides comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
- (ii) Many indirect taxes in state and central level have been included by GST. You need to pay a single GST instead of all.
- (iii) Uniformity of tax rates across the states. (iv) Ensure better compliance due to aggregate tax rate reduction.
- (v) By reducing the tax burden, the competitiveness of Indian products in international market has increased and there by development of the nation. (vi) Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

Multiple Choice Questions (MCQs) with Answers

Q.1. What was the primary reason for introducing the New Economic Policy (NEP) in 1991?

- A) To promote agricultural growth
- B) To address the balance of payments crisis
- C) To increase public sector enterprises
- D) To reduce foreign trade

Answer: B) To address the balance of payments crisis

Explanation: The NEP was introduced in response to a severe balance of payments crisis, with foreign exchange reserves critically low, sufficient to cover only two weeks of imports.

Q.2. Which of the following sectors saw significant growth due to liberalization post-1991?

- A) Handloom industry
- B) Telecommunications
- C) Public sector banking
- D) Cottage industries

Answer: B) Telecommunications

Explanation: Liberalization allowed private and foreign investment in telecommunications, leading to rapid growth, technological advancements, and increased connectivity.

Q.3. What does privatization under the NEP primarily involve? Indian economy since 1991

Long answer type questions

- A) Complete nationalization of industries
- B) Transfer of public sector enterprises to private ownership
- C) Increasing government subsidies
- D) Restricting foreign investment

Answer: B) Transfer of public sector enterprises to private ownership

Explanation: Privatization aimed to improve efficiency by transferring ownership or management of public sector enterprises to private entities through disinvestment.

Q.4. Which of the following is a key feature of globalization in the context of the 1991 reforms?

- A) Reducing foreign trade
- B) Increasing import tariffs
- C) Integrating the Indian economy with the global market
- D) Limiting foreign direct investment

Answer: C) Integrating the Indian economy with the global market

Explanation: Globalization involved reducing trade barriers, promoting exports, and attracting FDI to integrate India with the global economy.

Assertion-Reasoning Questions with Answers

Q.1. Assertion (A): The New Economic Policy of 1991 led to an increase in foreign direct investment (FDI) in India.

Reason (R): Liberalization relaxed restrictions on foreign investment and reduced bureaucratic hurdles.

- A) Both A and R are true, and R is the correct explanation of A.
- B) Both A and R are true, but R is not the correct explanation of A.
- C) A is true, but R is false.
- D) A is false, but R is true.

Answer: A) Both A and R are true, and R is the correct explanation of A.

Explanation: The NEP's liberalization policies, such as easing FDI restrictions and reducing bureaucratic obstacles, directly led to increased FDI inflows in sectors like telecom and IT.

Q.2. Assertion (A): Privatization of public sector enterprises improved their efficiency post-1991.

Reason (R): Privatization increased government control over public sector enterprises.

A) Both A and R are true, and R is the correct explanation of A.

B) Both A and R are true, but R is not the correct explanation of A.

C) A is true, but R is false.

D) A is false, but R is true.

Answer: C) A is true, but R is false.

Short answer & Long answer type questions (3, 4 & 6 marks)

Q.1. What were the key components of the New Economic Policy introduced in India in 1991? (3)

Ans. The New Economic Policy (NEP) of 1991 comprised three key components: Liberalization:

Relaxation of government regulations and restrictions on industries, trade, and investment to encourage private sector participation. Privatization: Transfer of ownership and management of public sector enterprises to private entities to improve efficiency and reduce fiscal burden. Globalization: Integration of the Indian economy with the global economy through increased trade, foreign investment, and technology exchange.

Q.2. Explain the role of liberalization in promoting foreign direct investment (FDI) in India post-1991. (3)

Answer. Liberalization removed restrictive policies, such as industrial licensing and high tariffs, making it easier for foreign companies to invest in India. It allowed up to 100% FDI in several sectors, reduced bureaucratic hurdles, and introduced a more investor-friendly environment.

This led to increased FDI inflows, boosting sectors like telecommunications, IT, and manufacturing, and contributing to economic growth.

Q.3. How did the policy of privatization impact the performance of public sector enterprises in India?

Answer. Privatization improved the efficiency and profitability of many public sector enterprises by introducing private management practices and reducing government interference. It led to better resource utilization and competitiveness in sectors like banking and telecom. However, some enterprises faced challenges like job losses and uneven performance, and the process was criticized for undervaluation of assets during disinvestment.

Q.4. What is meant by globalization, and how has it influenced India's trade policies since 1991? (4)

Answer. Globalization refers to the integration of an economy with the global market through increased trade, investment, and cultural exchange. Since 1991, it influenced India's trade policies by reducing import tariffs, removing quantitative restrictions, and promoting exports. India joined the World Trade Organization (WTO) and adopted policies to liberalize trade, leading to increased foreign trade and access to global markets.

Q.5. Identify two major challenges faced by the Indian economy during the economic reforms of the 1990s. (4)

Answer. Rising Inequality: Economic reforms led to uneven growth, with urban areas and certain sectors benefiting more, increasing income disparities. Unemployment and Job Losses: Privatization and closure of unprofitable public sector units resulted in job losses, and the growth of capital-intensive industries did not generate adequate employment opportunities.

Q6. What were the main causes of India's agricultural stagnation during the colonial period? (4)

Answer. Indian agriculture was primitive and stagnant. The main causes of stagnation of agriculture sector were as follows:

(i) Land use System: There were three forms of Land tenure system introduced by the British rulers in India. These were : (a) Zamindari system (b) Mahalwari system (c) Ryotwari system

Commercialisation of Agriculture: Commercialisation of agriculture means production of crops for sale in the market rather than for self-consumption. Farmers were forced to cultivate commercial crops like Indigo. Indigo was required by the textile industry in Britain for dyeing of the textile. As a

result, there was fall in the production of food crops. The farmers had to suffer from frequent occurrence of famine. Indian agriculture was transformed into a raw material exporting sector for England.

Partition of the Country: Partition of the country in 1947 also adversely affected India's agricultural production. The rich food producing areas of West Punjab and Sindh went to Pakistan. It created food crisis in the country. Also, the whole of fertile land under jute production went to East Pakistan. The jute industry was most severely affected due to partition.

Thus, Indian agriculture became backward, stagnant and non-vibrant under the British rule.

Q7. What was the two-fold motive behind the systematic de-industrialization effected by the British in pre-independent India? (3)

Answer. De-industrialisation: Decline of India Handicraft Industry. Britishers followed the policy of systematically de-industrialising India. The primary motive behind the de-industrialization by the British government was two-fold:

To get raw materials from India at cheap rates in order to reduce India to a mere exporter of raw materials to the British industries.

To sell British manufactured goods in Indian market at higher prices. In this way, they exploited India through the device of double exploitation

Q8. Evaluate the challenges faced by the Indian economy during the economic reforms Of the 1990s. (6)

Answer. The economic reforms of the 1990s, initiated under the New Economic Policy (NEP), were a response to a severe balance of payments crisis but faced significant challenges. Despite these hurdles, the reforms laid the foundation for India's emergence as a global economic player. Challenges Faced during the 1990s Reforms: Rising Inequality: The reforms disproportionately benefited urban areas and capital-intensive sectors like IT and finance, while rural areas and agriculture lagged. The focus on industrial and service sector growth led to a neglect of agriculture, which employed a large share of the workforce, exacerbating income disparities. For example, the growth of metropolitan cities contrasted sharply with stagnant rural economies, widening the urban-rural divide. Unemployment and Job Losses: Privatization and the closure of unprofitable public sector enterprises resulted in significant job losses, particularly for unskilled workers. The shift to capital-intensive industries, such as IT and manufacturing, did not generate adequate employment opportunities for the growing labor force. This led to social unrest and criticism of the reforms for being anti-labor. Resistance to Reforms: The reforms faced opposition from political groups, trade unions, and domestic industries accustomed to protectionism. Public sector employees and small-scale industries feared displacement due to privatization and competition from foreign firms. This resistance slowed the pace of reforms in some sectors, such as labor-intensive industries. Fiscal and Infrastructure Constraints: Despite disinvestment, the government's fiscal deficit remained high due to continued subsidies and inefficiencies. Inadequate infrastructure, such as poor roads and power supply, hindered industrial growth and deterred foreign investment in some regions.

Q9. Explain significance of foreign trade in the context of growth and development of an underdeveloped economy like India? (4)

Ans-(i) Foreign trade offers a huge market for the goods produced in the domestic economy of less developed countries.

(ii) It offers opportunities of investment in the international market.

(iii) For the less developed countries, foreign trade facilitates specialization in the production of those goods in case of which they enjoy comparative cost advantage.

(iv) Foreign trade is a source of foreign exchange,

(v) Foreign trade facilitates the import of high-tech plant and machinery which the less developed countries must obtain to trigger their GDP growth.

Q10 Explain how import substitution can protect domestic industry. (3)

Ans-Import substitution policy aims at replacing or substituting imports with domestic production.

For example, instead of importing vehicles made in a foreign country, industries would be encouraged to produce them in the country itself. This policy restricts imports and, therefore,

protects the domestic firms from foreign competition.

Q11. Explain the importance of small-scale industry in the growth process of the Indian economy.(3)

Ans-(i) It generates more employment as it is labour-intensive.

(ii) It promotes balanced growth as it shows locational flexibility.

(iii) It promotes equity as it minimises concentration of economic power.

Q12. Why direct participation of the state in industrial development of the country after independence was required. (3)

Ans- (i) the industrial development needed a big push of investment, which the private entrepreneurs could not afford.

(ii) There was low inducement to invest, owing to limited size of the market

(iii) The growth process placed high priority on socialistic pattern of the society (growth with social justice).

Q13. Explain the statement that Green Revolution enabled the government to procure sufficient food grains to build its stocks that could be used during times of shortage. (3)

Ans-With the use of High Yielding Variety (HYV) seeds, the farmers were able to produce large quantity of food grains which were far more than their requirement for self-consumption. Those surplus quantities were purchased by the government to maintain the buffer stock to be used at times of food shortage due to natural calamities or due to war. Therefore, the Green Revolution enabled the government to procure sufficient food grains to build its stocks that could be used during times of shortage.

Q14. What is import substitution? How it can protect domestic industries? (3)

Ans- Import substitution implies domestic production of those goods which the economy has been importing from rest of the world. It provides Protection to the domestic industry through import restrictions and import duties in the area of international trade.

(i)High taxes were imposed on imports of goods. So imported products become costlier as compare to domestic products.

(ii)Maximum quantity of goods imported was fixed through quotes.

Q15. Discuss any two causes of India's agricultural stagnation during the colonial period (4).

Ans-(i) Deficiency of Finance: Deficiency of finance is another major problem facing Indian agriculture. For bulk of their financial needs, the small farmers depend upon non-institutional sources, including moneylenders and the landlords. They charge very high rate of interest. Institutional finance (referring to finance by the banking and other financial institutions) is extremely scarce in relation to needs of the farmers.

(ii) Small and Scattered Holdings: Holdings in India are not only small, but scattered as well. Small holdings do not allow the use of modern technology. Scattered holdings increase the cost of management. This contributes to backwardness of farming and poverty of the farmers.

Q17. What is industrial licensing? How does it impact al location of resources? (3)

Ans- A license was needed not only for establishing a new enterprise, but also for expanding production capacity of the existing ones. This was to regulate the allocation of resources to different uses. The focus was to promote social welfare rather than private profits.

Licensing policy was to encourage industry in backward regions of the country. This was to promote regional equality. License was provided for the investment in backward areas. ? So that backward areas can develop, employment opportunities can increase, poverty can reduce etc.

WORKSHEET: 1

Time: 30min
20

Max Marks:

S.No.	Questions	marks
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1	<p>Assertion (A): The introduction of railways by the British led to the revival of Indian industries.</p> <p>Reason (R): Railways enabled faster transportation of raw materials to ports for export, but not necessarily for industrial growth within India.</p> <p>Alternatives:</p> <ul style="list-style-type: none"> (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. 	1
2	<p>Assertion (A): The Indian economy witnessed significant industrial growth during the British colonial period.</p> <p>Reason (R): The British established modern industries to develop India's self-reliant manufacturing base.</p> <p>Alternatives:</p> <ul style="list-style-type: none"> (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. 	1
3	<p>Which of the following statements are true regarding India's foreign trade on the eve of independence?</p> <ul style="list-style-type: none"> 1. India had a large export surplus that benefited the Indian economy. 2. British policies led to India exporting raw materials and importing finished goods. 3. The composition of India's exports included mainly agricultural and primary products. 4. India had control over its trade policy during the British period. 	1

	Options: A. 1 and 2 only B. 2 and 3 only C. 2, 3, and 4 only D. 1, 2, 3, and 4	
4	Identify the correct statements about India's trade partners during the colonial period: 1. Britain was India's chief trading partner. 2. India's trade was diversified across many countries. 3. India imported capital goods and exported raw materials. 4. Most of India's trade was directed to countries under British influence. Options: A. 1, 3, and 4 B. 2 and 3 only C. 1 and 4 only D. 1, 2, 3, and 4	1
5	In sector most of the work force were engaged during british rule.(Agriculture/Service/Industry)	1
6	"There was regional variation in the occupational structure of India during British rule." True/False?	1
7	Analyse the picture and answer the following questions: <div data-bbox="346 999 1228 1406" data-label="Image"> </div> a) What does the image tell you about the scale and organization of indigo production during British rule? b) Why was indigo such an important crop for the British? c) Discuss whether the indigo production system shown in the image was beneficial or exploitative for Indian peasants. Justify your answer.	1+1+2 =4
8	"British policy affected positively the agriculture sector" .Defend or Refute yhe statement with valid reason	4

9	Case Based Questions: <p>During the British colonial period, India's foreign trade was heavily controlled by the British. The East India Company first gained monopoly rights over India's trade, and later, the British government continued to direct the terms of trade to suit British economic interests. India was turned into a supplier of raw materials like cotton, indigo, and jute, and a market for British manufactured goods, particularly textiles.</p> <p>High tariffs were imposed on Indian goods exported to Britain, while British goods entered India with little to no duties. India had no control over its trade policy, and the profits from India's export surplus were not invested in the Indian economy but transferred to Britain, a phenomenon known as the "economic drain."</p> <p>(a) Why did the British promote export of raw materials from India and import of manufactured goods into India?</p> <p>(b) What is meant by the term "economic drain," and how is it related to British monopoly over trade?</p> <p>(c) How did the lack of control over trade policy affect India's economy before independence?</p>	2+2+2=6
S.N o.	Answers	marks
1	Answer: Option C: A is false, but R is true.	1
2	Answer: Option D: A is false, but R is true.	1
3	Answer: B. 2 and 3 only <i>(Explanation: Export surplus benefited Britain, not India. India had no control over its trade policy.)</i>	1
4	Answer: A. 1, 3, and 4 <i>(Explanation: India's trade was largely limited to Britain and its allies, not diversified.)</i>	1
5	Agriculture sector.	1
6	Answer: <input checked="" type="checkbox"/> True <input checked="" type="checkbox"/> Reason is correct Explanation: Different regions had varying degrees of development; for example, Madras and Bengal were more agriculture-dependent, while Bombay had some industrial employment.	1

	<p>a) The image shows a large, industrial-style setup with many workers, vats, and buildings, indicating that indigo production was organized on a large scale under British supervision.</p> <p>b) Indigo was in high demand in Europe for dyeing textiles. Natural indigo from India was a valuable export, and the British profited greatly from its trade.</p> <p>c) The system was exploitative. Indian peasants were often forced into unfavorable contracts (like the Tinkathia system) and were paid very little. They had no control over the price or market. While the British profited, the farmers suffered poverty, food insecurity, and sometimes violent repression.</p>	1+1+2=4
8	The statement is refuted with valid reason .	4
9	<p>(a) To support the growth of British industries by ensuring a steady supply of cheap raw materials from India and providing a ready market in India for their finished goods. This helped Britain industrialize while keeping India dependent and underdeveloped.</p> <p>(b) "Economic drain" refers to the transfer of wealth from India to Britain without equivalent returns. This was a result of trade policies where export profits, administrative costs, and remittances were taken out of India, benefiting Britain at India's expense.</p> <p>(c) India could not protect or develop its own industries, nor could it diversify trade. The colonial trade policies kept the economy backward, agriculture-based, and dependent on Britain, leading to stagnation and poverty.</p>	6

INDIAN ECONOMY 1950-1990

WORKSHEET: 1

Time allowed: 30 minutes

Max Marks: 20

Q.N	QUESTION	MAR K
1	<p>The main objectives to develop the agriculture sector ensure food security and build basic infrastructure was the objective of which Five-year plan?</p> <p>(A) First five-year plan 1951 to 1956</p> <p>(B) Second five-year plan 1956 to 1961</p> <p>(C) Third five-year plan 1961 to 1966</p> <p>(D) None of the above</p>	1
2	<p>India adopted a type of economic system between 1950 -1990 _____.</p> <p>(A) Capitalistic economy</p> <p>(B) Socialistic economy</p> <p>(C) Mixed the economy</p> <p>(D) None of these</p>	1

3	<p>Statement 1: The Industrial Policy Resolution of 1956 aimed at establishing a socialist state pattern of society.</p> <p>Statement 2: It encouraged private sector dominance in all industries.</p> <p>(A) Both statements are true (B) Both statements are false (C) Statement 1 is true and 2 is false (D) Statement 1 is false and 2 is true</p>	1
4	<p>Statement 1: Import substitution policy led to rapid modernisation of Indian industries.</p> <p>Statement 2: It discouraged foreign competition to protect domestic industries.</p> <p>(A) Both statements are true (B) Both statements are falls (C) Statement 1 is true and 2 is false (D) Statement 1 is false and 2 is true</p>	1
5	<p>ASSERTION (A): India adopted Five-year plans for economic development.</p>	1
	<p>REASON (R): The Soviet Union successfully used planning to grow its economy.</p> <p>(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</p>	
6	<p>ASSERTION (A): Land reforms in India achieved only limited success. REASON (R): Implementation of land reforms varied widely across States.</p> <p>(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</p>	1
7	<p>ASSERTION (A): India's trade policy from 1950 - 1990 was inward looking. REASON (R): The governments focus on import substitution to reduce foreign dependence.</p> <p>(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</p>	1

8	<div data-bbox="295 219 1260 504" data-label="Image"> </div> <p data-bbox="284 548 1268 627">See the above picture carefully. On the basis of your observation explain the objectives of Government planning.</p>	3
9	<p data-bbox="284 656 1268 694">Read the passage and answer the questions:</p> <p data-bbox="284 694 1268 806">The Industrial Policy Resolution of 1956 classified industries into three categories: those exclusively under the public sector, those where both</p>	4

	<p>public and private sectors could operate, and those left to the private sector. The policy aimed to build a strong industrial base through state ownership and control in key sectors such as heavy industries, defense, and transport.</p> <p>Questions:</p> <p>9.1. Why were certain industries reserved for the public sector? (2 marks)</p> <p>9.2. Mention any two limitations of this industrial policy. (2 mark)</p>	
10	<p>Read the passage and answer the questions:</p> <p>The Green Revolution in the 1960s introduced high-yielding variety (HYV) seeds, chemical fertilizers, and irrigation methods. It significantly increased food grain production, especially in Punjab, Haryana, and Western Uttar Pradesh. However, it also led to regional imbalances, increased mechanization, and greater income disparity among farmers.</p> <p>The green revolution in India refers to a period when Indian Agriculture was converted into an industrial system due to the adoption of modern methods and technology such as the use of HYV seeds, tractors, irrigation facilities, pesticides and fertilizers. It was funded by the US and the Indian Government and the Ford and Rockefeller Foundation. The Green Revolution in India is largely the Wheat Revolution as the wheat production increased by more than three times between 1967-68 and 2003-04, while the overall increase in the production of cereals was only two times.</p> <p>Questions:</p> <p>1. Elaborate the key components of the Green Revolution? (3 marks)</p> <p>2. Name two states that benefited the most. (1 mark)</p> <p>3. Mention two negative consequences of the Green Revolution. (2 marks)</p>	6
	<p>Answers Hints:</p> <p>1. A 2. C 3. C 4. D 5. B 6. A 7. A</p> <p>8. Explain the role of major projects initiated by government of India during 1950-1990.</p> <p>9.1 Due to the need for strategic control and the difficulty private sector faced with large, risky investments and long gestation periods.</p> <p>9.2 Any two limitation of IPR 1956.</p> <p>10.1 HYV Seeds, Chemical fertilizers.</p> <p>10.2 Punjab, Haryana</p> <p>10.3 Degradation of Land, degradation of quality of food.</p>	

Worksheet – Economic Reforms

Time allowed: 30 min.

