STUDY MATERIAL

CLASS – XII (2023-24)

SUBJECT: ECONOMICS

PREPARED BY: D P THAPLIYAL,

PGT (ECONOMICS)

K V OLF, DEHRADUN

केन्द्रीय विद्यालय संगठन

आंचलिक शिक्षा एव प्रशिक्षण संस्थान चंडीगढ़

ECONOMICS

CLASS - XII (2023-24)

Theory: 80 Marks **3 Hours** **Project: 20 Marks**

Part A: Introductory Macroeconomics	**Marks**	**Periods**
➢ National Income and Related Aggregates	10	30
➢ Money and Banking	6	15
➢ Determination of Income and Employment	12	30
➢ Government Budget and the Economy	6	17
➢ Balance of Payments	6	18
	40	
Part B: Indian Economic Development		
➢ Development Experience (1947-90) and Economic Reforms since1991: • Indian Economy on the eve of Independence • Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy), industry (IPR 1956; SSI – role & importance) and foreign trade. • Economic Reforms since 1991	12	28
➢ Current challenges facing Indian Economy • Human Capital Formation • Rural development • Employment • Sustainable Economic Development	20	50
➢ Development Experience of India	**8**	**12**
Theory Paper (40+40 = 80 Marks)	**40**	
		200
Part C : Project Work		
➢ Project Work	20	20
	100	

Part A: Introductory Macroeconomics

Unit 1: National Income and Related Aggregates

What is Macroeconomics?

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

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

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

Unit 2: Money and Banking

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

Money creation by the commercial banking system.

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

Unit 3: Determination of Income and Employment

Aggregate demand and its components. Propensity to consume and propensity to save (average and marginal).

Short-run equilibrium output; investment multiplier and its mechanism.

Meaning of full employment and involuntary unemployment.

Problems of excess demand and deficient demand; measures to correct them -

changes in government spending, taxes and money supply.

Unit 4: Government Budget and the Economy

Government budget - meaning, objectives and components.

Classification of receipts - revenue receipts and capital receipts;

Classification of expenditure – revenue expenditure and capital expenditure.

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

Unit 5: Balance of Payments

Balance of payments account - meaning and components;

Balance of payments – Surplus and Deficit

Foreign exchange rate - meaning of fixed and flexible rates and managed floating. Determination of exchange rate in a free market, Merits and demerits of flexible and fixed exchange rate. Managed Floating exchange rate system

Part B: Indian Economic Development

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

A brief introduction of the state of Indian economy on the eve of independence.

Indian economic system and common goals of Five Year Plans.

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

Economic Reforms since 1991:

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

Unit 7: Current challenges facing Indian Economy

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

Rural development: Key issues - credit and marketing - role of cooperatives;

agricultural diversification; alternative farming - organic farming

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

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

Unit 8: Development Experience of India:

A comparison with neighbours

India and Pakistan, India and China

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

Development Indicators

Part C: Project in Economics

INDEX

Part A: Introductory Macroeconomics

(UNIT-1) NATIONAL INCOME AND RELATED AGGREGATES

SUME BASIC CONCEPTS OF MACROECONOMICS CLASSIFICATION OF GOODS

FINAL GOODS	INTERMEDIATE GOODS
1 Those goods which are used either for consumption or for investment.	1. Those goods which are used either for resale or for further production.
2. They have a direct demand as they satisfy the want directly.	2. They have a derived demand as their demand depends on the demand for final goods.
3. It is included in both National and Domestic Income.	3.It's neither included in National nor in Domestic Income.
4. Crossed the production boundary.	4. Still within production boundary.
5. They are ready for use by their final users i.e. no value has to be added to the final goods.	5. They are not ready for use, i.e. some value has to be added to the intermediate goods.

FINAL GOODS:- Those goods which have crossed the boundary line of production and ready for use by their final users.

INTERMEDIATE GOODS:- Those goods which are within the boundary line of production and yet not ready for use by their final users .

INVESTMENT: - Investment refers to increase in the stock of capital.

DEPRECITAN:- depreciation refers to fall in the value of fixed assets due to normal wear and tear, accidental damages and expected obsolescence.

CONSUMPTION GOODS	CAPITAL GOODS
* These goods satisfy human wants directly.	* Such goods satisfy human wants indirectly.
* These goods have direct demand.	* Such goods have derived demand.
They do not promote production Capacity.	* They help in rising production capacity.
* Most of the consumption goods (except durable goods) have limited expected life.	* Capital goods generally have an expected life more than one year.
STOCK	**FLOW**
* It refers to that variable which is measured at a point of time.	* It refers to that variable which is measured over a period of time.
It does not have time dimension.	* It has a time dimension as its magnitude can be measured over a period of time
* It is a static concept.	* It is a dynamic concept.
* Examples – Population of India as on 31.3.2023, Money Supply, National Wealth	* Examples – No of birth during 2022,national income, Expenditure in money.

Concept of domestic (economic) territory:- Domestic territory is a geographical territory administered by a government within which persons, goods and capital circulate freely. (Areas of operation generating domestic income, freedom of circulation of persons, goods and capital)

Scope identified as

*Political frontiers including territorial waters and air space.

Embassies, consulates, military bases etc. located abroad but including those locates within the political frontiers.

*Ships, aircrafts etc., operated by the residents between two or more countries.

*Fishing vessels, oil and natural gas rigs etc. operated by the residents in the international waters or other areas over which the country enjoys the exclusive rights or jurisdiction.

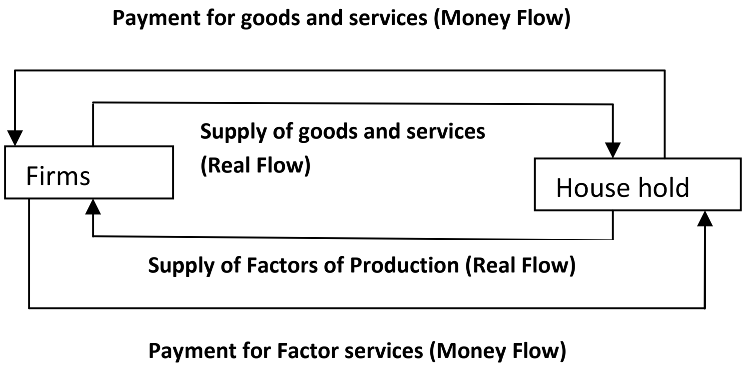
NORMAL RESIDENTS – It refers to an individual or an institution who ordinarily resides in the country and whose centre of economic interest also lies in that country.