Max. Marks: 20

Q.1. Read the following statements assertion (A) and reason (R), and choose the correct alternative given below:

Assertion (A): Agriculture sector experienced an increase in growth during the reform period.

Reason (R): Decline in public investment and removal of fertilizer subsidy adversely affected the status of agriculture.

- (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) are true.

Q.2. Read the following statements assertion (A) and reason (R), and choose the correct alternative given below:

Assertion (A): The economic reforms of 1991 in India were primarily triggered by a severe balance of payments crisis, leading to the liberalization of the economy.

Reason (R): The 1991 reforms completely eliminated the role of the public sector in India, shifting the economy entirely to a market-driven model.

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

Q.3. Read the following statements carefully and choose the correct option:

Statement I: The 1991 economic reforms in India promoted greater government control over industries to ensure balanced growth.

Statement II: One of the key features of the 1991 reforms was the removal of licensing requirements for most industries.

Options:

- (a) Both statements I and II are correct.
- (b) Both statements I and II are incorrect.
- (c) Statement I is correct, but Statement II is incorrect.
- (d) Statement I is incorrect, but Statement II is correct.

Q.4. Which of the following statements about the 1991 economic reforms in India is correct?

- (a) The reforms focused mainly on improving agricultural subsidies to boost rural income.
- (b) Privatization involved increasing government ownership in public sector enterprises.
- (c) Liberalization aimed at reducing government restrictions on economic activities.
- (d) Globalization meant limiting foreign investment to protect domestic industries

Q.5. Match the components of economic reforms with their correct objectives:

Options:

- (a) A-2, B-3, C-1 (b) A-3, B-1, C-2 (c) A-1, B-2, C-3 (d) A-2, B-1, C-3

Q.6. Anita is a chartered accountant advising a client who operates across multiple Indian states. The client is confused about how taxes will apply when goods are sold from Delhi to Maharashtra. Anita explains that under GST, the tax mechanism differs based on the type of transaction — inter-state or intra-state.

Based on this situation, which of the following statements is most accurate about how GST works in such inter-state transactions?

- (a) The seller will charge only SGST and CGST because the transaction is between registered businesses.
- (b) The buyer must pay SGST in Maharashtra and claim a refund from the seller's state.
- (c) IGST will be levied, which is shared between the Centre and the destination state.
- (d) No tax is charged in inter-state sales under GST due to the "One Nation, One Tax" policy.

Q.7. Apple is planning to shift its production from China to India. What could be the

reasons behind this decision of the company. (3)

Q.8. John noticed that after the 1991 reforms, many government-owned

companies were sold to private firms or saw private investment. She wondered why the government made such a move.

Question: Based on Anita's observation, explain why privatization was adopted as a part of economic reforms in 1991 and how it helped improve the performance of public sector enterprises. (3)

Q.9. Rohit read in the newspaper that after 1991, many foreign companies started investing in India, and Indian consumers got access to a wider variety of goods at competitive

prices. He is curious to know how this change happened.

Question:

Using Ravi's observation, explain how globalization as a part of the 1991 economic reforms impacted the Indian economy and consumers. (4)

Q.10. In 1991, India faced a severe balance of payments crisis with foreign exchange reserves barely enough to cover two weeks of imports. This prompted the Indian government to implement major economic reforms under the guidance of Finance Minister Dr. Manmohan Singh. These reforms aimed at liberalizing the economy, reducing government control, and encouraging private and foreign investments. The reforms included de-licensing of industries, reduction of import tariffs, deregulation of

interest rates, privatization of public sector enterprises, and encouragement of foreign

direct investment (FDI). These steps marked a shift from a planned economy to a market-oriented one. The reform policies were based on Liberalization, Privatization, and Globalization (LPG).

As a result, India witnessed increased industrial and service sector growth, rise in exports, and a substantial increase in foreign exchange reserves. However, the reforms also led to greater income inequality and regional disparities. While urban areas and skilled labor benefited, rural regions and unskilled workers faced challenges.

Thus, the 1991 reforms played a crucial role in transforming India's economy, laying the foundation for high economic growth in the subsequent decades.

(a). Explain how liberalization under the 1991 reforms affected the industrial sector in India. (2)

(b). Give your opinion regarding positive and negative impacts of the economic reforms of 1991. (2)

Hint- Answers:

Q.1- d. Assertion (A) is false but Reason(R) are true. Q.2- c) A is true, but R is false.

Q.3- D. Statement I is incorrect, but Statement II is correct

Q.4- C. Liberalization aimed at reducing government restrictions on economic activities.

Q.5- A. A-2, B-3, C-1

Q.6- C. IGST will be levied, which is shared between the Centre and the destination state.

Q.7- Cheap Labour, Favourable govt. policies, Availability of skilled work force. Or any 3 valid points.

Q.8- Privatization was adopted to reduce the financial burden on the government and improve the efficiency of public sector enterprises (PSEs). Many PSEs were running at losses due to bureaucratic control and lack of competition. By allowing private investment or transferring ownership, the reforms aimed to bring better management practices, accountability, and profitability. This move encouraged competitiveness and improved the overall productivity of the economy.

Q.9- Globalization, introduced in the 1991 economic reforms, opened India's economy to the global market. It allowed foreign companies to invest in India, leading to increased competition, improved product quality, and availability of a wide range of goods and services. Consumers benefited from better choices and competitive prices, while Indian

firms gained access to international markets and advanced technology.

Q.10- (a) Liberalization removed industrial licensing for most industries, reduced government control over production and pricing, and opened markets to competition. This led to increased efficiency, innovation, and growth in the industrial sector.

(b) Urban middle class and skilled professionals benefited from increased job opportunities and higher incomes, especially in the service and IT sectors.

Rural and unskilled workers saw limited benefits as agriculture was not prioritized, leading to income inequality and slower rural development.

Unit :7 Current Challenges Facing Indian Economy – (20 MARKS)

Human Capital Formation

GIST OF THE LESSON

HUMAN CAPITAL:- Human capital refers to the stock of 'skill and expertise' of a nation at point of time.

HUMAN CAPITAL FORMATION :-

Human capital formation is the process of acquiring and increasing the number of persons who have the skill, education and experience which are essential for the economic ,social and political development of the country

PHYSICAL CAPITAL :- Physical capital refers to stock of produced means of production

DETERMINATION / SOURCES OF HUMAN CAPITAL FORMATION

1.Expenditure on education :-

(a) It increases knowledge , Skill , Efficiency & productivity of workers.

(b) Helps in innovation & in adoption of new technology

(c) Increases employability and helps them to earn more.

2. Expenditure on Health : - Health is also considered as an important input for the development of a nation as much as it is important for the development of an individual.

A sick labourer without access to medical facilities is compelled to abstain from work and there is loss of productivity.

Health expenditure directly increases the supply of healthy labour force and is, thus, a source of human capital formation.

3.On-the- job training :- The workers may be trained in the firm itself under the supervision of a skilled worker or the workers may be sent for off-campus training. In both these cases firms incur some expenses.

Expenditure regarding on-the-job training is a source of human capital formation as the return of such expenditure in the form of enhanced labour productivity is more than the cost of it.

4. Migration: - People migrate in search of jobs that fetch them higher salaries than what they may get in their native places. Unemployment is the reason for the rural-urban migration in India. The enhanced earnings in the new place outweigh the costs of migration; hence, expenditure on migration is also a source of human capital formation.

5. Expenditure on information:- People spend to acquire information relating to the labour market and other markets like education and health. This information is necessary to make decisions regarding investments in human capital as well as for efficient utilisation of the acquired human capital stock.

ROLE OF HUMAN CAPITAL FORMATION (HUMAN CAPITAL FORMATION AND ECONOMIC GROWTH):-

1. Higher productivity of physical capital:- Education and health, along with many other factors like on-the-job training, job market information and migration, increase an individual's income generating capacity.

2. Innovative and technological improvement :- Human capital contributes substantially not only towards increasing labour productivity but also stimulates innovations and creates ability to absorb new technologies. Education provides knowledge to understand changes in society and scientific advancements, thus, facilitate inventions and innovations. Similarly, the availability of educated labour force facilitates adaptation to new technologies.

3 .Key role of development strategy :- improvement in education and health sectors and growth in real per capita income in both developing and developed countries. Higher income causes building of high level of human capital and vice versa, that is, high level of human capital causes growth of income.

4. Improvement in quality of life

5. Positive change in attitude.

HUMAN CAPITAL AND HUMAN DEVELOPMENT: -

Human capital:- Human capital considers education and health as a means to increase labour productivity.

Human development:- Human development is based on the idea that education and health are integral to human well-being because only when people have the ability to read and write and the ability to lead a long and healthy life, they will be able to make other choices which they value. Human capital treats human beings as a means to an end; the end being the increase in productivity. Any investment in education and health is unproductive if it does not enhance output of goods and services. In the human development perspective, human beings are ends in themselves. Human welfare should be increased through investments in education and health even if such investments do not result in higher labour productivity.

PROBLEMS FACING HUMAN CAPITAL FORMATION IN INDIA:-

1.High growth rate of population 2.Lack of manpower planning 3. Brain –Drain 4.Low level of academic standards 5. Insufficient on-job training in primary sector 6. Poverty

EDUCATION SECTOR IN INDIA

(i) **Growth in Government Expenditure on Education:-** (a) as a percentage of 'total government expenditure' (b) as a percentage of Gross Domestic Product (GDP) .

Throughout this period the increase in education expenditure has not been uniform and there has been irregular rise and fall.

About 50 years ago, the **Education (Kothari) Commission (1964–66)** had recommended that at least 6 per cent of GDP be spent on education.

The **Tapas Majumdar Committee in 1998**, to bring all Indian children in the age group of 6-14 years under the purview of school education.

Compared to the recommended level of education expenditure of around 6 % of GDP, the current level is a little over 4 per cent.

(ii) GROWTH OF EDUCATION SECTOR IN INDIA: 1. Expansion of general education (Literate rate 16% to 74% in 1951 to 2011) 2. Elementary education (covers students from class 1 to 8 in the age group of 6 to 14 years) 3. Secondary and senior secondary education 4. Higher education 5. Vocational education 6. Technical, medical and agricultural education 7. Rural education 8. Adult and female education 9. Total literacy campaign.

EDUCATION AS AN ESSENTIAL ELEMENT OF HUMAN RESOURCE DEVELOPMENT: - Education implies the process of teaching, training and learning. It improves knowledge and develops skills.

IMPORTANCE AND OBJECTIVES OF EDUCATION : 1. Education produces responsible citizens 2. It develops science and technology 3. It develops human personality 4. It helps economic development 5. It promotes cultural standard of the citizens.

MCQ : (1 mark)

1. The government of India has introduced policies to encourage entrepreneurship and innovation. What is a likely benefit of an entrepreneurial culture?

- (a) Reduced competition and monopoly formation
- (b) Deceased risk-taking behaviour among individuals
- (c) Increased job opportunities and skill diversification
- (d) Slower economic growth due to reduced stability.

Ans: (c) Increased job opportunities and skill diversification

2. Which five year plan considered Human Resource Development an essential aspect for development strategy in Indian economy for the first time?

- a) 3rd five year plan
- b) 5th five year plan
- c) 7th five year plan
- d) 10th five year plan

Ans : c) 7th five year plan

3. Which of the following is not a merit of human capital formation?

- a) Improves technical knowledge
- b) Enlarges the size of business
- c) Increases cost of production
- d) Changes social outlook

Ans: b) Enlarges the size of business

Read the following statements - Assertion (A) and Reason (R). From the given alternatives choose the correct one:

4. **Assertion (A)**-Human capital formation is required for effective use of physical capital.

Reason(R) – Formation of human capital raises life expectancy of the people.

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.

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

5. **Assertion (A)**- Expenditure on information is considered an important source of human capital formation.

Reason(R) – A person who is educated, trained and skilled can be unemployed due to lack of expenditure on information.

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

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

6. 'Start-ups' and 'Skill India' programmes are complementary to each other a) True b) False

Ans: a) True

7. The educational cess imposed by the government is 4 % on all union taxes. a) True b) False

Ans: b) False

8. Who amongst the following has received the greatest investment in human capital formation?

a) A nurse in a clinic who is frequently absent because of his ill health.

b) A 12-year-old who helps her mother with construction work

c) A 10th-pass girl who works as a store manager in a mall

d) A computer science graduate who works at a call centre

Ans : d) A computer science graduate who works at a call centre

Read the following statements carefully and choose the correct alternatives given below:

9. **Statement 1** – Human capital treats human beings as a means to an end.

Statement 2 – In the human development perspective, human beings are an end in themselves.

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

Ans. a) Both the statements are true.

10. **Statement 1** – Physical capital creates both private and social benefits, whereas human capital creates only private benefit.

Statement 2– Human capital benefits not only the owner but also the society in general.

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

Ans: d) Statement 2 is true and Statement 1 is false

Short Answer Questions (SA I-3 marks)

11. "Recently the government of India has taken a few steps to reach the 6% growth goal as recommended by the Education Commission, 1964". Do you agree with the given statement? Give reasons in support of your answer.

Ans : The given statement is correct to a considerable extent:-

a) In 2009, the government of India enacted the Right to Education Act to make free education a fundamental right of all children in the age group of 6-14 years.

b) Government of India has also been started levying a 2 percent education cess on all union taxes. The revenue from education taxes has been earmarked for spending on elementary education.

c) The government also sanctions a large outlay for the promotion of higher education and new loan schemes for students to pursue higher education.

12. In your view, is it essential for the government to regulate the fee structure in education and health care institutions? If so, why?

Ans: Yes, government intervention is necessary in regulating the fee structure in education and health care institutions:-

a) To maintain uniformity.

b) To have accountability.

People in poor country like ours cannot afford high price for education and health. So it is essential for the government to help poorer people.

Short Answer Questions (SA II-4 marks)

13. Explain the role of human capital in economic growth / development of a country.

Ans: The role of human capital formation in increasing economic growth and development may be visualised as below:-

- (i) Human capital formation raises production**
- (ii) It raises efficiency and productivity**
- (iii) It brings positive changes in outlook and attitudes.**
- (iv) It improves quality of life**
- (v) It raises life expectancy**
- (vi) It raises social justice.**

14. How does education contribute to human capital formation?

Ans : Education plays a crucial role in contributing to human capital formation. It empowers Individuals with skills, knowledge, and abilities that enhance their overall potential and contribute to the betterment of society as a whole. Following points highlight the role of education in human capital formation:

- (i) It develops knowledge, skills and abilities of the people.**
- (ii) It supports science and technology.**
- (iii) It produces responsible citizens.**

(iv) Education fosters active citizenship and civic participation.

15. Read the following statements carefully. Write True / False with a reason.

- a) Vocationalisation of education is an essential ingredient of human capital formation.
- b) Rising population is a serious roadblock in the process of human capital formation in India.
- c) Migration facilitates utilisation of human capital.
- d) Human capital and human development are identical concepts.

Ans: a) True. Because vocationalisation imparts skill and expertise to the potential workforce.

b) True. Because it reduces the quality of life and capacities to acquire knowledge and specialised skills.

c) True. Because it facilitates better utilisation of inactive skills of the people and hence leads to human capital formation.

d) False. Human capital and human development are distinct though related concept. Human capital consists of know-how, abilities and expertise used as inputs in the production process. Human development refers to development of the individuals as distinct personality by acquiring good education and health.

Case Based Question (6 marks)

The National Education Policy 2020 states that the world is undergoing rapid changes in the knowledge landscape. With various dramatic scientific and technological advances, such as the rise of big data, machine learning and artificial intelligence, many unskilled jobs worldwide may be taken over by machines, while the need for a skilled workforce, particularly involving mathematics, computer science and data science, in conjunction with multidisciplinary abilities across the sciences, social sciences and humanities, will be increasingly in greater demand. With climatic change, increasing pollution, and depleting natural resources, there will be a sizeable shift in how we meet the world's energy, water, food and sanitation needs, again resulting in the need for new skilled labour, particularly in biology, chemistry, physics, agriculture and social science. The growing emergence of epidemics and pandemics will also call for collaborative research in infectious disease management and development of vaccines and the resultant social issues heightens the need for multidisciplinary learning. There will be a growing demand for humanities and art, as India moves towards becoming a developed country as well as among the three largest economies in the world. This policy vision suggests how human capital formation in India will move its economy to a higher growth trajectory based on knowledge landscape.

16. (i) The NEP 2020 focuses on the need for a skilled workforce. Explain how skill (3 +3=6)

formation is a key factor for ensuring 'economic development'.

(ii) The National Education Policy vision suggests how capital formation in India will move its economy to a higher growth trajectory to become the third largest economy in the world. Explain how human capital formation contributes to growth of an economy.

Ans: (i) Skill formation has a direct relation with the earning capacity of the masses. Skill -rich population of a nation may enhance the standard of living of the people. Skill formation improves the rate of participation in the process of growth. Benefits of economic growth are shared by a larger percentage of population which may lead to greater economic development.

(ii) Investment in human capital may contribute to growth of economy in the following ways:

a) Generally, the productivity of an educated, skilled and healthy workforce is relatively higher than an uneducated, unskilled and unhealthy worker. Such investment may increase the productivity of the economy as a whole.

b) Human capital formation may promote interventions, innovations and technological improvements. This may create the ability to adopt new technologies which increase the production and productivity in the economy.