It’s not included- 1- Foreign tourist and visitors ;

2- Foreign staff of embassies, officials, diplomats and members of the armed forces of a foreign country; 3- International Organizations; 4- Employee of international organization staying less than one year; 5- Crew members of foreign vessels. Commercial travelers and seasonal workers; 6- Boarder workers.

FACTOR INCOME	TRANSFER INCOME
* It refers to the income received by factors of production for rendering their services in the production process.	* It refers to the income received without rendering any productive services in return.
* It is included in both National and Domestic Income.	* It's neither included in National nor in Domestic Income.
* Earning Concept.	* Receipt concept.
* Received by factors of production (Land, labour, Capital and Entrepreneur)	* Generally received by household and government.

Circular flow in a two sector economy.



Producers (firms) and households are the constituents in a two sectors economy. Households give factors of production to firm and firms in turn supply goods and services to households.

NET FACTOR INCOME FROM ABROAD (NFIA)

Net factor income from abroad is the difference between

(1) **Factor income earned by our residents from rest of world**, and
(2) Factor income earned by non residents in our domestic territory
(3) NFIA =(**Factor income earned by our residents from rest of world -** Factor income earned by non residents in our domestic territory)
(NDP at FC +NFIA = NATIONAL INCOME**)**
(4) NFIA =(**Factor income earned by our residents from rest of world -** Factor income earned by non residents in our domestic territory)
(NDP at FC +NFIA = NATIONAL INCOME**)**

NATIONAL INCOME AND RELATED AGGREGATES -2

- GROSS AND NET CONCEPTS OF DOMESTIC PRODUCT
- DOMESTIC PRODUCT AT MARKET PRICE AND FACTOR COST
- GROSS AND NET NATIONAL PRODECT AT MARKET PRICE
- GROSS AND NET NATIONAL PRODECT AT FACTOR COST

GROSS AND NET CONCEPTS OF DOMESTIC PRODUCT

Domestic product is measured as GDP or NDP, Depreciation (Consumption of fixed capital) causes the difference between the two. While GDP includes deprecation, NDP does not.

GDP- Depreciation = NDP

NDP + Depreciation = GDP

DOMESTIC PRODUCT AT MARKET PRICE AND FACTOR COST

- Domestic product at market price – Net indirect tax (indirect tax – subsidies) =Domestic product (gross/net) at Factor cost
- National product at market price – Net indirect tax (indirect tax – subsidies) =National product (gross/net) at Factor cost

GROSS DOMESTIC PRODECT AT MARKET PRICE(GDP at MP)

- GDP at MP is market value of the final goods and service product within the domestic territory of a country during the period of an accounting year (inclusive deprecation)

NET DOMESTIC PRODECT AT MARKET PRICE(NDP at MP)

- NDP at MP is market value of the final goods and service product within the domestic territory of a country during the period of an accounting year (exclusive of depreciation)

GROSS NATIONAL PRODECT AT MARKET PRICE(GNP at MP)

- GDP at MP + Net factor income from abroad

NET NATIONAL PRODECT AT MARKET PRICE(NNP at MP)

- NDP at MP + Net factor income from abroad

GROSS DOMESTIC PRODECT AT FACTOR COST (GDP at FC)

GDP at FC = Compensation of employees + Rent + Interest + profit + Depreciation

NET DOMESTIC PRODECT AT FACTOR COST (NDP at FC)

NDP at FC = Compensation of employees + Rent + Interest + profit

GROSS NATIONAL PRODECT AT FACTOR (GNP at FC)

GDP at FC + Net factor income from abroad

NET NATIONAL PRODECT AT FACTOR COST (NNP at FC)

- **NDP at FC + Net factor income from abroad**

NATIONAL INCOME AND RELATED AGGREGATES

- NOMINAL AND REAL GDP
- GDP AND WELFARE

NOMINAL AND REAL GDP

NOMINAL GDP:-Nominal GDP is the market value of the final goods and services (Q) produced within the domestic territory of a country during an accounting year, as estimated using the **current year price** (P).

Nominal GDP = Q x P

(When nominal GDP rises, the flow of goods and services in economy may or may not rise during an accounting year)

REAL GDP:- Real GDP is the market value of the final goods and services (Q) produced within the domestic territory of a country during an accounting year, as estimated using the **Base year price** (*P).

Nominal GDP = Q x *P

Suppose, the output of commodity- X during the year 2019 was 500 units. The market of the commodity during the same year was Rs.50 per unit while the price in the base year was Rs.40 per unit. So the Nominal GDP and Real GDP would be.

Nominal GDP = 500 x Rs 50 = Rs.25, 000.

Real GDP = 500 x Rs 40 = Rs.20, 000.

Conversion of Nominal GDP into Real GDP

$$\text{Real GDP} = \frac{\text{GDP at current price}}{\text{Price index}} \times 100$$

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

GDP AND WELFARE

Real GDP is considered as an index of welfare of the people. Welfare of the people is measured in terms of the availability of goods and service per person. Higher the growth of GDP , greater is the flow of goods and services. Greater is the availability of goods and services per person.

LIMITATION

- **Distribution of income:-** If with every increase in the level of GDP, distribution of GDP is getting more unequal, welfare level of the society may not rise.

Composition of GDP:- Composition of GDP may not be welfare oriented even when the level of GDP tends to rise. If GDP has risen owing largely to the increase in the production of defense goods.

- **Non- monetary exchanges:-** Larger the non-monetary transactions, greater the underestimation of GDP as an index of welfare.
- **Externalities: -** GDP index does not account for externalities: the good and bed impact of economic activities without the price or penalty. Environmental pollution related to production activity is an important example of negative externalities, If maintains a beautiful garden is an important example of positive externalities . This also lowers the significance the of GDP as an index of welfare.