17. Explain the problems facing human capital formation in India.

(6 marks)

Ans. The main problems of human capital formation in India are as follows:

(i) Rising Population: Rapidly rising population adversely affects the quality of human capital in under developed and developing countries like India. It reduces per head availability of existing facilities like sanitation, employment, drainage, water system, housing, hospitals, education, food supply, nutrition, roads, electricity, etc.

(ii) Brain Drain: Migration of highly skilled labour from a country to other country is termed as 'brain drain. This slow down the process of human capital formation in the domestic economy.

(iii) Inefficient Manpower Planning: There is inefficient manpower planning in India, no efforts have been made either to raise the standard of education at different stages to maintain the demand and supply of technical labour force. It is a sad reflection on the wastage of human power and human skill.

(iv) Long-term Process: The process of human development is a long-term policy because skill formation takes time. The process which produces skilled manpower is thus, slow. This also lowers our competitiveness in the international market of human capital.

(v) High Poverty Levels: A large proportion of the population lives below poverty line and do not have access to basic health and educational facilities. A large section of society cannot afford to get higher education or expensive medical treatment for major disease.

(vi) Insufficient resources: Resources allocated to the formation of human capital have been much less than the resources required. Hence human capital formation has remained inadequate.

UNIT-7 RURAL DEVELOPMENT

Main Content/GIST of the topic:-

Rural development refers to search continuous and comprehensive social economic process which attends to improve all aspects of rural life.

Process of rural development:-

Sum of the areas which are challenging and need fresh initiative for development in India are as follows

1. Human resource development:- human resource can be developed by improving healthcare facility and school education facilities
2. Infrastructure development:- Infrastructure like electricity irrigation credit marketing and transport facilities can be improved to develop rural areas.

3. Land reforms:- It can be done by eliminating exploitation in land relations, improving socio economic conditions of rural poor people.
4. Alleviation of poverty

Rural Credit :-

Farmers borrow from various sources to meet initial investment on seeds fertilizers implements and other family expenses of marriage death religious ceremonies etc.

An efficient and effective rural credit delivery system is crucial for raising agriculture productivity and incomes

Sources of rural credit:-

1. Non institutional sources :-

- a) Money lenders
- b) Relatives
- c) Traders and commission agents
- d) Rich landlords

2. Institutional sources or formal sources:-

- a) Co-operative credit
- b) Land development banks
- c) Commercial bank credit
- d) Regional rural banks
- e) The government
- f) National Bank for Agriculture and Rural Development (NABARD)
- g) Self Help Group (SHG) Bank linkages program for micro finances

Benefits of Organised Agriculture Credit System:-

1. Availability of educate credit to the farmers.
2. Loans to rural population for productive needs at cheaper rate of interest from the formal credit sources.
3. Increase in the rural farm and non farm output income and employment in rural areas.

Problems Faced in Rural Banking:-

1. Insufficiency of rural credit in comparison to its demand.
2. Depends on informal credit system.
3. Inadequate coverage of institutional sources
4. Inadequate amount of sanction of loan
5. Less attention to poor or marginal farmers
6. Growing over dues

Agriculture Market System:-

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

Problems Faced by Farmers:-

- Manipulation by big traders
- Lack of market information
- Lack of storage facilities

Benefits of organised Agriculture marketing System:-

- Gives more focus on those rural poor who have no sustainable access to the formal banking system.
- Orderly and transparent marketing conditions facilitate sale of farmers' produce.
- Provision of better infrastructural facilities like roads, railways, ware houses, godowns, cold storages and processing units etc. prevent distress sale.
- It protects farmers from the exploitation of middleman or intermediate.

Measures to Improve Agriculture Marketing:-

1. Regulated markets to protect farmers from Mal practices of sellers and brokers.
2. Infrastructural facilities to provide facilities like roads warehouses transportation etc.
3. Co-operative marketing to realise fare price for farmers' products.
4. Different policy instruments like minimum support price maintenance of buffer stock public distribution system etc.

Diversification of Agriculture Activities:-

Agriculture diversification relates to change in cropping pattern or shift of workforce from agriculture to other allied activities.

Reasons for diversification:- to reduce the extra burden from agriculture sector.

Benefits of diversification:-

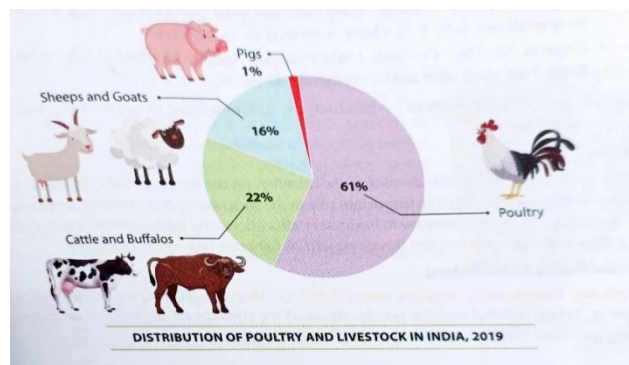
- There is greater risk independent exclusively on farming for livelihood.
Diversification reduces the risk from the agricultural sector.
It also provides sustainable livelihood options to the rural people.
- Expansion into other sectors provides supplementary gainful employment during the of season period.

Types of Diversification:-

- Diversification of crop production
It involves a shift from single-cropping system to multi- cropping system.
- 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.

Non-Farm Areas of Employment:-



Animal Husbandry:- livestock farming is that branch of agriculture, which is concerned with the breeding, rearing and caring of farm animals.

Dairying :- Dairying is that branch of agriculture which involves breeding, raising and utilisation of dairy animals for the production of milk and the various dairy products processed from it.

Fisheries:- It refers to the occupation devoted to the catching processing or selling of fish and other aquatic animals.

Horticulture:- it's refers to the science or art of cultivating fruits, vegetables, Tuber crops, flowers medicinal and aromatic plants spices and plantation crops.

Information Technology:- It refers to that branch of engineering that deals with the use of computers and telecommunications to retrieve and store and transmit information.

Organic Farming

Conventional agriculture relies heavily on chemical fertilizers and toxic pesticides etc., which enter the food supply, penetrate the water sources, harm the livestock, deplete the soil and devastate natural eco-systems.

Meaning of organic farming:- Organic farming is the form of agriculture that realise on techniques such as crop rotation, green manure, compost and biological pest control.

Benefits of organic farming:-

- Economical farming
- Generates income through exports
- Provides healthy food
- Source of employment
- Safety of environment
- Sustain soil fertility

Challenges before Organic Farming:-

- Less popular
- Lack of infrastructure and marketing facilities
- Low yield
- Shorter food life
- Limited choice of crops
- More emphasis on sustainable development

Multiple Choice Question (1 Mark)

1. The problems faced in Rural banking are:
- (a) Insufficient rural credit
 - (b) Growing overdue
 - (c) Inadequate amount of sanction
 - (d) All of these

Answer :- (d) All of these

Why is minimum support price fixed by the government?

- (e) For government own benefit
- (f) To safeguard the interest of farmers
- (g) To safeguard the interest of consumers
- (h) None of these

Answer:- (b) To safeguard the interest of farmers

2. Organic farming is beneficial because:

- (a) It's generates income through international exports
- (b) It is produced in an environmentally sustainable way
- (c) It provides healthy food
- (d) All of these

Answer:- (d) All of these

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

- (a) Money lenders
- (b) Relatives
- (c) Traders and commission agents
- (d) Trade Development Bank

Answer:- (d) Trade Development Bank

4. Distress sale by the farmers refer to:

- (a) Sale of rotten crop
- (b) Sale of crop through commission agents
- (c) Sale of crop at the MSP fixed by the government
- (d) Sale of crop at a very poor price

Answer:- (d) Sale of crop at a very poor price

5. India ranks _____ in the world in milk production:

- (a) First
- (b) Second
- (c) Third
- (d) Fourth

Answer:- (a) First

6. Nationalisation of commercial banks to place in _____

- (a) 1959
- (b) 1969
- (c) 1979
- (d) 1989

Answer:- (b) 1969

7. Which of the following is the reason for diversification?

- (a) There is greater risk in depending exclusively on farming for livelihood
- (b) To provide productive sustainable livelihood options to rural people
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

ANSWER:- (c) both (a) and (b)

8. Identify which of the following is not a step taken by the government to improve rural marketing.

- (a) Maintenance of buffer stocks
- (b) Regulation of markets to create transparent marketing conditions
- (c) Promotion of co-operative marketing
- (d) Promoting trade by big rural merchants

Answer:- (d) Promoting trade by big rural merchants

9. Which of the following highlights the role of Information Technology (IT) in rural development?

- (a) It helps in achieving sustainable development
- (b) It helps in attainment of food security
- (c) It disseminate information regarding emerging Technology.

Alternatives:-

- | | |
|-------------------|-------------------------|
| (i) Only (a) | (ii) Only (c) |
| (iii) (a) and (c) | (iii) (a) , (b) and (c) |

Answer:- (iv) (a) (b) and (c)

10. National bank for Agriculture and Rural Development (NABARD) what's set up in 1982 as a/the _____ body to coordinate the activities of all institutions involved in the rural financing system.

- (a) Cooperative
- (b) Apex
- (c) Micro credit
- (d) Private credit

Answer:- (c) Micro credit

11. Identify the incorrect statement from the following:-

- (a) Diversification in agriculture sector provide sustainable livelihood rural population
- (b) Diversification includes change in cropping pattern, shift of workforce from agriculture to other allied activities and non-agriculture sector.
- (c) Objective of investment in new agriculture avenues (non-farm activities) increases financial risk for the rural population.
- (d) Diversification reduces the proportion of unemployed population in the rural areas to considerable limits.

Answer:- (c) objective of investment in new agriculture avenues (non-farm activities) increases financial risk for the rural population.

12. "In order to reduce over-dependents on agriculture sector it is necessary to opt for diversification." With reference to the given statement diversification includes _____ .

- (i) Change in cropping pattern
- (ii) Shift of work force to agriculture allied activities
- (iii) Shift of workforce to non-agriculture sector

Alternatives:-

- (a) (i) and (ii)
- (b) (i) (ii) and (iii)
- (c) (i) and (iii)
- (d) Only (i)

Assertion Reason Questions

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

Assertion (A):- India ranks first in the world in milk production.

Reason (R):- India's milk production increased due to operation flood

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) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A).

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

Assertion (A) :- The focus on Self-Help group is largely on rural poor.

Reason (R) :- rural poor have no sustainable Axis to the formal banking system.

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

Statement based questions

1. Read the following statements carefully and choose the correct alternative from the following :

Statement 1: Small and marginal farmers are given more preference in getting credit from banks and other institutional sources.

Statement 2 : It is easier to obtain credit from institutional sources as compared to non-institutional sources.

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

Answer:- (b) Both the statements are false

2. Read the following statements carefully and choose the correct alternative from the following.

Statement 1 : Manipulation by big traders, lack of market information and lack of storage facilities were the main problems faced by farmers in agriculture marketing.

Statement 2 : In agriculture marketing, government intervention became necessary to regulate the activities of the private traders.

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

Answer:- (a)

Both the statements are true

True or false with reason.

Organic farming generates less employment opportunities.

Answer:-False: organic farming generates more employment opportunities as it requires more labour input than conventional farming.

Under cooperative marketing, farmers sell their output individually.

Answer:- False: under cooperative marketing, marketing societies are formed by farmers to sell the output collectively and to take advantage of collective bargaining.

Short Question Answer 3/4 marks :-

Q1.What do you mean by rural development? Bring out the key issues in rural development.

Answer:- Rural Development refers to continuous and comprehensive socio-economic process attempting to improve all aspects of rural life.

Sum of the key issues in rural development include

- 1. Development of Human Resources- the quality of the human resource needs to be improved by giving proper attention to literacy and better health facilities.
- 2. Development of infrastructure- it involves improvement in electricity irrigation credit, marketing and transport facilities.

3. Land reforms- it includes elimination of exploitation in land relations, actualization of the goal of lands to the tiller, improvement of socio-economic conditions of rural poor by widening their land base, increasing agriculture productivity and production.
4. Alleviation of poverty- it includes taking serious steps for elevation of poverty and bringing significant improvement in living conditions of weaker sections.
5. Development of the productive resources of each locality to enhance opportunities of employment.

Q2. Discuss briefly the importance of micro-credit programs in rural development.

Answer:- The focus of micro-credit or self-help group 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 labourers artisans, etc.

Self help groups 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 a small instalment.

Q3. Explain the steps taken by the government in developing rural markets.

Answer:- following steps were taken by Government to develop rural markets

1. 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. Infrastructure facilities- The Government aims to provide physical infrastructure facilities like roads, railways, warehouses, godowns, cold storages and processing units.
3. Co-operative 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.

Q4. Why is agricultural diversification essential for sustainable livelihoods?

Answer:- agriculture diversification is essential for sustainable livelihood because:

- (A) There is greater risk in depending exclusively on farming for livelihood.
- (B) To provide supplementary gainful employments to rural people and to enable them to overcome poverty by earning higher level of income.

Q5. What are the alternative channels available for agriculture marketing? Give some examples.

Answer:- some of the alternative channels available for agriculture and marketing are:

Farmers market : the concept of farmers market has been started to give boost to the small farmers by providing them Direct access to the consumers and eliminating the middleman. Some examples of these channels are apni mandi in Punjab, Haryana and Rajasthan hadispur Mandi in Pune rythu bazar in Andhra Pradesh and Telangana.

(i) Alliance with National and multinational companies:

Several National and multinational fast food chains are increasingly entering into contracts/ alliances with farmers. They encourage the farmers to cultivate farm product of the desired quality.

They provide them with not only seeds and other inputs but also assure procurement of the produce at pre-decided prices.

Such arrangements help in reducing the price risk of farmers and expand the market for farm products.

Long question answers 6 marks :-

Q. Critically evaluate the role of Rural banking system in the process of rural development in India.

Answer:- Rapid expansion of the banking system had a positive effect on rural farm and non- farm output, income and employment. After the green revolution Credit facilities help to farmers to avail

variety of loans for meeting their production needs. With buffer stock of grains, became events of the past. Even then the following problems are being faced in the Rural banking:

(i) Insufficiency- the volume of the rural credit in the country is still insufficient in comparison to its demand.

(ii) Inadequate coverage of institutional sources: the institutional credit arrangement continuous to be inadequate as they have failed to cover the entire rural farmers of the country.

(iii) Inadequate amount of sanction- the amount of loan sanctioned to the farmers is also inadequate.

(iv) Less attention to poor or marginal farmers: lesser attention has been given on the credit requirements of needy farmers.

(v) Growing overdues - the problem of overdue in agriculture credit continuous to be an area of concern agriculture loan default rates have been chronically high. It is a farmers are deliberately refusing to payback loans which is a threat to the smooth functioning of banking system and needs to be controlled.

Therefore the expansion and promotion of the Rural banking sector has taken a back seat after reforms. Except the commercial banks other formal institutions fails to develop a culture of deposit mobilization, lending to needy borrowers and effective loan recovery..

To improve the situation Banks need to change their approach from just being lenders to building up relationship banking with the borrowers and formal should also be encouraged to inculcate the habit of thrift and efficient utilisation of financial resources.

Q. Identify the benefits and limitations of organic farming.

Answer:- the benefits of organic farming are :

Economical farming organic farming offers a means to substitute costlier agriculture inputs with locally produced cheaper organic inputs.

Generates income through exports its generates income through international export as demand for organically grown crops is on a rise.

Provides healthy food it provides healthy food as organically grown food has more nutritional value than food grown through chemical farming.

Source of employment organic farming generates more employment opportunities as it requires more labour input than conventional farming.

Safety of environment the produce of organic farming is pesticide-free and is produced in an environmentally sustainable way.

The limitations of organic farming are:

Less popular organic farming needs to be popularised by creating awareness and willingness on the part of farmers for adoption of new technology there is a serious need for an appropriate agriculture policy to promote organic farming.

Lack of infrastructure and marketing facilities organic farming faces problems of inadequate infrastructure and marketing facilities.

Low yield organic farming has a lesser yield in the initial years as compared to modern agriculture farming. As a result, small and marginal farmers find difficult to adapt to large scale production.


Shorter food life- organic produce has a shortest shelf life as compared to sprayed produce.

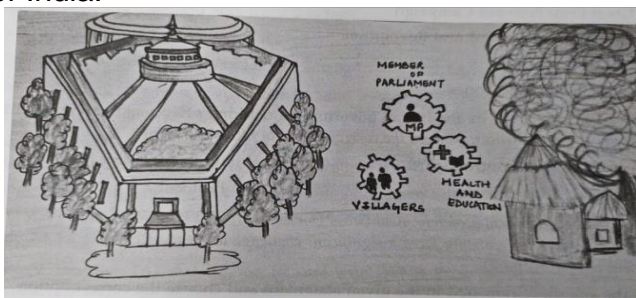
Limited choice of crops- the choice introduction of off-season crops is quite limited inorganic farming.

WORKSHEET-1
RURAL DEVELOPMENT

TIME: 30 Minutes

MM:20

Q NO	QUESTION	MARKS
1	<p>1.Assertion (A): Even today more than 10% of goods produced in farms are wasted.</p> <p>Reason (R): The current storage facilities are quite inadequate to meet the growing demands.</p> <p>(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion (A)</p> <p>(C) Assertion (A) is true but Reason (R) is false</p> <p>(D) Assertion (A) is false but Reason (R) is true.</p>	1
2	<p>2. _____ can be classified as one of the alternative sources of diversification from farm output</p> <p>a) Green revolution b) Horticulture c) Organic farming d) Conventional farming</p>	1
3	<p>3.Which type of problem of agricultural marketing in India shown here?</p>  <p>a)Lack of infrastructural facilities b)Lack of transport facilities</p> <p>c)Distress sale due to lack of market information d)Predominance of private traders</p>	1
4	<p>4. Assertion (A). Since the default rates of farm loans have become chronically high due to multiple reasons, the rural banks are facing a lot of cash crunch.</p> <p>Reason (R). Due to lack of proper storage facilities a lot of farm produce is wasted.</p> <p>a)Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).</p> <p>(c) Assertion (A) is true but Reason (R) is false.</p> <p>(d) Assertion (A) is false but Reason (R) is true.</p>	1

5	<p>5. Assertion (A). The institutional structure of rural banking consists of a set of multi-agency institutions, namely commercial banks, regional rural banks, cooperatives and land development banks. Reason (R). Self-Help groups have emerged to fill the gap in the formal rural credit system. These promote thrift in small proportions by a minimum contribution from each member. From this pooled money. Credit is given to the needy members.</p> <p>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.</p>	1
6	<p>6. Statement 1: Small and marginal farmers find it difficult to adapt to organic farming. Statement 2: Organic farming may have a longer shelf life than sprayed produce.</p> <p>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.</p>	1
7	<p>7. A rural community is struggling with low agricultural yields. What could be a possible solution?</p> <p>(a) Encouraging farmers to grow only traditional crops. (b) Providing farmers with access to better seeds and fertilizers. (c) Implementing stricter land laws.(d) Disallowing private investment in agriculture.</p>	1
8	<p>Short Answer Type Question (3x1=3)</p> <p>8. Interpret the given picture based on an initiated by Government of India.</p> 	3
9	<p>Source Based Questions (1x4=4)</p> <p>9. Read the following News report and answer the following questions on the basis of same</p>	4

	<p>The government is planning to enhance welfare schemes for villagers by making sure that all eligible people in various databases in different ministries get benefits. Officials said they have begun the process by looking at the Aadhar-based list of ration card holders and the rural development ministry's data on deprived household.</p> <p>"The convergence of data will help in mapping the eligible people in rural areas who are still not covered under Food Security Act that provides rice and wheat at subsidized prices. At the same time, it will bring a fair picture of rural households in the country which are deprived of basic amenities. This will also help government to reach out to people who are in need", said a food ministry official.</p> <p>The government has database of more than 800 million beneficiaries covered under Food Security Act. It has implemented 'one nation one ration card scheme in 28 states and union territories covering 686 million people where a person can get subsidized food grains from any ration shop irrespective of the state, municipality or panchayat where the person is registered.</p> <p>Source: The Economic Times, Nov. 19, 2020</p> <p>9.1. The government of India is targeting welfare schemes for people in rural areas by taking data from</p> <ol style="list-style-type: none"> Aadhar-based list of ration card holders Rural development ministry's data on deprived households both (a) and (b) Neither (a) nor (b). <p>9.2. Government has implemented _____(one nation one card/Food security act) to provide subsidised food grain through fair price shops to the eligible persons.</p> <p>9.3. Rural development includes development of</p> <ol style="list-style-type: none"> Human resources Infrastructure productive resources of each locality All of these. <p>9.4 To develop rural India:</p> <ol style="list-style-type: none"> Special measures for alleviation of poverty must be undertaken Significant improvements in their living conditions must be focused access to employment opportunities should be ensured All of these. 	
10	<p>Long Answer Type Question (6x1=6)</p> <p>10.(A) Rohit visited his uncle in Solon during summer vacation . He noticed that his uncle supplied plums @ Rs. 6 per kg from his orchard .He was surprised to find that plums are usually sold at Rs. 35 to 40 per kg in his city. He realized that the long chain of middleman leads to high profit</p>	6=2+4

	<p>margin. What do you suggest to solve this inefficiency?</p> <p>(B)“Over the past few years, India has witnessed a shift from traditional conventional farming to natural/organic farming”. Discuss briefly any two reasons behind this shift towards organic produce and give two challenges in organic farming .</p>	
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TOPIC: RURAL DEVELOPMENT

WORKSHEET -1

Answers

1. a;
2. b) Horticulture
3. c) Distress sale due to lack of market information
4. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
5. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
6. c) Statement 1 is true and statement 2 is false
7. (b) Providing farmers with access to better seeds and fertilizers.
8. **Sansad Adarsh Gram Yojana (SAGY) is a rural development**
- 9.1 both (a) and (b)
- 9.2 one nation one card
- 9.3 All of these.
- 9.4 All of these.
10. A) He is right to analyze that the long chain of middlemen creates high marketing margin or profits. any other relevant answer
- B) 1. **Environmental Sustainability** Conventional farming practices 2. **Economic Benefits for Farmers** : Farmers are increasingly turning to organic farming. (any other relevant answer)

Unit 7 Employment: Growth, Informalisation and Other Issues

Why do People Work ?

- For earning a living
- Being employed gives us a sense of self worth and enables us to relate ourselves meaningfully with others
- We do not work only for ourselves; we also have a sense of accomplishment when we work to meet the requirements of those who are dependent on us.

Workers

Economic activity refers to the activity performed by people to earn a living. These activities contribute to GNP. All those who are engaged in economic activities are workers.

There are two types of workers.

- **Self Employed:** workers who own and operate a business for a living are referred to as self employed.
- **Hired:** are those persons who are hired by others and are given wages and salaries in exchange for their services. These are further of two types
 - **Casual:** casual workers are those who are not engaged on a regular or permanent basis by their companies and are given wages on an hourly or daily basis and do not receive social security benefits.
 - **Regular (Salaried):** are those who are employed by someone or an organisation on a regular basis and are paid their salaries on a regular basis.
- ❖ During 2011- 12, India has about a 473 million strong workforce. The rural workforce constitute about three fourth of this 473 million. Men forms the majority of workforce in India, about 70%). Women workers account for one-third of the rural workforce whereas in urban areas, they are just one fifth of the workforce.

People Participation

- **Labour Supply:** it refers to the amount of workers who are willing to works. Corresponding to a particular wage rate.
- **Labour Force:** All persons who are working (have a job) and those who are not working but are able and willing to work at the existing wage rate constitute the labour force
Labour force= Workforce + Unemployed Persons (willing & avails to work)
- **Work Force or Worker:** The number of persons, who are actually employed at a particular time are known as workforce. It includes all those persons who are actually engaged in productive activities. This include persons between age group of 15 to 60 years. Does not include persons even through they are wiling and available to work.

Workforce= Number of person Working

- **Work Force or Worker Participation Rate:** It is an indicator which is used for analysing the employment situation in the country. This ratio is useful in knowing the proportion of the 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 and vice versa.

$$\text{Worker Participation Rate} = (\text{Worker/Total Population}) * 100$$

	Total	Rural	Urban
Men	52.1 %	51.7 %	53.0 %
Women	16.5 %	17.5 %	14.2 %
Total	34.7 %	35.0 %	33.9 %

Worker Population Ratio of India (2017-18)

- The worker population ratio in rural areas is greater than that of urban areas: Because rural areas have more people involved in informal, agricultural, and family-based work, while urban areas have a higher proportion of non-working dependents, students, and unemployed, leading to a higher worker population ratio in rural areas.
- Male participation rate is higher than Female: Female employment is lower than male employment in India due to patriarchal norms, safety issues, education gaps, workplace discrimination, and domestic burdens. Addressing these issues requires policy changes, social awareness, better education, and inclusive work environments.

Employment

It is an activity which enables a person to earn means of living. It can be either self employment or wage employment

A. **Employment Structure:** it means how the workforce is divided between three main employment sectors- primary, secondary & tertiary.

a. Distribution by **Gender** ; Source: NCERT Textbook

	Male	Female
Self Employed	52%	52%
Regular Salaried	24%	21%
Casual wage	24%	27%
Total	100%	100%
	Male	Female

➤ Self employed is a major source of livelihood for both men and women.

b. Distribution by **Region** ; Source: NCERT Textbook

	Urban	Rural
Self Employed	38%	58%
Regular Salaried	47%	13%
Casual wage	15%	29%
Total	100%	100%

➤ Self employed and Casual wage labourer are found more in rural areas than in urban areas

c. Distribution by **Sectors** (2017-2018); Source: NCERT Textbook

Sector	Region	Sex	Region	Sex	Total
	Rural	Urban	Male	Female	
Primary	59.8%	6.6%	40.7%	57.1%	44.6%
Secondary	20.4%	34.3%	26.7%	17.7%	24.4%
Tertiary	19.8%	59.1%	32.8%	25.2%	31.0%
Total	100%	100%	100%	100%	100%

➤ Rural India depends mostly on Agriculture whereas in Urban areas people are mainly engaged in the service sector.

➤ Both male and female workers are concentrated in the primary sector, while women workers concentration is very high.

B. **Growth and Changing structure of Employment**

a. **Sector wise;** Source: NCERT Textbook

Sector	1972-73	1983	1993-94	2011-12	2017-18
Primary	74.3%	68.6%	64%	48.9%	44.6%
secondary	10.9%	11.5%	16%	24.3%	24.4%
Tertiary	14.8%	16.9%	20%	26.8%	31.0%
Total	100%	100%	100%	100%	100%

➤ Decline in workforce engaged in primary sector, this is due to availability to job options in secondary and tertiary sectors

➤ Secondary sector exhibit increase in workforce, this is so due to increase in public and private sector establishments

➤ Increase in workforce engaged in tertiary sector, it is due to better infrastructural facilities like banking, insurance, transport and communication etc.

b. **Status wise;**Source: NCERT Textbook

Sector	1972-73	1983	1993-94	2011-12	2017-18
Self	61.4%	57.3%	54.6%	52.0%	52.2%

employed					
Regular salaried employees	15.4%	13.8%	13.6%	18.0%	22.8%
Casual wage workers	23.2%	28.9%	31.8%	30.0%	25.0%
Total	100%	100%	100%	100%	100%

- Percentage of self employed workers decline
- Increase in regular salaried workers
- Increased in share of casual workers

C. **Jobless Growth:** refers to a situation where an economy experiences economic growth without corresponding increase in employment opportunities. It's main causes are

- a. Capital intensive growth
- b. Dominance of informal sector
- c. Economic growth driven by service sectors, which requires less labours
- d. Stagnant manufacturing employment

D. **Casualisation of Workforce:** refers to increase in the proportion of casual workers instead of regular workers. The major reasons are cost reduction and flexibility of work and leisure.

E. **Informalisation of Indian Workforce:** a situation when people tend to find employment more in the informal sector of the economy and less in the formal sector. The major causes are economic liberalisation, lack of formal job creation, rise of gig economy etc.

- a. Formal sector: all the public sector establishments and those private sector establishments which employ 10 or more hired workers are called formal sector establishments.
- b. Informal sector: all private sector establishments which employ less than 10 workers are called informal sector establishments.

Formal	Informal
Organised	Unorganized
Better wages and salary	Less wage and salary
Enjoy social securities benefits	No social securities benefits
Job securities	Less job securities
All public sector + private sector Employing 10 or more hired workers	Farmers, agricultural laborers, owners of small enterprise, self employed, non farm casual workers etc
6% of total workforce (2009-10)	94% of total workforce (2009-10)

Unemployment

Unemployment refers to a situation in which people are willing and able to work at the existing wage rate, but do not get work. **NSSO** defines unemployment as a situation in which all those who, owing to lack of work, are not working but either seek work through employment exchanges, intermediaries, friends or etc by making applications to prospective employers or express their willingness or availability for work under the prevailing conditions of work and remunerations. Economists define an

unemployed person as one who is not able to get employment for even one hour in half a day.

Unemployed persons= Labour Force - Workforce

Unemployment rate= (Number of person unemployed/Size of labour force) * 100

A. Sources of data on Unemployment

- a. Reports of census of India, NSSO reports of employment and unemployment situation
- b. Annual reports of periodic labour force survey
- c. Directorate general of employment and training data of registration with employment exchanges

B. Causes

- a. Slow rate of economic growth
- b. Population explosion
- c. Underdeveloped agriculture
- d. Defective educational system
- e. Slow growth of industry
- f. Decline of cottage and small industry
- g. Faulty planning (employment)

C. Types

- a. Rural
 - i. **Seasonal**: unemployed in a particular or certain seasons of the year
 - ii. **Disguised**: marginal productivity of labour is zero or very low
- b. Urban
 - i. Industrial: unemployed due to illiteracy
 - ii. Educated: under qualified for the job
 - iii. Technological: workers are replaced by machinery
- c. Others
 - i. Open: persons is able and willing to work at the prevailing wage rate, but fail to get work.
 - ii. Underemployed: worker does not work for full time or even if he is working for full time, he is paid less than what should be get
 - iii. **Frictional**: voluntary job search (short term)
 - iv. **Structural**: due to shift in economy (long term)
 - v. Cyclical: due to business cycle

D. Effects

- a. Economic Effects
 - i. Fall in production and income
 - ii. Low level of saving and investment
 - iii. Poverty
- b. Social effects
 - i. Low level of standard of living
 - ii. Inequality of distribution of income
 - iii. Social unrest

E. Remedial Measures

- a. Accelerating growth rate of GDP
- b. Control of Population growth
- c. Development of agricultural sector
- d. Encouragement to small scale enterprises
- e. Special employment programs
- f. Reform of educational system and skill growth
- g. Manpower planning

Government And Employment Generation

Government, both Union and state have played an important role in generating employment or creating opportunities. It can be categorised into two category-

A. **Direct efforts:** employs people in different departments for administrative purposes. Govt runs industries, hotels and transport companies and hence provides direct employment.

B. **Indirect efforts:** growth of the public sector also helps the private sector to grow by side. It generates employment opportunities in the private sector.

❖ Mahatma Gandhi National Rural Employment Guarantee Act (**MGNREGA**), 2005 : it promises 100 days of guaranteed wage employment to all rural households who volunteer to do unskilled manual work.

MCQ , True /False Questions etc

Q 1. Who is a worker?

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

Q 2. Define worker-population ratio.

Ans. **Workforce Participation Rate (or ratio) :**

Participation ratio is defined as the percentage of total population which is actually participating in

productive activity. It is also called workers-population ratio. It indicates the employment situation of

the country. A high ratio means that more proportion of population is actively contributing to the

production of goods and services of a country.

Q 3. Are the following workers — a beggar, a thief, a smuggler, a gambler? Why?

Ans : No, they are not workers because they, are not doing any productive activity.

Q 4. Find the odd man out (i) owner of a saloon with more than 10 employees (ii) a cobbler

(iii) a cashier in Mother Dairy (iv) a tuition master (v) transport operator (vi) construction worker.

Ans : Owner of a saloon.

Q 5. The newly emerging jobs are found mostly in the sector (service/manufacturing).

Ans. Service.

Q 6. An establishment with four hired workers is known as (formal/informal) sector establishment.

Ans. Informal.

Q 7. Raj is going to school. When he is not in school, you will find him working in his farm. Can you

consider him as a worker? Why ?

Ans. Raj is disguisedly unemployed.

Q8. Read the following statements carefully and choose the correct alternative among those given below:

Statement 1: In India, over 90% employment is found in informal sector.

Statement 2: Informal sector workers are entitled to social security benefits.

Alternatives:

a. Both statements 1 and 2 are true.

b. Both statements 1 and 2 are false.

c. Statement 1 is true and statement 2 is false

d. Statement 1 is false and Statement 2 is true.

Ans. c. Statement 1 is true and statement 2 is false

Q9. From the following statements find out which is not correct:

- (a) The worker-population ratio says anything about workers' status in society or about the working conditions.
- (b) Regular salaried employees are more in urban areas than in rural areas
- (c) Less women are found in regular salaried employment.
- (d) Primary sector is the main source of employment for majority of workers in India.

Ans. (a) The worker-population ratio says anything about workers' status in society or about the working conditions.

Q 10. Find the odd man out (i) rickshaw puller who works under a rickshaw owner (ii) mason (iii) mechanic shop worker (iv) shoeshine boy.

Ans. Shoeshine boy.

SHORT ANSWER TYPE

Q1. Compared to urban women, more rural women are found working. Why ?

Ans. Participation rate for women is higher in rural areas compared with urban areas. It is because in rural areas, poverty forces women to seek employment. Without education, women in rural areas find only less productive jobs and get low wages.

In urban areas, men are able to earn high incomes. So they discourage female members from taking up jobs.

Q 2. 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?

Ans. Meena is a self-employed worker. She is working in her husband's cloth shop. She will not get salary.

Q3. Why are women, in general, and urban women, in particular, not working ? Explain

Ans. Compared to females, more males are found to be working.

Urban women in particular are not working because men are highly educated and regular salaried employees. Since urban men are able to earn high incomes, they discourage female members from taking up jobs.

Rather, most of the rural men workers are casual labourers, self-employed workers and engaged in informal sector. They earn very low income with which they are unable to meet all of their family needs. This compels their females to work in large numbers in rural areas.

Long Answer Type :

Read the following text carefully:

Since Independence, the Union and State governments have played an important role in generating employment or creating opportunities for employment generation. Their efforts can be broadly categorised into two — direct and indirect. In the first category, 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.

When the output of goods and services from government enterprises increases, then private enterprises which receive raw materials from government enterprises will also raise their output and hence increase the number of employment opportunities in the economy. 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 initiatives in the economy.

Many programmes that the governments implement, aimed at alleviating poverty, are through employment generation. They are also known as employment generation programmes. All these programmes aim 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, development of community assets by generating wage employment, construction of houses and sanitation, assistance for constructing houses, laying of rural roads, development of wastelands / degraded lands.

On the basis of the given text and common understanding, answer the following questions:

- (i) Give the meaning of unemployment defined by economists.
- (ii) State any two sources of data on unemployment.
- (iii) Distinguish between seasonal unemployment and disguised unemployment.
- (iv) What are the provisions under “Mahatma Gandhi National Rural Employment Guarantee Act 2005” towards employment generation?

Ans.

(i) Economists define unemployed person as one who is not able to get employment of even one hour in half a day.


(ii) Two sources of data on unemployment are: Reports of Census of India, National Statistical Office’s Reports of Employment and Unemployment Situation, Annual Reports of Periodic Labour Force Survey, etc.

(iii) People remain unemployed in the village due to change of seasons, called seasonal employment.

On the other hand, more number of people available than actually required in agriculture, is called disguised unemployment.

(iv) It promises 100 days of guaranteed wage employment to all rural households who volunteer to do unskilled manual work.

WORKSHEET-1 EMPLOYMENT CLASS- XII		
TIME:- 35 MINUTES		MAX MARKS:20
Q.N.	QUESTIONS	M
	<p>Read the following statements – Assertion (A) and Reason (R). Choose the correct alternative from the options given below: Options:</p> <ul style="list-style-type: none"> • Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). • Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). • Assertion (A) is true, but Reason (R) is false. • Assertion (A) is false, but Reason (R) is true. 	

1	Assertion: Women have lower work participation rate. Reason: Social norms and household responsibilities affect female employment.	1
2	Assertion: Informalisation leads to better working conditions. Reason: Informal workers do not get legal protection.	1
3	Which of the following helps reduce disguised unemployment? a) Encouraging migration b) Providing better agricultural tools c) Introducing rural job schemes d) Both b and c	1
4	Name a type of unemployment due to lack of skill match.	1
5	31. Match the following: A B 1. Self-employed a. Factory worker 2. Regular salaried b. Street vendor 3. Casual worker c. Construction labourer	1
6	True / False India has a higher share of employment in the organised sector.	1
7	_____workers do not have social security benefits.	1
8	The government is planning to generate employment in rural areas by promoting cottage industries. How can this move help reduce disguised unemployment? Explain with an example.	3
9	 A. Observe the image and explain what does it shows ? B. What are disadvantages of casualization of workforce ?	4
10	India has seen periods of high GDP growth without a corresponding rise in employment. What is this phenomenon called ? Explain its implications for income inequality and youth employment. Why is it important for India to promote Micro, Small and Medium Enterprises (MSMEs) to tackle jobless growth ? Give two reasons to support your answer.	3+3

ANSWER KEY WORKSHEET-2 EMPLOYMENT

Q.1 (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

Q.2 (D) Assertion (A) is false, but Reason (R) is true.

Q.3 d) Both b and c

Q.4 Structural unemployment

Q.5 $1 \rightarrow b, 2 \rightarrow a, 3 \rightarrow c$

Q.6 Informal

Q.7 False

Q.8 Promoting cottage industries can provide individual jobs to people who were earlier working together on the same small farm, where all were not fully needed. For example, if 5 people were doing the work of 3 on a farm, 2 can shift to cottage industries and become fully employed, reducing disguised unemployment.