METHODS OF CALCULATING NATIONAL INCOME

INCOME METHOD

Income method:

1. Compensation of employee's 2.Operating surplus. 3. Mixed Income

Compensation of employees

Wages and salaries (Cash & Kind) | Employer's contribution to social security | Pension on Retirement

Operating surplus

Income from property → Rent & Royalty - Interest

Income from Entrepreneurship → Profit → Corporate Tax | Corporate Savings(Net retained earnings) | dividend

Income method

It is also called Factor payment method . According to this method , national income is estimated in term of factor payments.

Compensation of employees + Rent + Interest + Profit + Mixed Income = NDP at FC (Domestic income)

NDP at FC + Net Factor income from Abroad (OR) (-) Net Factor income to Abroad = NNP at FC (NATIONAL INCOME)

EXPENDITURE METHOD

According to expenditure method, National income is estimated in term of expenditure on the purchase of final goods and services in the economy and net factor income from abroad during an accounting year. It is adjusted to find NNP at FC or national income.

CLASSIFICATION OF FINAL EXPENDITURE

1. Private final consumption expenditure. (C)

2. Government final consumption expenditure (G)

3. Gross domestic capital formation (I)

4. Net export (X-M)

Expenditure method:

1. Government final consumption expenditure.
2. Private final consumption expenditure.
3. Net Export.
4. Gross domestic capital formation.

Gross Domestic fixed Capital formation + Change in stock

$GDP_{Mp} = (1) + (2) + (3) + (4)$

NNP_{Fc} = GDP at MP - consumption of fixed capital + NFIFA- Net indirect taxes

GDP at MP = Private final consumption expenditure + Government final consumption expenditure + Gross domestic capital formation {Gross Domestic fixed Capital formation + Change in stock(Closing stock – opening stock)} + Net export (Export – Import) OR (-) Net import .

NDP at MP = Private final consumption expenditure + Government final consumption expenditure + Net domestic capital formation {Net Domestic fixed Capital formation + Change in stock(Closing stock – opening stock)} + Net export (Export – Import) OR (-) Net import .

$NDP_{MP} = GDP_{MP}$ - Depreciation

$NNP_{MP} = NDP_{MP}$ + Net factor income from abroad (OR)

(-) Net factor income to abroad

NATIONAL INCOME (NNP at FC) = NNP at MP – Net indirect tax

VALUE ADDED METHOD (OR PRODUCT METHOD)

Value added method measures national income in term of value addition by each producing enterprise in the economy during an accounting year.

VALUE ADDED: - Value added is the difference between value of output of an enterprise and the value of its intermediate consumption.

Value added (GDP_{MP}) = Value of output (Sales + Change in stock) **– Intermediate consumption** (Includes value of raw material used in the process of production)

Gross value added by the all the producing enterprises within the domestic territory of a country during an accounting year is called Gross domestic product at market price (GDP_{MP})

National income (value added method / Production method)

Gross value added (GDP_{MP}) - Depreciation + Net factor income from abroad (OR) (-) Net factor income to abroad – Net indirect tax = NNP_{FC} (NATIONAL INCOME)

(OR)

Gross value added by all producing enterprises in Primary sector + Gross value added by all producing enterprises in Secondary sector + Gross value added by all producing enterprises in Tertiary sector = (GDP_{MP}) - Depreciation + Net factor income from abroad (OR) (-) Net factor income to abroad – Net indirect tax = NNP_{FC} (NATIONAL INCOME)

PROBLEM OF DOUBLE COUNTING : It refers to the situation when the value of a good is estimated more than once. It is a problem which leads to overestimation of National income. The problem of double counting arises when the value of intermediate goods is included or the value of second hand goods is estimated.

Stages of production	Value of inputs	Value of output	Value Added
Farmer-Wheat	---	500	500
Flour Mill-Flour	500	700	200
Bakery-Bread	700	1000	300
Distributer	1000	1200	200
Total	**2200**	**3400**	**1200**

TWO WAYS TO AVOID IT :- (1) FINAL OUTPUT METHOD:- According to this method, only final goods and services (in terms of their end-use) are to be considered in the estimation of GDP.

(2) VALUE ADDED METHOD: - According to this method, sum total of value added by all the producing units within the domestic territory of the country are to be considered in the estimation of GDP.

PRECAUTIONS REGARDING VALUE ADDED METHOD

Precautions: - The following precautions are required while using this method, viz.

i) The value of intermediate goods should not be included, rather the value of only the final products to be included. Otherwise, the problem of double counting may arise.

ii) The value of second hand goods is not to be included since the value of this goods have been already valuated in the NI of those years when these goods have been manufactured & sold.

iii) The value of illegal goods to be excluded because these goods have no legal sanction or authority to be produced or sold.

iv) Commission earned :- on account of sale and purchase of second-hand goods is included in the estimation of value added , Because, commission is a reward for the service rendered.

v) The value of transfer payments are to be excluded because these transactions do not contribute in the flow of income & product, rather these are transfer of ownerships.

PRECAUTIONS REGARDING INCOME METHOD

Precautions: The following precautions have to be considered while measuring NI by this method:

i) The transfer incomes are not to be included because these transactions do not contribute to the flow of national production. For e.g., tax, gifts, donations, scholarships etc.

ii) The incomes derived from illegal sources are not to be included since the illegal activities are not backed by the legal sanction. For e.g., gambling, smuggling, theft & loot etc.

iii) The incomes received after selling second hand goods are not to be included but the commission earned by the broker is to be included because it is a factor income.

iv) The income derived from leisure time activities is not to be included because it is difficult to determine the actual price of leisure time goods.

v) The income earned by selling shares is also not to be included since this is considered as the transfer income because these transactions are mere transfer of ownership of assets.

Commission paid :- on the sale and purchase of second-hand goods is included in the estimation of national income , Because, commission is a reward for the service rendered.

PRECAUTIONS REGARDING EXPENDITURE METHOD

i) The expenditure on intermediate goods are not to be estimated, otherwise it may lead to problem of double counting. We must make sure that we are not including the intermediate expenditure.

ii) The expenditure on second hand goods & services is not to be included because it is already been included in the year when these goods have been manufactured, but the expenditure made on broker's service as commission is to be included.

iii) The expenditure on transfer payments is not to be included because this expenditure does not lead to production of goods & services in the economy.

iv) The expenditure on illegal goods is also not to be included because these goods are not been legally sanctioned.

v) Expenditure on Shares and bonds:- is not to be included in total expenditure, as these are paper claims and are not related to production of final goods and services. Such expenditure do not cause any value addition.

Competency Based & Objective Type Questions

CBSE BOARD EXAM.01 MARKS QUESTIONS

Q1. Depreciation of fixed capital assets refers to : (2016)

(a) Normal wear and tear (c) **Normal wear and tear and foreseen obsolescence**

(b) foreseen obsolescence (d)Unforeseen obsolescence

Q2. Define stock. (2016) (**Stock is the quantity which is measured at a point of time**)

Q3. Define flow . (2016) (**Flow is the quantity which is measured per unit of time period)**

Q4.Define Gross investment.(2016**)** **(Gross investment is the sum total of expenditure on purchase of new assets and depreciation during the year)**

Q5. Give one example of negative externalities. (2018) **(negative externalities occur when smoke omitted by factories causes air pollution or water pollution**

Q6. Give two examples of flow concept.(2019**) (Income and Investment)**

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

'Inventory is a stock variable' **(True)**

Q8. Which of the following is not a factor payment ? (2020)

(a) Free uniform to defense personnel
(b) Salaries to the member of parliament
(c) Rent paid to the owner of a building
(d) **Scholarship given to the students.**

Q9.Combined factor income, which can't be separated into various factor income components is known as ___________________ (2020) **(Mixed income of self-employed**)

Q10. Net Domestic Fixed capital formation + Change in stock = ________ (2020)
(**(Net domestic capital formation)**

Q11.State, whether the following statement is true or false : (2020)

'Purchase of machinery by a producer by producer is an intermediate good'**. (False)**

Q12. When Nominal GDP is Rs. 840 crores and Price Index is 120, then the Real GDP will be _____________(2020) **(Ans.RGDP =NGDP/PI * 100 = 700)**

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

Q13. Rent + Interest + Profit = ______________ (2020) .**(Operating surplus)**

Q14. When Nominal GDP is Rs. 850 crores and price Index is 170, Real GDP will be __________ (2020)

(Ans. **RGDP =NGDP/PI * 100 = 500)**

MCQ

1. Macroeconomics studies:

(a) Aggregate demand of all goods and services (b) Aggregate Supply
(c) Consumption Demand **(d) All the above***

2. Example of macroeconomics variable:
(a) National Income (b) National Output
(c) Market demand of a commodity **(d) All the above***

3. Depreciation reserve fund is needed:
(a) To keep inventory stock (b) To expand the size of plant
(c) To replace worn-out machines* (d) none of these

4. Additional to the capital stock of an economy is termed as:
(a) Net Investment* (b) Capital Gain
(c) Gross Investment (d) All of these

5. Two - sector economy consists of
(a) Firms, Government (b) Household, Government
(c) Firms, Foreign Sector **(d) Household, Firms***

6. A circular flow of income:
(a) Production (b) Distribution
(c) Disposition **(d) All of these***

7. Which of the variable are defined as any quantity measured at a particular point of time?
(a) Stock* (b) Flow (c) Investment (d) All of these

8. Flow is a ………………..
(a) Static Concept **(b) Dynamic Concept***
(c) Both (a) and (b) (d) None of these

9. Depreciation of fixed capital assets refers to…………
(a) Normal wear and tear (b) Foreseen obsolescence
(c) Bothe (a) and (b)* (d) Unforeseen obsolescence

10. Problem of double counting can be avoided by using:
(a) Final output method (b) Value added method.
(c) Bothe (a) and (b)* (d) Neither (a) nor (b)

ASSERTION AND REASON

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

Q1. ASSERTION (A): The goods which are used either for resale or for further production in the same year are Intermediate Goods.
REASON(R): Intermediate Goods are included in National Income.
Ans: (c) Assertion (A) is true but Reason (R) is false.

Q2.ASSERTION (A): Purchase of a car always means the purchase of a final good.
REASON (R): It depends on the end-use of the car. If it is purchased by a household, it is a final good. It is like a consumer durable, If it is purchased by taxi.
Ans: (d) Assertion (A) is false but Reason (R) is true.
Q3. ASSERTION (A): Intermediate goods refer to those goods which are used for resale or for further production in the same year.
REASON (R): These goods are purchased by firms for capital formation.
Ans: (c) Assertion (A) is true but Reason (R) is false.
Q4.ASSERTION (A): All capital goods are producer goods, but all producer goods are not capital goods.
REASON (R): Producers goods are defined as all those goods which are used in the production of others goods which includes capital and intermediate goods, whereas, capital goods are the fixed assets (like machinery, building, etc) used by the producers in the production of goods and services.
Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q5.ASSERTION (A): Domestic income of a country can be more than its National income.
REASON (R): It is possible when factor income paid to abroad is more than factor income received from abroad..
Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

True- False Alternatives Statement

Alternatives:

a) Both the statement are true

(b) Both the statement are false

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

(d) Statement 2 is true and Statement 1 is false

Q1. Statement 1: Stock measured over a period of time.

Statement 2: Flow measured at point of time.

Q2. Statement 1: Nominal GDP as estimated using the current year price .