Q.9 a. casualization

b. low income ,job insecurity(any other relavant point)

Q.10 (A) 1. Income Inequality Increases

2. Youth Employment Crisis

(B) 1. Employment Generation

2. Inclusive Growth and Regional Balance

UNIT -7 SUSTAINABLE ECONOMIC DEVELOPMENT

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

➤ It includes all the biotic and abiotic elements that influence each other. All living elements-the birds, animals and plants, forests, fisheries etc. are biotic elements. Abiotic elements of the environment include non-living elements like air, water, land, rocks and sunlight etc.

➤ **Functions of the Environment**

(i) Environment supplies resource (both renewable and non-renewable resources) for production.

(ii) Environment assimilates waste.

(iii) Environment sustains life by providing genetic and bio diversity.

(iv) Environment provides aesthetic services like scenery etc.

▪ The environment is able to perform these functions without any interruption as long as demand on these functions are within its carrying capacity.

▪ **CARRYING CAPACITY IMPLIES TWO THINGS:**

(i) Resource extraction should remain below the rate of resource regeneration.

(ii) Generation of wastes should remain within the absorptive capacity of the environment.

▪ If these two conditions are not fulfilled, then environmental crisis occurs.

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

The various reasons for environmental crisis are as under:

(i) Population explosion and advent of industrial revolution.

(ii) The intensive and extensive extraction of both renewable and non-renewable resources.

(iii) The affluent consumption and production standards of developed countries.

➤ **Renewable resources** are those which can be used without the possibility of the resource becoming depleted or exhausted. That is, a continuous supply of resource remains available. For example: solar, wind energy

➤ **Non-renewable resources** are those which get exhausted with extraction and use. For example, fossil fuel.

• TWO BASIC PROBLEMS RELATED TO ENVIRONMENT ARE:

(i) Problem of pollution.

(ii) Problem of excessive exploitation of natural resources.

Effects of economic development on environment and resources:

Economic development degrades our environment by using natural resources for production of goods and services. 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.

▪ Global warming is a gradual increase in the average temperature of the earth's lower atmosphere. Global warming is caused by man-made increase in carbon dioxide (CO₂) and other greenhouse gases through the burning of fossil fuels and deforestation.

▪ Some of the long term results of global warming are as follow:

(i) Melting of polar ice with a resulting rise in sea level and coastal flooding.

(ii) Extinction of species as ecological niches disappear.

(iii) more frequent tropical storms and

(iv) An increased incidence of tropical diseases.

▪ Ozone depletion refers to reduction in the amount of Ozone (a protective layer) in the stratosphere. The problem of Ozone depletion is caused by high levels of CFC used as cooling substances in air conditioners and refrigerators or as aerosol or halons in fire extinguishers. As a result of depletion of the ozone layer, more ultra violet (UV) radiation comes to earth causing damage to living organism.

Montreal Protocol- 26 August 1987

★ **The Montreal Protocol** on Substances that Deplete the Ozone Layer (a protocol to the Vienna Convention for the Protection of the Ozone Layer) is an international treaty designed to protect the ozone layer by phasing out the production of numerous substances that are responsible for ozone depletion.

★ As a result of the international agreement, the ozone hole in Antarctica is slowly recovering. **Kyoto protocol**

★ To reduce greenhouse gas emissions, based on the scientific consensus that (part one) global warming is occurring and (part two) it is extremely likely that human-made CO₂ emissions have predominantly caused it.

★ The Kyoto Protocol was adopted in Kyoto, Japan, on 11 December 1997 and entered into force on 16 February 2005.

➤ The threat to India's environment poses a dichotomy-threat of poverty-induced environmental degradation and, at the same time, threat of pollution from affluence and rapidly growing industrial sector.

▪ Air pollution, water contamination, soil erosion, deforestation and wildlife extinction is some of the most pressing environmental concerns of India.

▪ The priority issues identified in India are:

(i) Land degradation

(ii) Biodiversity loss

(iii) Air pollution with special reference to vehicular pollution in urban cities.

(iv) Management of fresh water.

(v) Solid waste management.

▪ Land degradation refers to a decline in the overall quality of soil, water or vegetation condition, commonly caused by human activities.

SOME OF THE FACTORS RESPONSIBLE FOR LAND DEGRADATION IS

(i) loss of vegetation occurring due to deforestation.

(ii) Unsustainable fuel wood and fodder extraction.

(iii) Shifting cultivation.

(iv) Encroachment into forest lands.

(v) Forest fires and over grazing.

(vi) Non-adoption of adequate soil conservation measures.

(vii) Improper crop rotation.

(viii) Indiscriminate use of agrochemical such as fertilizers and pesticides.

(ix) Improper planning and management of irrigation systems.

(x) Extraction of ground water in excess of the recharge capacity.

(xi) Open access resources and

(xii) Poverty of the agriculture-dependent people.

➤ Chipko and Appiko movements are related to protect forests.

In order to address two major environmental concerns in India, viz, water and air pollution, the government set up the **Central pollution control board (CPCB) in 1974.**

Board investigate, collect and disseminate information relating to water, air and pollution, lay down standards of sewage/trade effluent and emissions.

➤ FUNCTIONS OF THE CENTRAL BOARD AT THE NATIONAL LEVEL

1) Advise the Central Government on any matter concerning prevention and control of water and air pollution and improvement of the quality of air.

2) Plan and cause to be executed a nation-wide programme for the prevention, control or abatement of water and air pollution.

- 3) Co-ordinate the activities of the State Board and resolve disputes among them.
- 4) Provide technical assistance and guidance to the State Boards, carry out and sponsor investigation and research relating to problems of water and air pollution, and for their prevention, control or abatement.
- 5) Plan and organise training of persons engaged in programme on the prevention, control or abatement of water and air pollution.
- 6) Organise through mass media, a comprehensive mass awareness programme on the prevention, control or abatement of water and air pollution.
- 7) Collect, compile and publish technical and statistical data relating to water and air pollution and the measures devised for their effective prevention, control or abatement.
- 8) Prepare manuals, codes and guidelines relating to treatment and disposal of sewage and trade effluents as well as for stack gas cleaning devices, stacks and ducts.

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

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

▪ 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.

➤ Main features of sustainable development are as under:

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

➤ **STRATEGIES FOR SUSTAINABLE DEVELOPMENT.**

(i) **Use of non-conventional sources of energy** :India heavily depends on thermal and hydro power plants to meet its power needs. Both of these have adverse environmental impacts. Thermal power plants emit large quantities of carbon dioxide, which is a greenhouse gas. If it is not used properly, it may cause land and water-pollution.

(ii) **LPG, Gobar gas in rural areas**: LPG, Gobar Gas in Rural Areas Rural households in India generally use wood, dung cake or other biomass as fuel. This practice has several adverse implications like deforestation, reduction in green cover and air pollution. To rectify the situation, subsidized LPG is being provided. Besides it, gobar gas plants are being encouraged through easy loans and subsidy. LPG is the clean fuel. It does not create any household pollution and also wastage is minimized. For gobar gas plants, cattle dung is fed in the plant to function which produces gas and slurry is used as organic soil fertilizer.

(iii) **CNG in Urban areas**: 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.

(iv) **Wind power:** Wind Power in areas, where speed of wind is usually high, wind mills can provide electricity without any adverse impact on the environment. The turbines move with wind and electricity gets generated. Its initial cost' remain high but it can be recovered easily.

(v) **Solar power through photovoltaic cell:** Solar Power Through Photovoltaic Cells in India, solar energy is used in different forms for agriculture products, daily use products and even to warm ourselves in winters. Through photovoltaic cells, solar energy can be converted into electricity. This technology is extremely useful for remote areas and for places where supply of power lines is either not possible or proves very costly. This technique is also totally free from pollution.

(vi) **Mini- hydel plants:** Mountainous regions have streams everywhere. Most of such streams are perennial. Mini-hydel plants use the energy of such streams to move small turbines which generate electricity. Such power plants are more or less environment friendly.

(vii) **Traditional knowledge and practices:** Traditionally, Indian people have been close to their environment. If we look back at our agriculture system, healthcare system, housing, transport, etc. we find that all practices have been environment friendly. But in recent years, we have been moving away from these practices. This has caused large scale damage to our environment.

(viii) **Bio composting:** In order to increase production, we have started using chemical fertilizers which are adversely affecting the waterbodies, ground water system, etc. But again farmers in large numbers have started using organic fertilizers for production. In some parts, cattle are maintained only because their waste production is very useful in form of fertilizer. Earthworm can convert organic matter into compost faster than the normal composting process.

(ix) **Bio-pest Control:** Bio-pest Control with the advent of Green Revolution, the country entered into the use of chemical pesticides to produce more which laid the adverse impacts on soil, water bodies, milk, meat and fishes. To meet this challenge, better methods of pest control should be brought. One step is pesticides based on plants like neem. Even many animals also help in controlling pests like snakes, peacocks, etc.

SUSTAINABLE ECONOMIC DEVELOPMENT

IMPORTANT QUESTIONS

Q.NO.	QUESTION	MARKS
1.	The basic problem related to the environment is the problem of excessive exploitation of natural resources. (TRUE / FALSE) Ans: True	1
2.	Define Absorptive capacity of the environment? Ans: Absorptive capacity of the environment means the ability of the environment to absorb degradation.	1
3.	Assertion (A): The use of chlorofluorocarbons (CFC) is banned throughout the world. Reason (R): CFC is supposed to be the main reason for ozone depletion. Alternatives: a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)	1

	<p>b) Both Assertion and Reason are true and Reason (R) is not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Ans: a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)</p>									
4.	<p>When was the Central Pollution Control Board (CPCB) set up?</p> <p>(A) 1964</p> <p>(B) 1974</p> <p>(C) 1984</p> <p>(D) 1994</p> <p>Ans: (B) 1974</p>	1								
5.	<p>Prior to the advent of the green revolution, food products were contaminated and soil, water bodies, and even groundwater was polluted. (TRUE / FALSE)</p> <p>Ans: False</p>	1								
6.	<p>Which one of the following is a cause of land degradation?</p> <p>1. Loss of vegetation due to deforestation</p> <p>2. Overgrazing</p> <p>3. Encroachment into forest lands</p> <p>4. All of these</p> <p>Ans: 4. All of these</p>	1								
7.	<p>How many industrial categories have been identified as significantly polluting by the CPCB?</p> <p>(A) 17</p> <p>(B) 25</p> <p>(C) 27</p> <p>(D) 31</p> <p>Ans: (A) 17</p>	1								
8.	<p>What does the "triple bottom line" concept in sustainability refer to?</p> <p>a) Profit, product, and people</p> <p>b) Economic, environmental, and social factors</p> <p>c) Business, government, and community collaboration</p> <p>d) Sustainable, reusable, and recyclable materials</p> <p>Ans: b) Economic, environmental, and social factors</p> <p>Explanation: The triple bottom line (TBL) maintains that companies should commit to focusing as much on social and environmental concerns as they do on profits.</p>	1								
9.	<p>Choose the correctly matched pair from the following -</p> <table><tr><td>Column A</td><td>Column B</td></tr><tr><td>A. Central pollution control board</td><td>1. Caused by UV rays</td></tr><tr><td>B. Appiko movement</td><td>2. 1983</td></tr><tr><td>C. Skin cancer</td><td>3. 1974</td></tr></table>	Column A	Column B	A. Central pollution control board	1. Caused by UV rays	B. Appiko movement	2. 1983	C. Skin cancer	3. 1974	1
Column A	Column B									
A. Central pollution control board	1. Caused by UV rays									
B. Appiko movement	2. 1983									
C. Skin cancer	3. 1974									

	<div>D. Montreal protocol</div> <div>4. Banned the use of CFCs</div>	
	a)A-3 b)B-1 c)C-4 d)D-2 Ans: (a) A-3	
10.	Assertion (A): In India, land suffers from different types of degradation. Reason (R): In India, there are appropriate management practices to avoid land degradation. 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 Ans: c) Assertion (A) is True but Reason (R) is False	1
11.	How to achieve sustainable development of an economy? Ans: To achieve sustainable development of an economy following steps can be taken - <ol style="list-style-type: none"> 1. Restrict use of renewable resources. 2. Substitute non-renewable with renewable resources 3. Become Input efficient 4. Control Pollution 5. Control the growth of population 	3
12.	Explain briefly about the Chipko movement? Ans: The Chipko Movement was a socio-ecological movement in India, primarily a forest conservation movement that used nonviolent methods to protect trees from being cut down. The name "Chipko" comes from the Hindi word for "embrace," which is what the villagers did to their trees to prevent them from being felled by contractors.	3
13.	Define the environment and explain its functions? Ans: Environment: Environment is defined as the total planetary inheritance and the totality of all resources. It includes all the biotic and abiotic factors that influence each other. Functions of Environment: <ul style="list-style-type: none"> ● it supplies resources (both renewable and non-renewable) ● It assimilates waste ● It sustains life by providing genetic and biodiversity (<i>the most vital function</i>) ● It also provides aesthetic services like scenery etc. 	3
14.	Sustainable development is one which is directly concerned with increasing the material standards of living of the poor at the grass-root level. This can be quantitatively measured in terms of increased income,real income, educational services,health care,	4

	<p>sanitation, water supply etc. In more specific terms, sustainable development aims at decreasing the absolute poverty of the poor by providing lasting and secure livelihoods that minimise resource depletion, environmental degradation, cultural disruption and social instability.</p> <p>1) The concept of sustainable development is related to:</p> <p>(a) Rural development (b) Growth rate of GDP (c) Human development (d) Environment</p> <p>Ans: (d) Environment</p> <p>2) _____ means the ability of the environment to observe degradation. (Absorptive capacity / supplies resources)</p> <p>Ans: Absorptive capacity</p> <p>3) The economic development that we have achieved so far has come at a very heavy price that is environmental pollution. (true/false)</p> <p>Ans: True</p> <p>4) What happens when the rate of resource extraction exceeds that of their regeneration?</p> <p>Ans: The environment fails to perform its third and vital function of life substance and this results in an environmental crisis. This is the situation today all over the world.</p>	
15.	<p>Environment and economy are interdependent and need each other hence development that ignores its repercussions on the environment will destroy the environment that sustains life forms development that will allow all future generations to have a potential average quality of life that is at least as high as that which is being enjoyed by the current generation. In the initial stages of development the demand for environmental resources was less than its supply but now what today is facing is increased demand of environmental resources but their supply is limited due to their over use and misuse. The concept of sustainable development states development that meets the needs of the present generation without compromising the ability of all future generations to meet their own needs.</p> <p>A) How does economic development put greater pressure on the environment?</p> <p>Ans: Demand is increasing day by day over environmental resources which is creating pressure on the environment.</p> <p>B) State one aim of sustainable development?</p> <p>Ans: It will fulfil the need of the present generation without compromising the ability of future generation to meet their own needs.</p> <p>C) The definition given in the above paragraph was given by _____. Ans: UNCFD</p> <p>D) How are the environment and economy interdependent to each other?</p> <p>Ans: The environment and the economy are deeply interconnected. The environment provides the natural resources and services that underpin economic activity, while economic activities can significantly impact the environment. This interdependence creates complex relationships and trade-offs that need careful consideration.</p> <p>Here's a more detailed look at the relationship:</p>	4

	1. The Environment as a Resource and Service Provider 2. Economic Activities and Their Environmental Impacts 3. Trade-offs and Interdependence	
16.	<p>Explain Global warming, its causes and effects? Ans: Global warming is the gradual increase in Earth's average surface temperature, primarily caused by human activities like burning fossil fuels and deforestation, which release greenhouse gases into the atmosphere. These gases trap heat, leading to a warming effect and changes in weather patterns.</p> <p>Definition:</p> <ul style="list-style-type: none"> • Global warming is the long-term increase in Earth's average temperature. • It's primarily driven by the greenhouse effect, where gases in the atmosphere trap heat. • This effect is magnified by human activities that release greenhouse gases like carbon dioxide, methane, and nitrous oxide. <p>Causes:</p> <p>a) Burning Fossil Fuels: The combustion of coal, oil, and natural gas for energy releases large amounts of carbon dioxide, a major greenhouse gas.</p> <p>Deforestation: Trees absorb carbon dioxide, so deforestation reduces the Earth's ability to absorb this gas.</p> <p>Industrial Processes: Many industrial activities release greenhouse gases as byproducts.</p> <p>Other Human Activities: Agriculture, waste management, and even air travel contribute to greenhouse gas emissions.</p> <p>Natural Factors: While human activities are the main driver, natural factors like volcanic eruptions and solar variations can also play a role, says Britannica.</p> <p>Effects:</p> <p>Rising Sea Levels: Melting glaciers and ice sheets contribute to rising sea levels, which can flood coastal areas.</p> <p>Changing Weather Patterns: Global warming leads to more frequent and intense heat waves, droughts, floods, and storms.</p> <p>Disruption of Ecosystems: Changes in temperature and precipitation can disrupt ecosystems and impact biodiversity.</p> <p>Health Impacts: Global warming can exacerbate heat-related illnesses and contribute to the spread of infectious diseases.</p> <p>Economic Impacts: Increased costs for infrastructure, disaster relief, and adaptation measures can put a strain on economies.</p>	6

17.	<p>What are the 5 C's of sustainable development?</p> <p>Ans: In the quest to build a sustainable future, it's no longer enough to be merely environmentally conscious. We need a holistic approach that integrates every aspect of our lives. The "5 C's of Sustainability" – Clean, Community, Culture, Care, and Corporate Governance – present a comprehensive framework to guide us towards a more sustainable 2030 and beyond. In this blog, we'll explore these five pillars of sustainability and how they can transform our world.</p> <p>The "5 C's of Sustainability" – Clean, Community, Culture, Care, and Corporate Governance – present a comprehensive framework to guide us towards a more sustainable 2030 and beyond. In this blog, we'll explore these five pillars of sustainability and how they can transform our world.</p> <p>Clean, Community, Culture, Care, and Corporate Governance – present a comprehensive roadmap to a sustainable future. As we move towards 2030 and beyond, embracing these principles can guide our actions, influence our decisions, and shape our world. By integrating these five pillars into our lives, we can create a future that is not just sustainable, but also equitable, resilient, and thriving.</p>	6
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SUSTAINABLE DEVELOPMENT

WORKSHEET-1

TIME:35 Minutes

MM:20

Q NO	QUESTION	MARKS
1	<p>Assertion (A): Sustainable development ensures a better quality of life for present and future generations.</p> <p>Reason (R): It emphasizes meeting the needs of the present without compromising the ability of future generations to meet their own needs.</p> <p>Alternatives:</p> <p>(A) Both A and R are true, and R is the correct explanation of A.</p> <p>(B) Both A and R are true, but R is not the correct explanation of A.</p> <p>(C) A is true, but R is false.</p> <p>(D) A is false, but R is true.</p>	1
2	<p>Assertion (A): India has achieved full sustainability in its economic growth.</p> <p>Reason (R): India ranks high on the Environmental Performance Index.</p> <p>Alternatives:</p> <p>(A) Both A and R are true, and R is the correct explanation of A.</p> <p>(B) Both A and R are true, but R is not the correct explanation of A.</p> <p>(C) A is true, but R is false.</p> <p>(D) A is false, but R is true.</p>	1
3	<p>Assertion (A): Use of non-renewable resources is encouraged in sustainable development.</p> <p>Reason (R): Non-renewable resources are unlimited in supply.</p> <p>Alternatives:</p> <p>(A) Both A and R are true, and R is the correct explanation of A.</p> <p>(B) Both A and R are true, but R is not the correct explanation of A.</p> <p>(C) A is true, but R is false.</p>	1

	(D) A is false, but R is true.	
4	<p>Statement I: Sustainable development involves optimal use of natural resources.</p> <p>Statement II: Sustainable development ignores the needs of future generations.</p> <p>Alternatives:</p> <p>(A) Only Statement I is correct</p> <p>(B) Only Statement II is correct</p> <p>(C) Both Statement I and II are correct</p> <p>(D) Neither Statement I nor II is correct</p>	1
5	<p>Statement I: Solar and wind energy are examples of renewable resources.</p> <p>Statement II: Coal and petroleum can be renewed within one year.</p> <p>Alternatives:</p> <p>(A) Only Statement I is correct</p> <p>(B) Only Statement II is correct</p> <p>(C) Both Statement I and II are correct</p> <p>(D) Neither Statement I nor II is correct</p>	1
6	<p>Statement I: The carrying capacity of the environment is infinite.</p> <p>Statement II: Overuse of resources leads to environmental degradation.</p> <p>Alternatives:</p> <p>(A) Only Statement I is correct</p> <p>(B) Only Statement II is correct</p> <p>(C) Both Statement I and II are correct</p> <p>(D) Neither Statement I nor II is correct</p>	1
7	<p>A village replaces diesel pumps with solar-powered pumps for irrigation. Which principle of sustainable development is being applied here?</p> <p>a) Wasteful use of energy b) Use of renewable resources</p> <p>c) Promotion of fossil fuels d) Increasing carbon footprint</p>	1
8	<p>Ramesh lives in a city where the air quality index remains in the 'hazardous' range. Identify two challenges to sustainable development reflected here.</p> <p>Suggest one measure the government can take.</p>	3
9	<p>A company decides to recycle its industrial waste and uses solar energy in its factories. What does this indicate about its development approach? Mention any three indicators of sustainable development reflected here.</p>	3
10	<p>Aman reads about a city facing severe water shortage and pollution due to rapid industrialization. As a student of economics, suggest sustainable development strategies that could help solve these challenges. Also, explain how indicators like HDI and Carbon Footprint can assess the effectiveness of these strategies.</p>	3
11	 <p>Look at the image and answer:</p>	2+2=4

	a) Identify any two environmental challenges shown.	
	b) Suggest any two sustainable development actions that could improve this situation.	