Statement 2: Real GDP as estimated using the Base year price

Q3. Statement 1: Net domestic capital formation = Gross fixed capital formation + Change in stock or inventory investment

Statement 2: Gross fixed capital formation + Change in stock = Gross capital formation

Ans1. (b) Both the statement are false

Ans2. a) Both the statement are true

Ans 3. (d) Statement 2 is true and Statement 1 is false

CASE STUDYS

CASE STUDY-1: Intermediate goods can be used in production, but they can also be consumer goods. How it is classified depends on who buys it. If a consumer buys a bag of sugar to use at home, it is a consumer good. But if a manufacturer purchases sugar to use during the production of another product, it becomes an intermediate good. Capital goods, on the other hand, are assets that are used in the production of consumer goods. That means they are purchased to help in the production process. So, the baker who bakes the bread in the example above will buy an oven to use in the production process. That oven is considered a capital good, which doesn't transform or change shape, unlike the wheat. Economists do not factor intermediate goods when they calculate gross domestic product (GDP). GDP is a measurement of the market value of all final goods and services produced in the economy. The reason why these goods are not part of the calculation is that they would be counted twice.

Questions: 1. Distinguish between consumer goods and capital goods.

2. Distinguish between final goods and intermediate goods'

CASE STUDY-2

Net Factor Income from Abroad (NFIA) refers to the difference between factor income received from the rest of the world and factor income paid to the rest of the world. NFIA is significant to differentiate between Domestic Income and National Income. In Practical estimates, domestic income is estimated first and then, National Income is derived from Domestic Income.

Questions:

1. How is National Income derived from Domestic Income? Explain.
2. What is meant by Factor income from abroad? Explain.

SHORT AND LONG ANSWER TYPE QUESTION

Q1. Distinguish between stocks and flows .Give two examples of each.

STOCK	FLOW
* It refers to that variable which is measured at a point of time.	* It refers to that variable which is measured over a period of time.
It does not have time dimension.	* It has a time dimension as its magnitude can be measured over a period of time
* It is a static concept.	* It is a dynamic concept.
* Examples – Population of India as on 31.3.2022, Money Supply, National Wealth	* Examples – No of birth during 2021 national income, Expenditure in money.

Q2. Define externalities. Give an example of negative externality. What is its impact on welfare?

Ans:- Externalities: - GDP index does not account for externalities: the good and bed impact of economic activities without the price or penalty.

Example of negative externality: Environmental pollution related to production activity is an important example of negative externalities. .

Impact on welfare: This also lowers the significance the of GDP as an index of welfare.

Q3. Distinguish between 'real' GDP and 'nominal' GDP. Which of these is a better index of welfare of the people and why?

Ans:- NOMINAL GDP:-Nominal GDP is the market value of the final goods and services (Q) produced within the domestic territory of a country during an accounting year, as estimated using he **current year price** (P).

Nominal GDP = Q x P

(When nominal GDP rises, the flow of goods and services in economy may or may not rise during an accounting year)

REAL GDP:- Real GDP is the market value of the final goods and services (Q) produced within the domestic territory of a country during an accounting year, as estimated using the **Base year price** (*P).

Nominal GDP = Q x *P

GDP AND WELFARE:- Real GDP is considered as an index of welfare of the people. Welfare of the people is measured in terms of the availability of goods and service per person. Higher the growth of GDP , greater is the flow of goods and services. Greater is the availability of goods and services per person.

Q4. If Real GDP is Rs. 200 and price index (with base = 100) is 110, calculate Nominal GDP.

Ans:- Real GDP = Nominal GDP / Price index x 100

OR, Nominal GDP = Real GDP x Price index / 100

= 200 x 110 / 100 = 220 **Nominal GDP = 220**

Q5. If the Nominal GDP is Rs. 1,200 and price index (with base = 100) is 120, calculate Real GDP.

Ans:- Real GDP = Nominal GDP / Price index x 100

= 1,200 / 120 x 100 = 1,000 **Real GDP = 1,000**

Q6. If the Real GDP is Rs. 300 and Nominal GDP is Rs.330, calculate price index(base = 100)

Ans:- Real GDP = Nominal GDP / Price index x 100

OR, Price index = Nominal GDP / Real GDP x 100

= 330 / 300 x 100 = 110 **Price Index = 110**

Q7. Giving reason, explain how the following should be treated in the estimation of National Income. (i) Payment of interest by a firm to a bank.

(ii) Payment of interest by a bank to an individual.

(iii) Payment of interest by an individual to a bank.

Ans. (i) Payment of interest by a firm to a bank: It will be 'included' in the estimation of National Income, as it is a factor income. Also, firms take loans for investment purposes.

(ii) Payment of interest by a bank to an individual: it will be 'included' in the estimation of National Income as it is a factor income.

(iii) Payment of interest by an individual to a bank: It will 'not be included' in the estimation of National Income as consumer takes a loan for consumption purposes.

Q8. State any precautions that are taken while calculating national income by expenditure method.

Ans: i) The expenditure on intermediate goods are not to be estimated, otherwise it may lead to problem of double counting. We must make sure that we are not including the intermediate expenditure.

ii) The expenditure on second hand goods & services is not to be included because it is already been included in the year when these goods have been manufactured, but the expenditure made on broker's service as commission is to be included.

iii) The expenditure on transfer payments is not to be included because this expenditure does not lead to production of goods & services in the economy.

iv) The expenditure on illegal goods is also not to be included because these goods are not been legally sanctioned.

v) Expenditure on Shares and bonds:- is not to be included in total expenditure, as these are paper claims and are not related to production of final goods and services. Such expenditure do not cause any value addition.

Q9. Calculate Net value added at factor cost from the following data.

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

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

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

Net value added at factor cost = Rs. 140 Laks

Q10. Calculate 'sales' from the following data:

	ITEMS	Rs in lakh
A	Intermediate cost	240
B	consumption of fixed capital	40
C	Change in stock	(-)60

D	Indirect tax	30
E	Net value added at factor cost	300

Ans. Net value added at $_{FC}$ - changes in stock + intermediate costs + consumption of fixed capital + Net Indirect tax

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

Sales = Rs. 670 lakh

Q11. From the following data calculate National Income from a) Income method b) Expenditure Method

S.no	Items	Rs(in crore)
1	Private final consumption expenditure	2,000
2	Net Domestic capital formation	400
3	Change in stock	50
4	Compensation of employees	1,900
5	Rent	200
6	Interest	150
7	Operating surplus	720
8	Net indirect tax	400
9	Contribution by employers towards social security schemes	100
10	Net Exports	20
11	Net Factor income from abroad	(-)20
12	Government final consumption expenditure	600
13	Consumption of fixed capital	100

Ans: **Income method**

NNP_{FC} = Compensation of employees + Operating surplus + Net Factor income from abroad

= 1900 + 720 + (-20) = 2620 – 20 = Rs 2600 Crore

Expenditure Method

NNP_{FC} = Private final consumption expenditure+ Net Domestic capital formation+ Government final consumption expenditure+ Net Exports + Net Factor income from abroad - Net indirect tax

NNP_{FC} = 2000 +400 +600 +20 +(-20) – 400 = Rs 2600 crores

Q12. Given the following data find the missing values of 'Private final consumption expenditure' and 'Operating surplus'. (CBSE 2019)

S.No	Items	Rs. In crore
I	National income	50,000
Ii	Net indirect taxes	1,000
Iii	Private final consumption expenditure	?
Iv	Gross domestic capital formation	17,000
V	Profits	1,000
Vi	Government final consumption expenditure	12,500
Vii	Wages and salaries	20,000

Viii	Consumption of fixed capital	700
Ix	Mixed income	13,000
X	Operating surplus	?
Xi	Net factor income from abroad	500
Xii	Net exports	2,000

Ans:- Private final consumption expenditure:

National Income - Government final consumption expenditure - Gross domestic capital formation Net exports + Consumption of fixed capital + Net indirect taxes - Net factor income from abroad

= Rs.50,000 – 12,500 – 17,000 – 2,000 + 700 + 1,000 – 500 Crore = Rs.19,700 Crore

Private final consumption expenditure = Rs.19,700 Crore

Operating surplus:- National income - Wages and salaries - Mixed income - Net factor income fror abroad

= Rs.50,000 – 20,000 – 13,000 – 500 Crore = Rs. 16,500

Operating surplus = Rs. 16,500 Crore

Q13. Distinguish between domestic product and national product. (CBSE 2017)

DOMESTIC PRODUCT(NDP_{FC})	**National product (NNP_{FC})**
(i)Domestic Product is the sum total of factor income generated within domestic territory of a country	**(**i) National Product is the sum total of factor income generated by normal residents of a country.
(ii) It includes income generated both by the residents as well as non- residents of a country.	(ii) It includes income generated only by the Normal residents of a country
(iii)It does not include net factor income from abroad	iii)It includes net factor income from abroad

Q14. "Gross domestic product does not give us a clear indication of economic welfare of a country". Defend or refute the given statement the given statement with valid reason.

(CBSE 2019)

Ans. GDP is considered as an index of welfare of the people. Welfare of the people is measured in terms of the availability of goods and service per person. Higher the growth of GDP , greater is the flow of goods and services. Greater is the availability of goods and services per person, but there is strong exceptions to this generalization. Fllowing are the reason:

Distribution of income:- If with every increase in the level of GDP, distribution of GDP is getting more unequal, welfare level of the society may not rise.

Composition of GDP:- Composition of GDP may not be welfare oriented even when the level of GDP tends to rise. If GDP has risen owing largely to the increase in the production of defense goods**.**

- **Non- monetary exchanges:-** Larger the non-monetary transactions, greater the underestimation of GDP as an index of welfare.
- **Externalities: -** GDP index does not account for externalities: the good and bed impact of economic activities without the price or penalty. Environmental pollution related to production activity is an important example of negative externalities, If maintains a beautiful garden is an important example of positive externalities . This also lowers the significance the of GDP as an index of welfare.

(Mention any Two)

Q15. Calculate Gross Value Added at Market Price. (CBSE 2020)

S.No	Items	Rs. In Lakh
I	Depreciation	20
Ii	Domestic sales	200
Iii	Change in stock	(-)10
Iv	Export	10
V	Single use producer goods	120

Ans. **Gross Value Added at Market Price**

= Domestic Sales + change in stock +Export – Single use product goods

=200 +(-) 10+ 10- 120 = Rs. 80 Lakh

Q16. Calculate Net Value Added at Factor cost from the following data. (CBSE 2020)

S.No	Items	Rs. In Lakh
I	Durable producer goods (with a life span of 10 year	10
Ii	Single use product goods	5
Iii	Sales	20
Iv	Unsold goods (Stock)	2
V	Goods & service Tax (GST)	1

Ans. **Net Value Added at Factor cost**

= Sales + Unsold goods (Stock) - Single use product goods – Deprecation (Value of durable producer goods / Life span of durable producer goods= 10/10=1) - Goods & service Tax (GST)

= 20 + 2 – 5 – 1 – 1 = Rs. 15 Lakh

Q16 (a). State any Two precautions to be adopted while estimating National Income by Income Method.(CBSE Term-2 2022)

Ans. **PRECAUTIONS REGARDING INCOME METHOD**

Precautions: The following precautions have to be considered while measuring NI by this method:

i) The transfer incomes are not to be included because these transactions do not contribute to the flow of national production. For e.g., tax, gifts, donations, scholarships etc.

ii) The incomes derived from illegal sources are not to be included since the illegal activities are not backed by the legal sanction. For e.g., gambling, smuggling, theft & loot etc.

iii) The incomes received after selling second hand goods are not to be included but the commission earned by the broker is to be included because it is a factor income.

iv) The income derived from leisure time activities is not to be included because it is difficult to determine the actual price of leisure time goods.(Any Other point)

OR

(b) Distinguish between 'Value of Output' and 'Value Addition'. (2 Marks)

Ans. Value of output is the money value of the all the final goods and services, produced during a year in an economy.

Whereas, Value added is the excess of value of output over the value of intermediate consumption.

Q17 (a). Discuss briefly the problem of 'Double Counting' Using a suitable example. (CBSE Term-2 2022)

Ans. **PROBLEM OF DOUBLE COUNTING :** It refers to the situation when the value of a good is estimated more than once. It is a problem which leads to overestimation of National income. The problem of double counting arises when the value of intermediate goods is included or the value of second hand goods is estimated.