ANSWERS(worksheet-1)

Q NO	QUESTION	MARKS
1	(A) Both A and R are true, and R is the correct explanation of A.	1
2	(D) A is false, but R is true.	1
3	(D) A is false, but R is true.	1
4	(A) Only Statement I is correct	1
5	(A) Only Statement I is correct	1
6	(B) Only Statement II is correct	1
7	(b) Reduction in biodiversity	1
8	Challenges: Air pollution and health risk Measure: Promote use of electric public transport or reduce industrial emissions	3
9	Approach: Eco-friendly and responsible industrial practices Indicators: Low carbon footprint, conservation of non-renewable energy resources	3
10	Strategies: Use of water-saving technologies Recycling and reuse of water in industries Pollution control regulations Rainwater harvesting and afforestation Promoting green industrial practices Indicators: HDI (Human Development Index) shows overall improvement in health, education, and living standards. Carbon Footprint measures reduction in pollution and harmful emissions, showing environmental improvement.	3
11	a) Air pollution, Water pollution b) Use of pollution control devices, treatment of industrial waste before discharge	4

Unit: 8 Development Experience of India –

A comparison with Neighbours (8 MARKS)

Main Contents:

1. A comparison with neighbors: -

- India and Pakistan
- India and China

2. **Issues:** Economic Growth, Population, Sectoral Development and other Human Development Indicators

Introduction: after independence the development experience of India can be broadly classified into two parts:

- Government controlled economy: Five years Economic Planning as commanding height (1950 – 1990)

b) Market Economy: Economic Reforms with Liberalization, Privatization & Globalization as Commanding Forces (1991 and onwards)

Due to economic transformations as an effect of Globalization, to strengthen own economies nations have formed regional and global groups and customs union like:

- SAARC: South Asian Association for Regional Cooperation
- European Union
- ASEAN: The Association of South East Asian Nations
- G-20: Group of 20 Nations of which India is a member
- G-8: Group of 8 Nations, India is not a member of it

To understand the changes undertaken in India, Pakistan & China, the following time frame is important:

Year	Important Events
1947 (14 August)	Independence of Pakistan
1947 (15 August)	Independence of India
1949	Emerging of Peoples Republic of China
1951	First Five Year plan of India
1953	First Five year plan of China
1956	First Five year plan of Pakistan
1958	Introduction of Great Leap Forward
1965	Initiation of Cultural revolution by China
1970s	Nationalization of heavy industries in Pakistan
Late 1970s (1979)	Introduction of One child Norm in China
1978	Economic Reforms started in China
1988	Economic Reforms initiated in Pakistan
1991	Economic Reforms introduced in India
2015	Abolition of One Child Norm in China

- **Development Strategies of China:**

- 1) One party rule, nationalization of all factors of production
- 2) Introduction of Great Leap Forward in 1958 for rapid industrialization
- 3) Introduction of Great Proletarian Cultural revolution in 1965 to uphold the dignity of labour
- 4) Introduction of Commune system in 1958 for large scale collectivization of economic activities and strengthening local Governments
- 5) Economic reforms were introduced in 1978 and foreign investments were allowed with state control
- 6) In order to attract more number of foreign investors, special Economic Zones were set up since 1979.

- **Development strategies of Pakistan: -**

- 1) Pakistan followed the mixed economy model with co-existence of public & private sectors
- 2) Introduced tariff protection and import substitution.
- 3) Introduction of Green Revolution to attain self sufficiency in food grains productions.
- 4) Capital goods industries were nationalized in 1970s
- 5) Shift of policy from nationalization to denationalization in 1980s to attract private investment
- 6) Introduction of Economic reforms in 1988 to stimulate economic growth

On Demographic Indicators

The comparison is based on select demographic indicators like: -

- Estimated population
- Annual growth rate of population
- Density of population
- Sex ratio
- Fertility rate
- Urbanization

Table: 1.2: Select demographic indicators 2017-18

Country	Estimated Population (in Millions)	Annual growth of population	Density (Per Sq. km)	Sex Ration	Fertility rate	Urbanization (as % of Population)
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

Brief explanations:

- **Estimated population:** China is having the largest population of 1393 millions, closely followed by India with 1352 millions, where as population of Pakistan is quite low of 212 million which is roughly one-seventh of both China & India.
- **Annual growth of population:** China being the most populous country, its population growth rate is much lower than India or Pakistan (0.046% to 1.03% in India & 2.05% in Pakistan) owing to Single Child Norm.
- **Population Density:** Although China is the most populous country, its population density per square KM is lower than India & Pakistan (455 & 275 respectively)
- **Sex Ratio:** In all three countries proportion of females per 1000 males is biased and low compared to developed countries
- **Fertility Rate:** Fertility rate as defined by the number of children borne by a woman in the reproductive age of 15-45 years on an average is highest in Pakistan (3.6 births per woman in comparison to India (2.2 births) & China (1.7 births)
- **Urbanization:** In comparison to 59% of the population living in urban areas, its quite low in both India (34%) & Pakistan (37%)

COMPARATIVE ANALYSIS ON BASIS OF ECONOMIC INDICATORS

GDP Growth Rate & Sectoral Contribution with trends in Output Growth

Table: 1.3: Annual Growth of GDP (%), 1980-2017

Country	1980-1990	2015-2017
India	5.7	7.3
China	10.3	6.8
Pakistan	6.3	5.3

Brief Explanations:

- During 1980-90: China had managed to achieve a double digit growth of 10.3% per annum, where as surprisingly Pakistan surpassed India with a meager higher growth rate (6.3% to 5.7% per annum).

- During 2015-2017: There has been a decline in Pakistan & China's growth rate, whereas India could manage to increase its annual growth rate from 5.7% to 7.3% per annum.

Table: 1.4: Sectoral share of employment & Gross Value added (%) in 2018-19

Sector	Contribution to GVA			Distribution of Work Force		
	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

Table: 1.5: Trends in output growth in different sectors, 1980-2018

Country	1980-1990			2014-2018		
	Agriculture	Industry	Services	Agriculture	Industry	Services
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

Explanation: to be done by data interpretation (for both the tables)

COMPATIVE ANALYSIS ON THE BASIS OF SELECT HUMAN DEVELOPMENT INDICATORS

Table: 1.6: Some selected indicators of Human Development, 2017-2019

Items/Indicators	India	China	Pakistan
Human Development Index (Value)	0.645	0.761	0.557
Rank (based on HDI)	130	87	154
Life expectancy at birth	69.7	76.9	67.3
Mean years of schooling (% of 15 years & above aged)	6.5	8.1	5.2
Gross national Income per capita (PPP US \$)	6,681	16,057	5,005
% of people living below poverty line (at 3.20 \$ in 2011)	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 sources	93	96	91
% of undernourished Children	37.9	8.1	37.6

- Source: HDI Report 2019 & 2020 and World development Indicators (www.worldbank.org)
- As per the HDI Report 2019, the value and Rank of HDI of China are better than both India & Pakistan, though the differences are not so significant.
- Life Expectancy at Birth:** It refers to the average number of years for which people are expected to live and it reflects the level of health facilities & civic amenities available. This is highest in China with 76.9 years compared to 69.7 years & 67.3 years in India & Pakistan respectively.
- GNP per capita:** Higher GNP per capita plays a major role in attaining higher HDI Rank. Here also GNP per capita in China is much higher than both India & Pakistan.
- People below poverty line:** No of people without having sufficient income or capacity of expenditure to avail minimum necessities of life. The numbers in

India & Pakistan are quite high (21.9% & 24.3%) compared to significantly low in China (1.7%)

- **Infant Mortality Rate:** This refers to the number of live births per 1000 before attaining the age of one year. It implies the level of health care facility, hygiene
- & sanitation. China has considerable advantage in this area than both India & Pakistan.
- Other points may also be discussed.

Based on the above discussions, country wise performances may be summed up for comparison:

1. India performed moderately as the data available:
 - In a democratic set up, Economic Reforms introduced in 1991 proved to be helpful in accelerating economic growth.
 - Majority of the population still dependent on agriculture
 - Infrastructures need to be developed further
 - Nearly one fourth of the population still lives below poverty lines
 - Per capita income and standard of living needs to be raised.
2. Though absence of political freedom and democracy in China, performance of the Chinese economy is far better compared to India and Pakistan:
 - Consistent high rate of economic growth and alleviation of Poverty.
 - Successfully operating under market economy without losing political commitment.
 - Achieving moderate to high social goals by creating additional social 7 economic opportunities
 - Retaining Govt control over the economy while allowing private capital to operate
 - Considerable growth in social sector through public investment
3. Pakistan's performance has been the lowest out of the three countries owing to:
 - Lack of political stability
 - Over dependence on remittances and foreign aid
 - Volatile performance of agricultural sector
 - Industrial sector is showing moderate rate of growth
 - Price rise and fall in production made the economy more vulnerable

IMPORTANT QUESTIONS

MULTIPLE CHOICE QUESTIONS

Q1. Under _____, people collectively cultivated lands.

- a) GLF b) Five-year plan c) Commune system d) None of the above

Answer: c)

Q2. In the initial phase of reforms in China, reforms were introduced under _____.

- a) Agriculture b) Foreign trade c) Investment sector d) All of the above

Answer: d)

Q3. In terms of population control measures, which country showed better results due to strict policies? A) India B) China C) Pakistan D) None of the above

Answer: B

Q4. In the Human Development Index (HDI), which of the following correctly ranks the countries from highest to lowest in most recent UNDP reports?

A) China > India > Pakistan B) India > China > Pakistan C) China > Pakistan > India
D) Pakistan > India > China

Answer: A

Q5. What policy strategy was common to both India and Pakistan before the economic reforms of the 1990s?

A) Heavy reliance on privatization B) Adoption of capitalist models
C) Import substitution industrialization D) Full convertibility of currency

Answer: C

Q6. Which of these factors contributed the least to China's high growth rate post-1978 reforms?

A) Decentralized enterprise control B) SEZs and FDI attraction C) Rural Communes
D) Agricultural reform and productivity growth

Answer: C

Q7. Assertion (A): India has a higher share of the service sector in GDP compared to China and Pakistan.

Reason (R): India's industrial policies have strongly favoured heavy industries over services.

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

Answer: c)

Q8. Assertion (A): India, China, and Pakistan have similar starting points of development post-independence.

Reason (R): All three countries were primarily agrarian economies with low industrial development.

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

Answer: a)

Q9. Assertion (A): India's service sector contributes more to GDP than agriculture and industry. Reason (R): India's economic reforms focused primarily on the development of agriculture.

A) Both A and R are true, and R is the correct explanation of A.
B) Both A and R are true, but R is not the correct explanation of A. C) A is true, but R is false. D) A is false, but R is true.

Answer: C

SHORT ANSWER TYPE QUESTION

Q1. Compare the sectoral contribution (agriculture, industry, and services) to the GDP of India, China, and Pakistan. What does this indicate about their level of development?

Answer: If we talk about country wise sectoral contribution then,

India: The service sector contributes the most to GDP, followed by industry and agriculture.

China: The industrial sector dominates, followed by services and agriculture.

Pakistan: The service sector leads, but agriculture still holds a significant share.

Overall, China's dominance in industry reflects its strong manufacturing base and rapid industrialization. India's growth is driven by services, especially IT and communications. Pakistan's higher dependence on agriculture indicates a relatively less developed economic structure.

Q2. Highlight the role of human development in comparing India, China, and Pakistan's progress.

Answer:

Human development indicators such as life expectancy, literacy rate, and per capita income provide a better measure of development than just GDP.

- China ranks highest due to strong public investment in health and education.
- India has made progress, especially in education, but still faces challenges in health and income inequality.
- Pakistan lags behind, with lower literacy and life expectancy, mainly due to underinvestment in social sectors.

These indicators show that China has been more successful in achieving inclusive development.

Q3. Which country among India, China, and Pakistan has achieved the highest success in reducing poverty and why?

Answer:

China has been the most successful in reducing poverty due to rapid industrialization, export-led growth, and government investment in infrastructure and rural development. Reforms since 1978 helped lift hundreds of millions out of poverty. India has also reduced poverty but at a slower pace, while Pakistan still struggles with a relatively high poverty rate due to political instability and limited economic diversification.

Q4. What is the significance of the industrial sector in the development of China compared to India and Pakistan?

Answer:

China's industrial sector has been a major driver of its economic success, contributing a large share to GDP and employment.

- Through SEZs and export-led policies, China became a global manufacturing hub.
- India has a smaller industrial base; its development is more service-sector driven.
- Pakistan's industrial sector is relatively underdeveloped, with limited diversification.

Thus, China's focus on industrialization helped it achieve faster growth and poverty reduction.

Q5. Compare the economic growth rates of India, Pakistan, and China after their respective reforms.

Answer:

- China experienced the highest economic growth, with average GDP growth rates often exceeding 9–10% post-1978 reforms.
- India saw moderate but consistent growth, especially after 1991, with GDP growth averaging 6–7%.
- Pakistan had periods of growth, especially during the 1960s and early 2000s, but overall growth remained less stable and lower, averaging around 4–5%.

China's early and aggressive reforms helped it outperform both India and Pakistan in terms of economic growth.

LONG ANSWER TYPE QUESTIONS:

Q1. Compare and analyse the development strategies adopted by India and China since their independence. What impact have these strategies had on their respective economies?

Answer: India and China both gained independence around the mid-20th century. While both initially followed socialist models of development, their strategies diverged significantly over time.

India:

- Adopted a mixed economy model with an emphasis on centralized planning.
- Priority was given to public sector enterprises and import substitution industrialization (ISI).
- The economy remained largely closed until the 1991 liberalization, which introduced LPG reforms: Liberalization, Privatization, and Globalization.

China:

- Initially followed a fully centrally planned economy with focus on collectivization and state ownership.
- In 1978, under Deng Xiaoping, China introduced economic reforms:
 - De-collectivization of agriculture.
 - Establishment of Special Economic Zones (SEZs).
 - Encouragement of foreign investment.
 - Shift toward a market-oriented socialist economy.

Impact:

- China experienced faster GDP growth, became a manufacturing hub, and lifted a large population out of poverty.
- India's growth was slower initially, but post-1991 reforms led to stronger growth, especially in the services sector.

Conclusion:

China's earlier and more aggressive reforms gave it an edge in industrial growth and poverty reduction, while India's democratic structure led to a more gradual reform process.

Q2. Examine the common challenges faced by India, Pakistan, and China despite their different development strategies. How have these countries responded to these challenges?

Answer:

Despite their varied development paths, all three nations face the following common challenges:

1. Population Pressure:

- All three are highly populated nations.
- Strain on resources, employment, and infrastructure.
- Responses: Family planning policies (e.g., China's one-child policy, now relaxed), education and awareness in India and Pakistan.

2. Poverty and Inequality:

- Economic growth has not equally benefited all regions and social groups.
- India and Pakistan still have significant rural poverty; China has urban-rural income gaps.

3. Unemployment and Underemployment:

- Especially in the agriculture sector and among youth.

- Vocational training and employment schemes introduced in all three nations.

4. Environmental Degradation:

- Rapid industrialization and urbanization have led to pollution, deforestation, and water scarcity.
- China is investing in green energy; India and Pakistan are slowly adopting sustainable practices.

5. Infrastructure Deficiencies:

- Inadequate transport, electricity, and sanitation in many areas, especially in Pakistan and parts of India.

With all the mentioned challenges these countries responded in the following ways:

- India launched schemes like Smart Cities Mission and PMAY.
- China focused on infrastructure as a growth driver.
- Pakistan has collaborated on projects like CPEC (China-Pakistan Economic Corridor).