Stages of production	Value of inputs	Value of output	Value Added
Farmer-Wheat	---	500	500
Flour Mill-Flour	500	700	200
Bakery-Bread	700	1000	300
Distributer	1000	1200	200
Total	**2200**	**3400**	**1200**

OR

(b). Distinguish between Real GDP and Nominal GDP, using a suitable numerical example. (3 Marks)

Ans. **NOMINAL AND REAL GDP**

NOMINAL GDP:-Nominal GDP is the market value of the final goods and services (Q) produced within the domestic territory of a country during an accounting year, as estimated using the **current year price** (P).

Nominal GDP = Q x P

(When nominal GDP rises, the flow of goods and services in economy may or may not rise during an accounting year)

REAL GDP:- Real GDP is the market value of the final goods and services (Q) produced within the domestic territory of a country during an accounting year, as estimated using the **Base year price** (*P).

Nominal GDP = Q x *P

Suppose, the output of commodity- X during the year 2019 was 500 units. The market of the commodity during the same year was Rs.50 per unit while the price in the base year was Rs.40 per unit. So the Nominal GDP and Real GDP would be.

Nominal GDP = 500 x Rs 50 = Rs.25, 000.

Real GDP = 500 x Rs 40 = Rs.20, 000.

Conversion of Nominal GDP into Real GDP

$$\text{Real GDP} = \frac{\text{GDP at current price}}{\text{Price index}} \times 100$$

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

Q18. **Question: -** Estimate the missing values (?), if the value of 'Gross domestic Production of a factor cost by 'Expenditure Method and Income Method is Rs. 370 crore. **(CBSE Term-2 2022)**

S.No	Items	Rs. In crore
I	Consumption of Employees	175
Ii	Private Final Consumption Expenditure	210
Iii	Employers Contribution to Social Security Schems	50
Iv	Net Indirect Tax	20
V	Net Exports	(-)20
Vi	Government Final Consumption Expenditure	?
vii	Operating Surplus	?
viii	Gross Domestic Fixed Capital Formation	70
Ix	Mixed Income	40
X	Change in Stock	60
Xi	Consumption of Fixed Capital	70

- Ans. GDP $_{FC}$ = ii + Government Final Consumption Expenditure + (vii+x) + (v) –(iv)
  370 = 210 + Government Final Consumption Expenditure + (70 +60) + (- 20) – (20)

Government Final Consumption Expenditure = Rs. 70 crore.

- GDP $_{FC}$ = i + Operating Surplus + (ix) + (xi)
  370 = 175 + Operating Surplus +40 + 70
  Operating Surplus = Rs.85 crore

Unit 2: Money and Banking

MONEY – ITS MEANING

Anything which is commonly accepted as a medium of exchange is called money.

It is usable for undertaking transaction, i.e., receipt and payments. Example – A rupee in India is money, as it is a commonly accepted medium of exchange here, a Dollar in USA is money, as it is a commonly accepted medium of exchange there.

Features (Function) of Money

1. **Medium of Exchange**
    a. Facilitates efficient economic transactions
    b. Advantage over Barter Economy:
    c. Money has solved the problem of Double Coincidence of Wants .
    d. Promotes Specialization & Division of Labor
    e. Money reduces the time and energy spent in barter.
2. **Unit of Value (Account)**
    a. Measure of Value in the Economy
    b. The value of each Goods and Services is expressed as a its price.
    c. Price of all Goods and Services are expressed in terms of money .
    d. This function makes possible of keeping business accounts.
    e. After knowing the price of Goods and Services, it is not difficult to determine exchange ratio between them.
3. **Standard of deferred payments**
    a. Deferred payments refer to payments made in future .
    b. Money as a standard of deferred payments has facilitated market transactions of buying , selling, borrowing ect.
    c. As a long money maintains a constant value through Money makes possible the credit transactions.
    d. Money is durable and homogeneous.
4. **Store of Value**
    a. Now with money , savings are done in terms of money.
    b. Money is an asset and can be stored in future .
    c. Money helps people to transfer their purchasing power from present use to future use.
    d. Money is an asset and can be stored in future.
    e. It is commonly accepted measure of value

SUPPLY OF MONEY

Money supply refers to the total quantity (stock) of money in circulation in the economy at the given point of time.

Measures of money supply:- In India, there are four alternative measures of money supply . known as M_1 , M_2 , M_3 and M_4 of these, only M_1 measure is discussed here.

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

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

DD : Demand deposits of the people with the commercial bank

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

The basic measure of money supply (M_1) has two components.

1. **Currency held by the public**:- Money supply of currency notes and coins held by the public outside the banks. Currency notes are issued by the RBI and coins are issued by government of India.
   - The currency issued by central bank(RBI)
   - Currency notes and coins are called legal tenders as they cannot be refused by any citizen of the country.
   - Currency notes and coins are called fiat money.
2. **Net demand deposits held by commercial banks:**- Demand deposits are the deposits which can be withdrawn on demand by the depositors from banks , e.g. current account and saving account.
   - Demand deposits are created by the commercial banks and are called 'Bank money'

KEY TERM

- **High powered money:-** the currency issued by central bank (RBI) can be held by the public or by the commercial banks.
- **Demand deposits**:-Demand deposits are the deposits which can be withdrawn on demand by the depositors from banks, e.g. current account and saving account.

Types / Forms of money

- **Fiat money** : It is the money issued by order of the government (Notes and coins in circulations)
- **Fiduciary money** :- It is the money backed with mutual trust between the payer and payee (cheques and deafts)
- **Full bodies money**: - It refers to money in terms of coins whose commodity value is equal to the money value as and when these are issued.
- **Credit money:-** It is the money of which money value is more than commodity value.

Banking

MONEY / CREDIT CREATION BY COMMERCIAL BANKS

Money / Credit creation is an import function of the commercial banks.

MONEY CREATION OR CREDIT CREATION - Money creation (or deposit creation or credit creation) by the commercial banks is determined by (1) The amount of the **initial fresh deposit** and (2) The **Legal Reserve Ratio (LRR) –** It is the minimum ratio of deposit legally required to be kept as cash by the banks. LRR includes **Cash Reserve Ratio –** It is the minimum proportion of cash reserves which is kept by commercial banks with the central bank against its total deposits; and Statutory Liquidity Ratio – It is that proportion of the total deposits which a commercial bank has to keep with itself in the form of liquid assets (i.e. cash, gold and unencumbered approved securities). It is assumed that all the money that goes out of banks is redeposit into the banks.