Conclusion:

While their strategies differ, India, China, and Pakistan must continue addressing structural challenges through inclusive, sustainable development and regional cooperation


WORK SHEET-2

Time: 30 Min

Max Marks: 20

S.No.	Questions	Marks
1.	<p>Read the following statements carefully.</p> <p>Statement 1: Both India and Pakistan initiated their economic reforms without any external pressures.</p> <p>Statement 2: Pakistan has successfully implemented the SEZ policy and reaped its benefits using the Export Promotion policy.</p> <p>In the light of the given statements, choose the correct alternative:</p> <p>a) Statement 1 is true and statement 2 is false</p> <p>b) Statement 1 is false and statement 2 is true</p> <p>c) Both statements 1 and 2 are true</p> <p>d) Both statements 1 and 2 are false</p>	1

2.	<p>The understanding of the economy of neighboring country is essential because</p> <p>(Fill in the blank with correct alternative)</p> <p>a) It allows countries to better comprehend their own strengths and weaknesses</p> <p>b) It helps countries to identify their competitors</p> <p>c) For overall human development</p> <p>d) All of the above</p>	1										
3.	<p>From the set of the events given in column I and corresponding facts given in Column II, choose the correct pair of statement:</p> <table><tr><td>COLUMN- I</td><td>COLUMN- II</td></tr><tr><td>A. Dual pricing</td><td>I. Economic Reforms of 1991</td></tr><tr><td>B. Setting up of Special Economic Zones in China</td><td>II. To attract Direct foreign Investment</td></tr><tr><td>C. Commune System</td><td>III. Backyard based Industrial production units</td></tr><tr><td>D. Great Proletarian Cultural Revolution</td><td>IV. Collective Farming</td></tr></table> <p>Alternatives:</p>	COLUMN- I	COLUMN- II	A. Dual pricing	I. Economic Reforms of 1991	B. Setting up of Special Economic Zones in China	II. To attract Direct foreign Investment	C. Commune System	III. Backyard based Industrial production units	D. Great Proletarian Cultural Revolution	IV. Collective Farming	1
COLUMN- I	COLUMN- II											
A. Dual pricing	I. Economic Reforms of 1991											
B. Setting up of Special Economic Zones in China	II. To attract Direct foreign Investment											
C. Commune System	III. Backyard based Industrial production units											
D. Great Proletarian Cultural Revolution	IV. Collective Farming											

	a) A – I	b) B – II	c) C – III	d) D – IV	
4.	<p>Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:</p> <p>Assertion (A): In the late 1970s, China's population growth rate had sharply declined.</p> <p>Reason (R): China has witnessed an increase in the proportion of elderly people owing to stringent family planning programs.</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).</p> <p>(c) Assertion (A) is true but Reason (R) is false.</p> <p>(d) Assertion (A) is false but Reason (R) is true.</p>				1
5.	<p>In the late 1970s, China introduced the One Child Policy that led to arrest in the population coupled with skewed sex ratio."</p> <p>Justify the given statement with valid arguments in support of your answer.</p>				3
6.	<p>Read the extract given below and answer the questions on the basis of the same:</p> <p>Though India, Pakistan and China have totally different political systems, but all of them have followed plans for their economic and social development. India and Pakistan have followed the path of mixed economy. China, on the other hand, had command economy. All the three countries launched their economic development programme almost simultaneously in the early part of the decade of 1950s. While India and Pakistan depended heavily on the public sector for giving a big push to the economy, China was absolutely the state controlled economy. Till the early 1980s, the major development indicators of all the three nations such as growth rate, sectorial distribution of output/income and employment and human development were more or less similar. The level of development was also low in all these three countries. But with the introduction of economic reforms, changes in their level of development became visible. As a result of various policy measures in three countries, China has surpassed both India and Pakistan in terms of social and economic development.</p> <p>Q1. What is peculiar about the structural transformation process in context of Indian and Pakistan economy?</p> <p>Q2. Which factor is not considered while constructing the HDI Index?</p> <p>Q3. State any one difference between Mixed economy and Command economy.</p>				3
7.					4

	<p>‘The reform process implemented in the late 1970s, commonly known as China’s open door policy, encompassed a wide range of reforms across sectors like agriculture, investment, industry etc. These reforms played a pivotal role in driving the rapid growth of the Chinese economy over subsequent decades.’</p> <p>In the light of the given text, discuss any two reforms responsible for the rapid economic growth of China.</p>	
8.	<p>Case Study:</p> <p>India, China, and Pakistan started with similar levels of development. Today, China is ahead of both in terms of industrial output, while India leads in service sector exports. Pakistan, however, is still agriculture-dependent.</p> <p>a) Identify one strength and one weakness of each country’s pectoral composition.</p> <p>b) How does this affect their economic growth?</p> <p>c) Suggest a strategy for Pakistan to improve its growth.</p>	6

Answer of Worksheet 2

1. a) Statement 1 is true and statement 2 is false
2. d) All of the above
3. b) B – II
4. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- 5 .The One Child Policy controlled population growth, reducing dependency but led to an imbalanced sex ratio and aging population, creating future economic burdens.
6. Q1. Structural transformation in India and Pakistan saw slow shift from agriculture to industry/services.
- Q2. Military strength or political system is not considered in HDI Index.
7. Two reforms:
 - Introduction of Special Economic Zones (SEZs)
 - Opening up to Foreign Direct Investment (FDI)
8. a) India: Strength – Services; Weakness – Manufacturing
 China: Strength – Manufacturing; Weakness – Aging population
 Pakistan: Strength – Agriculture; Weakness – Industrial development
- b) China’s industrial strength boosted exports; India’s service sector drives GDP; Pakistan lags in growth.
- c) Pakistan should invest in education, industrialization, and attract FDI to diversify its economy.

UNIT 8- DEVELOPMENT EXPERIENCE OF INDIA – A COMPARISON WITH NEIGHBOURS WORK SHEET- 3

Name of Student

Roll No.....

Time: 30 Min

Max Marks: 20

Time: 30 Min		Max Marks: 20	
S.No.	Questions	Marks	
1.	Identify the correctly matched pair in Column A and Column B from the following:	1	
	COLUMN- A		COLUMN- B
	1. India		(a) Economic reforms in 1997
	2. Pakistan		(b) Economic reforms in 1991
	3. China		(c) Economic Reforms in 1978
	4. India		(d) GST rolled out in 1999
	(a) 1-(b), 2-(c), 3-(d), 4-(a) (b) 1-(c), 2-(b), 3-(a), 4-(d)		
	(c) 1-(a), 2-(b), 3-(c), 4-(d) (d) 1- (d), 2-		

	(b), 3-(a), 4-(c)																	
2.	<p>Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:</p> <p>Assertion (A): In the late 1970s, China's population growth rate had sharply declined.</p> <p>Reason (R): China has witnessed an increase in the proportion of elderly people owing to stringent family planning programs.</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).</p> <p>(c) Assertion (A) is true but Reason (R) is false.</p> <p>(d) Assertion (A) is false but Reason (R) is true</p>	1																
3.	<p>Read the following statement carefully:</p> <p>Statement 1: China introduced structural economic reforms on its own, without any pressure.</p> <p>Statement 2: Scholars argue that in India, the economic reforms process led to the worsening of all the economic indicators.</p> <p>In the light of the given statements, choose the correct alternatives from the following:</p> <p>(a) Statement 1 is true and Statement 2 is false</p> <p>(b) Statement 1 is false and Statement 2 is true</p> <p>(c) Both Statements 1 and 2 are true.</p> <p>(d) Both Statements 1 and 2 are false.</p>	1																
4.	<p>Arrange the following events of China in chronological order and choose the correct alternative:</p> <div><div>1. Great Proletarian Cultural Revolution campaign</div><div>2. Great Leap Forward</div><div>3. Introduction of Economic Reforms</div><div>4. First five-year plan</div></div> <p>Choose the correct alternative:</p> <div><div>a) 2, 4, 3, 1</div><div>b) 4, 2, 1, 3</div><div>c) 2, 4, 1, 3</div><div>d) 4, 1, 2, 3</div></div>	1																
5.	<p>Observe the bar graph below and answer the following questions:</p> <div><p>Literacy Rate (%)</p><table><thead><tr><th>Country</th><th>Literacy Rate (%)</th></tr></thead><tbody><tr><td>India</td><td>77.7%</td></tr><tr><td>China</td><td>96.8%</td></tr><tr><td>Pakistan</td><td>58.0%</td></tr></tbody></table></div> <p>a) Arrange the countries in descending order of literacy rates.</p> <p>b) Give two reasons why Pakistan lags behind in literacy compared to China and India.</p> <p>c) How does a high literacy rate contribute to overall human development?</p>	Country	Literacy Rate (%)	India	77.7%	China	96.8%	Pakistan	58.0%	3								
Country	Literacy Rate (%)																	
India	77.7%																	
China	96.8%																	
Pakistan	58.0%																	
6.	<p>Study the data table below carefully and answer the questions.</p> <table><thead><tr><th>Country</th><th>Total Population (in crores, 2023)</th><th>Population Growth Rate (%)</th><th>Population Density (per sq. km)</th></tr></thead><tbody><tr><td>India</td><td>141.3</td><td>1.0</td><td>470</td></tr><tr><td>China</td><td>141.3</td><td>-0.1</td><td>152</td></tr><tr><td>Pakistan</td><td>241.0</td><td>2.4</td><td>287</td></tr></tbody></table>	Country	Total Population (in crores, 2023)	Population Growth Rate (%)	Population Density (per sq. km)	India	141.3	1.0	470	China	141.3	-0.1	152	Pakistan	241.0	2.4	287	3
Country	Total Population (in crores, 2023)	Population Growth Rate (%)	Population Density (per sq. km)															
India	141.3	1.0	470															
China	141.3	-0.1	152															
Pakistan	241.0	2.4	287															

India	141	0.9%	464
China	142	-0.2%	153
Pakistan	24	1.9%	287

- a) Which country has the highest population density and why is this a concern for resource management?
- b) Why is China's growth rate negative despite having the highest population?
- c) Suggest one economic implication of Pakistan's high population growth rate.

7. Case Study: India, Pakistan, and China started their economic planning around the same time. However, China adopted market reforms in 1978, whereas India and Pakistan liberalized much later in the 1990s. China's emphasis on manufacturing and export-led growth gave it an edge in development indicators.
Answer the following:
a. Identify two factors that contributed to China's economic success post-1978.
b. What can India learn from China's development experience?
c. Highlight two difference in the approach between India and Pakistan's economic reforms.

8. (A) Study the data table below carefully and answer the questions.
(3)
- | Country | Total Population (in crores, 2023) | Population Growth Rate (%) | Population Density (per sq. km) |
|----------|------------------------------------|----------------------------|---------------------------------|
| India | 141 | 0.9% | 464 |
| China | 142 | -0.2% | 153 |
| Pakistan | 24 | 1.9% | 287 |
- Answer the following:
a) Which country has the highest population density and why is this a concern for resource management?
(1)
b) Why is China's growth rate negative despite having the highest population?
(1)
c) Suggest one economic implication of Pakistan's high population growth rate.
(1)
- (B) Study the table below and answer the questions: (3)
- | Country | Literacy Rate (%) | Life Expectancy (Years) |
|----------|-------------------|-------------------------|
| India | 77.7 | 70.8 |
| China | 96.8 | 78.2 |
| Pakistan | 58.0 | 67.3 |
- a) Which country performs the best in both indicators? (1)
b) What could be the reason for low life expectancy in Pakistan? (1)
c) Why is literacy important for human development? (1)

Worksheet 3

1. (a) 1-(b), 2-(c), 3-(d), 4-(a)

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

3. (a) Statement 1 is true and Statement 2 is false

4. b) 4, 2, 1, 3

5.a) China > India > Pakistan

b) Pakistan invests less in education and has political instability.

c) High literacy improves employment, innovation, and health awareness.

6. a) India – 464 per sq. km, which strains resources like water, housing, and jobs.

b) China's low birth rate and aging population from one-child policy causes negative growth.

c) High population growth in Pakistan leads to unemployment, poverty, and pressure on services.

7. a) Reforms like FDI and SEZs

b) India can learn to focus on manufacturing and infrastructure

c) India's reforms were externally pressured, Pakistan's reforms faced political hurdles

8A:

a) India – highest density; concern due to limited resources and infrastructure strain.

b) China's population decline is due to low birth rate from earlier strict family planning.

c) Pakistan's high growth may lead to increased dependency ratio, straining economy.

8B:

a) China performs best in both.

b) Poor healthcare, low literacy, and underinvestment

c) Literacy enhances skills, job opportunities, and economic participation

Questions with Answers
Senior School Certificate Examination 2025
ECONOMICS (Subject Code–030)
[Paper Code: 58/7/1]

Maximum Marks: 80

Q. No.	EXPECTED ANSWER / VALUE POINTS	Marks				
SECTION -A (Macro Economics)						
1.	<p>Read the following statements carefully :</p> <p><i>Statement 1:</i> Keeping other things constant, there exists positive correlation between the price of foreign exchange and its demand.</p> <p><i>Statement 2:</i> The foreign exchange rate indicates a country's purchasing power in international markets.</p> <p>In the light of the given statements, choose the correct option from the following :</p> <p>(A) Statement 1 is true and Statement 2 is false.</p> <p>(B) Statement 1 is false and Statement 2 is true.</p> <p>(C) Both Statements 1 and 2 are true.</p> <p>(D) Both Statements 1 and 2 are false.</p> <p>Ans. (B) Statement 1 is false and Statement 2 is true.</p>	1				
2.	<p>Using the given information, complete the following table: (Choose the correct option)</p> <p>Options:</p> <table><tr><td>(A) 125, 100</td><td>(B) 125, 110</td></tr><tr><td>(C) 6.5, 125</td><td>(D) 100, 6.5</td></tr></table> <p>Ans. (C) 6.5, 125</p>	(A) 125, 100	(B) 125, 110	(C) 6.5, 125	(D) 100, 6.5	1
(A) 125, 100	(B) 125, 110					
(C) 6.5, 125	(D) 100, 6.5					
3.	<p>_____ releases data of money supply in India.</p> <p>(Choose the correct option to fill in the blank)</p> <p>(A) Corporation Bank</p> <p>(B) Reserve Bank of India</p> <p>(C) Commercial Banks</p> <p>(D) State Bank of India</p> <p>Ans. (B) Reserve Bank of India</p>	1				
4.	<p>Read the following statements – Assertion (A) and Reason (R) carefully. Choose the correct option from those given below:</p> <p><i>Assertion (A):</i> Shipping service provided by an Indian company to foreign companies will be recorded in the current account of Balance of Payments (BOP).</p> <p><i>Reason (R):</i> Current account of Balance of Payments (BOP) does not alter the status of the asset or liabilities of the residents of India.</p> <p>Options:</p> <p>(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).</p> <p>(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).</p>					

	<p>(C) Assertion (A) is true, but Reason (R) is false. (D) Assertion (A) is false, but Reason (R) is true. Ans. (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p>	1
5.	<p>Commercial banks are regarded as money creators because: (Choose the correct option) (A) they purchase securities from the Central Bank. (B) loans provided by them create deposits. (C) they act as a banker to the government. (D) they regulate the lending rate in the economy Ans. (B) loans provided by them create deposits.</p>	1
6.	<p>Suppose, the consumption function is given as: $C = 205 + 0.9 Y$ (where C = Total Consumption and Y = National Income) The value of Investment Multiplier (K) would be ____. (Choose the correct option to fill in the blank) (A) 0.09 (B) 10.0 (C) 0.9 (D) 9.0 Ans. (B) 10.0</p>	1
7.	<p>Marginal Propensity to Consume (MPC) exhibits the slope of _____ function. (Choose the correct option to fill in the blank) (A) Saving (B) Consumption (C) Production (D) Cost Ans. (B) Consumption</p>	1
8.	<p>Read the following statements carefully: <i>Statement 1:</i> Open Market Operations refers to purchase/sale of Government Securities (G- Sec) by the Central Bank. <i>Statement 2:</i> To decrease money supply, Central Bank will sell the Government Securities to commercial banks. In the light of the given statements, choose the correct option from the following: (A) Statement 1 is true and Statement 2 is false. (B) Statement 1 is false and Statement 2 is true. (C) Both Statements 1 and 2 are true. (D) Both Statements 1 and 2 are false. Ans. (C) Both Statements 1 and 2 are true.</p>	1
9.	<p>Aggregate expenditure in the economy during an accounting year is also known as _____. (Choose the correct option to fill in the blank) (A) Autonomous investment (B) Aggregate supply (C) Aggregate demand (D) Induced investment Ans. (C) Aggregate demand</p>	1
10.	<p>The 45° line in Keynesian economics indicates _____. (Choose the correct option to fill in the blank) (A) Income > Consumption (B) Savings > Investments (C) Consumption > Income (D) Income = Consumption Ans. (D) Income = Consumption</p>	1

11. (a)	<p>Calculate the value of 'Sales' from the following data:</p> <table border="1" data-bbox="363 203 1206 622"> <thead> <tr> <th>S. No.</th><th>Particulars</th><th>Amount (in ₹ lakh)</th></tr> </thead> <tbody> <tr> <td>(i)</td><td>Subsidies</td><td>200</td></tr> <tr> <td>(ii)</td><td>Operating surplus</td><td>500</td></tr> <tr> <td>(iii)</td><td>Opening stock</td><td>100</td></tr> <tr> <td>(iv)</td><td>Closing stock</td><td>600</td></tr> <tr> <td>(v)</td><td>Intermediate consumption</td><td>3,000</td></tr> <tr> <td>(vi)</td><td>Consumption of fixed capital</td><td>700</td></tr> <tr> <td>(vii)</td><td>Profits</td><td>750</td></tr> <tr> <td>(viii)</td><td>Net Value Added at Factor Cost (NVA_{FC})</td><td>2,000</td></tr> </tbody> </table> <p>Ans. Value of Sales = (viii) – {(iv) – (iii)} + (v) – (i) + (vi) = 2,000 – (600 – 100) + 3,000 – 200 + 700 = ₹ 5,000 lakh</p>	S. No.	Particulars	Amount (in ₹ lakh)	(i)	Subsidies	200	(ii)	Operating surplus	500	(iii)	Opening stock	100	(iv)	Closing stock	600	(v)	Intermediate consumption	3,000	(vi)	Consumption of fixed capital	700	(vii)	Profits	750	(viii)	Net Value Added at Factor Cost (NVA _{FC})	2,000	<p>1 ½ 1 ½</p>
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(b)	<p style="text-align: center;">OR</p> <p>State and explain any two precautions that must be taken while estimating national income by the income method.</p> <p>Ans. Two precautions to be taken while estimating National Income by Income method are:</p> <ul style="list-style-type: none"> • Transfer Income should not be included as they are unilateral in nature. • Income from sale of second-hand goods should not be included as it does not add to the flow of goods and services in the economy in the current year. <p>(Any other valid precaution to be awarded marks)</p>	<p>3</p> <p>1 ½ 1 ½</p> <p>3</p>																											
12.	<p>Identify and explain any one function of the Central Bank as indicated in the image given below:</p> <div data-bbox="397 1270 1106 1503" data-label="Diagram"> </div> <p>Ans. One of the indicated functions of the Central Bank i.e. Reserve Bank of India (RBI) is the Banker's Bank and Supervisor.</p> <p>RBI accepts deposits from commercial banks and also advances loans to them as and when required. It maintains reserves of all commercial banks and utilizes it to settle inter-bank claims. Being the supreme authority of the banking system, it acts as the financier of last recourse to the commercial banks. RBI supervises, regulates and controls the commercial banks.(Any other valid function to be awarded marks) <i>Note: The following question is for the Visually Impaired Candidates only in lieu of Q. No. 12.</i></p> <p>Explain any one function of the Central Bank.</p> <p>Ans. Central Bank acts as the Banker's Bank and Supervisor. Central Bank accepts deposits from commercial banks and also advances loans to them as and when</p>	<p>1</p> <p>2</p> <p>3</p>																											

	required. It maintains reserves of all commercial banks and utilizes it to settle inter-bank claims. Being the supreme authority of the banking system, it acts as the financier of last recourse to the commercial banks. Central Bank supervises, regulates and controls the commercial banks. (Any other valid function to be awarded marks)	
13.	<p>(i) "In an economy, ex-ante investment (I) exceeds ex-ante savings (S)." Explain the likely impact of the given situation on output, employment and income.</p> <p>Ans. When ex-ante investment (I) exceeds ex-ante savings (S) it means households are planning to consume more than what the firms expected them to consume. This will lead to unintended decumulation of inventories. To restore the desired/intended level of inventories, producers may expand production in the economy which may increase the output, employment and income level.(To be marked as a whole)</p> <p>Define excess demand.</p> <p>Ans. Excess demand refers to a situation when Aggregate Demand (AD) exceeds Aggregate Supply (AS) corresponding to the full employment level of output.</p>	<p>3</p> <p>1</p> <p>4</p>
14.	<p>(i) Distinguish between Balance of Payments and Balance of Trade.</p> <p>Ans. Balance of Payments (BoP) is an accounting statement that provides a systematic record of all economic transactions between residents of a country and the rest of the world over a given period of time. It includes transactions in goods, services and assets. Whereas,</p> <p>Balance of Trade (BOT) is the difference between the value of exports and value of imports of goods of a country over a given period of time. It includes transactions in goods only.</p> <p>(ii) Define Current Account Surplus.</p> <p>Ans. Current Account Surplus (CAS) arises when receipts from exports of goods & services and unilateral transfers are greater than the payments for imports of goods & services and unilateral transfers.</p>	<p>1 ½</p> <p>1 ½</p> <p>1</p>
	OR	4
(b)	<p>(i) Using suitable example, distinguish between Foreign Direct Investments (FDI) and Foreign Institutional Investments (FII).</p> <p>Ans. Foreign Direct Investment (FDI) refers to direct investments from abroad in physical assets with a considerable degree of influence and control over the firm. Whereas;</p> <p>Foreign Institutional Investment (FII) refers to investments from abroad in stocks, bonds or other financial assets and do not entail active management or control over the firm.</p> <p>(ii) State one example of External Assistance as a component of capital account.</p> <p>Ans. Bilateral loans(Any other valid example to be awarded marks)</p>	<p>1 ½</p> <p>1 ½</p> <p>1</p>
		4
15.	<p>"Margin requirements are extremely helpful in correcting the situation of deflationary gap in an economy".</p> <p>Justify the given statement with valid arguments.</p>	

Ans. Margin requirement refers to the difference between the amount of the loan and the value of the security offered by the borrower against the loan. To correct the situation of the deflationary gap, the Central Bank may reduce the margin requirement. It may lead to an increase in the amount of loan available on the security offered. This will increase the availability of credit and consequently, the Aggregate Demand in the economy will increase. Thus, by altering the margin requirements, the Central Bank can alter the amount of loans made against securities by the banks.

(To be marked as a whole)

4

16.
(a)

(i) "Domestic income is always less than national income."

Do you agree with the given statement? Support your answer with valid arguments.

Ans. No. Net Factor Income from Abroad (NFIA) needs to be added to Domestic Income to arrive at the value of National Income. Domestic Income will be less than National Income, when NFIA is positive, i.e. factor income from abroad is greater than factor income to abroad. Whereas, Domestic Income will be more than National Income, when NFIA is negative i.e. factor income from abroad is less than factor income to abroad. On the other hand, if NFIA is zero, Domestic income will be equal to National Income.

(To be marked as a whole)

3

(ii) Distinguish between positive externalities and negative externalities with suitable examples.

Ans. Positive externalities refer to benefits caused by one entity to another without being paid for it.

Example: Newly developed public park.

Whereas;

Negative externalities refer to harms caused by one entity to another, without being penalised for it.

Example: Smoke emitted by a factory.

(Any other suitable example to be awarded marks)

OR

1

½

1

½

6

(b)

(i) "In a two-sector economy, consumption expenditure by households is always equal to aggregate expenditure on goods and services produced by the firms."

Do you agree with the given statement ? Support your answer with a valid explanation.

Ans. Yes. In a two-sector economy model, households are the owners of factors of production (Land, Labour, Capital, Entrepreneur). Firms combine these factors of production to produce goods and services. They make factor payments (Rent, Wages, Interest, Profits) to households, which in turn, are completely spent by the households on the consumption of final goods and services.

Thus, the income earned by the factors of production flows back to the production units in the form of aggregate consumption expenditure. (To be marked as a whole)

(ii) "Problem of Double Counting leads to overestimation of output in an economy." Justify the given statement with the help of suitable example.

Ans. Problem of double counting refers to counting the value of goods and services more than once. This leads to an overestimation of the output in the economy.

Example: A farmer had produced ₹ 100 worth of wheat for which no inputs were required. The baker had to buy ₹ 50 worth of wheat to produce bread worth ₹ 200. To estimate the net contribution of the baker, the value of wheat (₹ 50) needs to be subtracted from the value of bread. Otherwise, ₹ 50 worth of wheat will be counted twice leading to the problem of double counting.

3

1½

1½

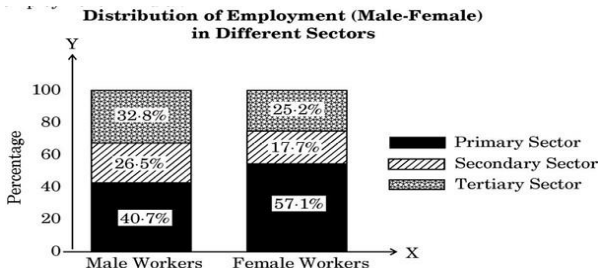
6

17.	<p>Read the following text carefully :</p> <p>The Union Budget 2025-26 introduces a series of measures aimed at strengthening the Micro, Small, and Medium Enterprises (MSME) sector. It recognizes the role of MSMEs as one of the key engines in India's journey of development, along with agriculture, investment and exports.</p> <p>As a vital contributor to India's industrial landscape, the MSME sector plays a crucial role in manufacturing sector, exports and employment generation.</p> <p>The new budgetary provisions aim to build on this strong foundation by fostering innovation, enhancing competitiveness and ensuring better access to resources.</p> <p>Furthermore, the Government's ongoing initiatives like the Udyam registration portal, PM Vishwakarma, PMEGP, SFURTI, and the Public Procurement Policy continue to demonstrate a combined effort towards integrating and empowering MSMEs.</p> <p>On the basis of given text and common understanding, answer the following questions:</p> <p>(a) "MSMEs play a pivotal role in the India's journey of development" Do you agree with the given statement? Give valid reason in support of your answer. Ans. Yes, Micro, Small, and Medium Enterprises (MSME) sector is one of the key engines in India's journey of development, along with agriculture, investment, and exports. The MSME sector plays a pivotal role in manufacturing sector, exports and employment generation.(To be marked as a whole)</p> <p>(b) Explain key measures initiated by the Government for strengthening MSMEs. Ans. The key measures initiated by the Government for strengthening MSMEs are supportive initiatives like Udyam registration portal, PM Vishwakarma, PMEGP, SFURTI, and the Public Procurement Policy to integrate and empower MSMEs. (To be marked as a whole)</p>	<div>3</div> <div>3</div> <div>6</div>
<p style="text-align: center;">SECTION – B (Indian Economic Development)</p>		
18.	<p>Identify, which of the following is not a feature of physical capital. (Choose the correct option)</p> <p>(i) Tangibility (ii) Tradability (iii) Immobility</p> <p>Options:</p> <p>(A) (i) and (ii) (B) (ii) and (iii) (C) (i) and (iii) (D) (i), (ii), and (iii)</p> <p>Ans. (B) (ii) and (iii) or (C) (i) and (iii) or (D) (i), (ii) and (iii)</p>	1
19.	<p>Prime beneficiary of the Minimum Support Price (MSP) fixed by the government is _____. (Choose the correct option to fill in the blank)</p> <p>(A) Labourer (B) Consumer (C) Trader (Buyer) (D) Farmer</p> <p>Ans. (D) Farmer</p>	1
20.	<p>Identify, the incorrect feature associated with the formal sector of employment in any economy.(Choose the correct option)</p> <p>(A) Job security (B) Social security benefits (C) Irregular payments (D) Fixed working hours</p> <p>Ans. (C) Irregular payments</p>	1
21.	<p>Read the following statements carefully :</p>	

	<p><i>Statement 1:</i> In order to address the problem of water and air pollution in India, the Government of India had established the Central Pollution Control Board (CPCB).</p> <p><i>Statement 2:</i> Deforestation leads to the permanent destruction of indigenous forests. In the light of the given statements, choose the correct option from the following:</p> <p>(A) Statement 1 is true and Statement 2 is false. (B) Statement 1 is false and Statement 2 is true. (C) Both Statements 1 and 2 are true. (D) Both Statements 1 and 2 are false.</p> <p>Ans. (A) Statement 1 is true and Statement 2 is false.</p>	1
22.	<p>Modernization is an important economic planning objective that focuses on ____ (Choose the correct option to fill in the blank)</p> <p>(i) Adoption of innovative technology (ii) Bringing positive change in social outlook (iii) Equal distribution of income and wealth (iv) Abolition of intermediaries</p> <p>Options :</p> <p>(A) (i) and (iv) (B) (i) and (iii) (C) (i), (iii) and (iv) (D) (i) and (ii)</p> <p>Ans. (D) (i) and (ii)</p>	1
23.	<p>Recently, India hosted and chaired the summit of _____ one of the regional and economic groupings. (Choose the correct option to fill in the blank)</p> <p>(A) SAARC (B) G8 (C) ASEAN (D) G20</p> <p>Ans. (D) G20</p>	1
24.	<p>Under _____ unemployment the marginal productivity of a worker is equal to zero. (Choose the correct option to fill in the blank)</p> <p>(A) Seasonal (B) Structural (C) Involuntary (D) Disguised</p> <p>Ans. (D) Disguised</p>	1
25.	<p>_____ is one of the demographic indicators in which Pakistan is ahead of India and China. (Choose the correct option to fill in the blank)</p> <p>(A) Urbanisation (B) Fertility rate (C) Population density (D) Sex ratio</p> <p>Ans. (B) Fertility rate</p>	1
26.	<p>Outsourcing from India has become more intensified in recent times due to the expansion of the _____ sector. (Choose the correct option to fill in the blank)</p> <p>(A) Agriculture (B) Manufacturing (C) Information Technology (D) Construction</p> <p>Ans. (C) Information Technology</p>	1

27.	<p>Suppose the percentage of casual workers rises in an economy as compared to the regular workers. This situation may be known as ___ of workforce. (Choose the correct option to fill in the blank)</p> <p>(i) Formalisation Casualisation Unemployment</p> <p>Options: (A) (i) and (ii) (B) (ii) and (iii) (C) only (ii) (D) only (i)</p> <p>Ans. (C) only (ii)</p>	1
28.	<p>"Many economists believe that India paid a very heavy price for the British industrialisation, by becoming their feeder economy."</p>	

(a)	<p>Justify the given statement with any one valid argument.</p> <p>Ans. During British rule, India was transformed into a mere exporter of raw materials for British industries, leading to a large export surplus. However, this came at a significant cost to India's economy, with essential commodities like food grains, clothes etc. becoming scarce in the domestic market. Policies like the commercialization of agriculture ensured maximum benefit for Britain. While India's exports grew, the benefits rarely reached the Indian population.</p> <p>(Any other valid argument to be awarded marks) OR</p>	3
(b)	<p>Critically appraise, infrastructural development in India during the British rule.</p> <p>Ans. Under colonial rule, basic infrastructure facilities were developed in India. It enabled people to travel long distances thereby breaking geographical and cultural barriers. Moreover, it fostered commercialisation of Indian agriculture which adversely affected the self-sufficiency of the village economies in India. Furthermore, the colonial dispensation also took measures for developing the inland trade and sea lanes. Nevertheless, these measures were far from satisfactory.</p> <p>(To be marked as a whole)</p> <p>(Any other valid explanation to be awarded marks)</p>	3
29.	<p>Some economists argue that : "Post-1991 economic reforms, globalisation played a major role in poor performance of the industrial sector." Present your arguments to justify the given statement.</p> <p>Ans. With the onset of globalisation post-1991 economic reforms, developing countries are compelled to open up their economies to the greater flow of goods and capital from developed countries. Cheaper imports have, thus, replaced the demand for domestic goods. Domestic manufacturers are facing competition from foreign producers leading to a slowdown of industrial growth. Hence, Globalisation adversely affected the performance of the industrial sector.</p> <p>(To be marked as a whole)</p>	3

30.	<p>Compare and analyse the following information related to distribution of employment in India :</p>  <p>Ans. In India, the Primary sector has emerged as a major source of employment with a greater concentration of female workers (57.1%) as compared to males (40.7%). The secondary sector accommodates 17.7% of female workers and 26.5% of male workers. The service sector consists of 32.8% of male and 25.2% of female workers. Thus, it can be concluded that men get more opportunities in both secondary and service sectors whereas females are mainly found working in the primary sector.</p> <p>(To be marked as a whole)</p> <p><i>Note : The following question is for the Visually Impaired Candidates only, in lieu of Q. No. 30.</i></p> <p>"Compared to urban women, more rural women are found working."</p> <p>Justify the given statement with valid explanation.</p> <p>Ans. Women in rural areas are more actively engaged in the economic activities as compared to their urban counterparts due to a paucity of resources. In rural areas,</p>	4
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	<p>women are compelled to work as their economic condition may force them to do so.</p> <p>Moreover, in urban areas, where men are able to earn high incomes, families discourage female members from taking up jobs. (To be marked as a whole)</p>	
31. (a)	<p>State and explain any two steps undertaken by the Government of India for the protection and promotion of Small-scale Industries between 1950 – 1990.</p> <p>Ans. The steps initiated by Government of India for the protection and promotion of Small-scale Industries between 1950 – 1990 are:</p> <ul style="list-style-type: none"> • Reservation of products: The production of several products was reserved for SSIs, depending upon their ability to manufacture these goods. • Financial Incentives: They were given concession such as lower excise duty and bank loans at lower interest rates. <p style="text-align: center;">OR</p>	<p>$\frac{1}{2}+1\frac{1}{2}$</p> <p>$\frac{1}{2}+1\frac{1}{2}$</p>
(b)	<p>Elaborate the role of land ceiling as an institutional reform in agricultural sector during the planning period of India.</p> <p>Ans. After India attained independence, institutional reforms such as land ceiling were introduced to promote equity in the agricultural sector. Land ceiling refers to fixing the maximum size of agricultural land that could be owned by an individual. The purpose of the land ceiling was to reduce the concentration of land ownership in a few hands. By ensuring a more equitable distribution of land, the land ceiling was seen as a crucial measure to enhance agricultural productivity and contribute to overall growth in the sector.</p> <p style="text-align: right;">(To be marked as a whole)</p>	4

32.	<p>Argue in favour of the need for different forms of government intervention in the education and health sectors.</p> <p>Ans. Education and healthcare services play a vital role in socio-economic welfare for the masses. Government intervention is essential as spending on these sectors has long- term, irreversible impacts. Moreover, consumers often lack complete information about service quality and costs, leading to monopoly power and potential exploitation by private providers. To avoid this, the government must regulate these services, ensuring adherence to standards and fair pricing. Hence, it is imperative for the government to make these essential services accessible to all sections of society.</p> <p style="text-align: right;">(To be marked as a whole)</p>	4
33. (a)	<p>(i) Explain any two similar developmental strategies followed by India and Pakistan in the post 1947 era.</p> <p>Ans. Similar developmental strategies were adopted by India and Pakistan for their respective development paths as:</p> <ul style="list-style-type: none"> Both the nations have followed the path of mixed economic system involving the public as well as the private sector. Both India and Pakistan adopted import substitution policy in order to protect their domestic industries from foreign competition. <p style="text-align: right;">(Any other valid strategy to be awarded marks)</p> <p>(ii) State and discuss any two reasons for slow economic growth in Pakistan.</p> <p>Ans. The reasons for the slow growth in Pakistan are:</p> <ul style="list-style-type: none"> Volatile performance of agriculture sector: Pakistan experienced uneven agricultural growth, food supply situation which were dependent on good harvest and not on the institutional process of technical change. Increasing dependence on foreign funds: Pakistan faced the problems of overdependence on remittances, rising foreign loans and increased difficulty in paying back the loans. <p style="text-align: right;">(Any other valid reason to be awarded marks)</p>	<p>1 ½</p> <p>1 ½</p> <p>½ + 1</p> <p>½ + 1</p>
	OR	6

(b)	<p>(i) "China used the tool of Special Economic Zones for its economic development very effectively."</p> <p>Justify the given statement with valid explanation.</p> <p>Ans. The setting up of Special Economic Zones (SEZs) in China led to a substantial increase in Foreign Direct Investment (FDI) in the economy. With the massive inflow of foreign capital and technology, the productive capacity increased manifold, thereby contributing to the rapid economic development of China.</p> <p>(ii) Mention and discuss any two indicators of human development, where China has performed well.</p> <p>Ans. The two indicators of human development, where China has performed well are:</p> <ul style="list-style-type: none"> Maternal Mortality Rate: The Maternal Mortality Rate in China is low due to better public health facilities. Poverty: The proportion of the population below the poverty line in China has reduced over time. <p style="text-align: right;">(Any other valid indicator to be awarded marks)</p>	<p>3</p> <p>½+1</p> <p>½+1</p> <p>6</p>
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34.	<p>Read the following text carefully:</p> <p>The National-Level Multi-State Cooperative Society recently approved by the Union Cabinet for promoting organic production and exports, will help the farmers to increase their income manifold.</p> <p>The arrangements for testing of land and selection of natural form of products will be set up in each district in the coming five years.</p> <p>Government has also decided to set up a cooperative society in all Panchayats, which will ensure that the Central Government's schemes reach the farmers.</p> <p>Wide use of urea has spoiled farmland, and lakhs of farmers have moved towards organic farming.</p> <p>To get better prices, there is a need for marketing and certification of such produce. Furthermore, steps must be taken to ensure that fake organic products do not hit the market.</p> <p>On the basis of the given text and common understanding, answer the following questions:</p> <p>(a) Define organic farming. Ans. Organic farming is a whole system of farming that restores, maintains and enhances the ecological balance.</p> <p>(b) State any two benefits of organic farming. Ans. Advantages of Organic farming are: <ul style="list-style-type: none"> • Soil conservation. • Nutritional food. (Any other valid benefit to be awarded marks) </p> <p>(c) Explain the steps taken by the government to promote organic products. Ans. The steps taken by the government to promote organic products are: <ul style="list-style-type: none"> • Testing of land and selection of natural form of products will be set up in each district in the coming five years. • Set up a cooperative society in all Panchayats, which will ensure that the Central Government's schemes reach the farmers. (Any other valid step to be awarded marks) </p>	<div>1</div> <div>1</div> <div>1 ½</div> <div>1 ½</div> <div>6</div>
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