PROCESS - Let the LRR be 20% and there is a fresh deposit of Rs.1,000. As required the banks keep 20% i.e. Rs 200 as cash. Suppose the banks lend the remaining Rs 800 those who borrow use this case money for making payments as assumed those who receive payments put the money back into the banks in this way banks receive fresh deposits of Rs 800. The banks again keeps 20% i.e. Rs160 as cash and lend Rs.640 which is also 80% of the last deposit the money again comes back to the banks' lending to a fresh deposit of Rs 640. The money goes on multiplying in this way and ultimately total money creation is Rs 5,000. Credit creation by banks is done by the formula.

As seen in the table, banks are able to create total deposits of Rs. 5,000 with the initial deposits of just Rs. 1000. It means, total deposits become 'five times' of the initial deposit. Five times means Value of 'Money Multiplier'

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

Money Creation = Initial Deposit x 1/LRR,

Money Multiplier = 1/LRR

Money Creation = Initial Deposit x Money Multiplier

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

Money Creation = Initial Deposit x Money Multiplier

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

Reserve deposit ratio (LRR) affects the credit creation power of the banking system:-

Credit creation inversely related to the LRR
Example1: Initial deposit is Rs. 1000 and LRR= 20%, then

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

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 to policy to regulate the money market.
- It gives loan to the government.

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

1.As a banker's bank :-

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

2. As a supervisor:-

- Periodic inspection of banks.
- C.B. supervises, regulates and controls the commercial banks.

<u>Lender of the last Resort</u>:- Lander 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.

<u>Custodian of Foreign Exchange Reserves</u> :- 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.

<u>Controller of Credit:</u>

<u>Quantitative Control:</u> -

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

<u>Qualitative Control:</u> -

- Margin Requirement.
- Rationing of Credit.
- Direct Action.
- Moral Suasion.

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

- **Bank Rate Policy -** It refers to the rate of interest at which the central bank lends money to commercial banks (as a lender of the last resort). It relates to instant (immediate) loan requirement of the commercial banks. Central Bank increases the bank rate during inflation (excess demand) and reduces the same in times of deflation (deficient demand).

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

  Reverse Repo Rate – The rate at which RBI accepts deposits from the commercial banks(thorough government securities) . This is used (Increased) when excess money supplies exist in an economy.

  Open Market Operations - It refers to the buying and selling of securities by the Central Bank from/ to the public and commercial banks. It sells government securities during inflation/excess demand and buys the securities during deflation/deficient demand.

  Cash Reserve Ratio (CRR) - It refers to the minimum percentage of a bank's total demand deposits to be Capt with the RBI. It is fixed by the RBI and varied from time to time to regulate the supply of money in the economy . Reserve Bank increases CRR during inflation and decreases the same during deflation.

  Statutory Liquidity Ratio (SLR) - It refers to minimum percentage of net demand and time liabilities which commercial banks required to maintain with themselves in the form of specified liquid assets including cash, gold and govt. securities. SLR is increased during inflation or excess demand and decreased during deflation or deficient demand.

QUALITATIVE INSTRUMENTS

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

Moral Suasion - It is like rendering an advice to the commercial banks by the RBI to follow its directives. The banks are advised to restrict loans during inflation, and be liberal in lending during deflation.

MONETARY INSTRURUMENTS	CREDIT CONTROL (INFLATION)	DEFLATION
Bank Rate Policy	Increased	Decreased
Repo Rate Policy	Increased	Decreased

Reverse Repo Rate	Increased	Decreased
Open Market Operations	Sells	Buys
Cash Reserve Ratio (CRR)	Increased	Decreased
Statutory Liquidity Ratio (SLR)	Increased	Decreased
Margin Requirements	Increased	Decreased
Moral Suasion	restrict loans	liberal in lending

Competency Based & Objective Type Questions

CBSE BOARD EXAM.1 MARKS QUESTION (2017 to 2020)

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

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

Q2. Demand deposits include : (2017)

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

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

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

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

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

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

(a) 2 (b) 3

(c) 5 (d) 4 **(Ans.C-5)**

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

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

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

"All financial Institutions are banking institution" (2020) **(Ans. False)**

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

"Margin requirement is raised by the central bank to increase money supply**"** **(False)**

ASSERTION & REASON

-

Alternatives:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q5.ASSERTION (A): Money supply in money in circulation at a given time in an economy.

REASON (R): Money supply is a flow concept.

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

True- False Alternatives Statement

Alternatives:

a) Both the statement are true

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

Q1. Statement 1: Fiduciary money is the money issued by order of the government
Statement 2: Fiat money is the money backed with mutual trust between the payer and payee

Q2. Statement 1: Full bodies money refers to money in terms of coins whose commodity value is equal to the money value as and when these are issued.
Statement 2: Credit money is the money of which money value is more than commodity value.

Q3. Statement 1: Credit creation inversely related to the LRR
Statement 2: Encouraging borrowing by households and businesses will adversely affect the economy as the deposits with the commercial banks will reduce.

Ans1. (b) Both the statement are false
Ans 2. a) Both the statement are true
Ans3. (c) Statement 1 is true and Statement 2 is false

CASE STUDY

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

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

Money plays crucial role in the smooth functioning of the economy. Money supply is considered as a very important tool to control other macro economic variables
Central bank and commercial bank are the two main sources of money supply. Measurement of money supply is an important task performed by the central bank .

Statement of Money Supply

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

Q1. The value of money supply in the economy is Rs. _______________.crores
(a). 13078148　　(b). 193399596
(c). 4778148　　(d) 4731426

Q2. Money Supply is a _____________ Variable, measured at a point of time,
(a). Stock　　(b) Flow
(c). Both Stock and Flow　　(d). Neither Stock, nor Flow

Q3. Demand Deposit are _____________________________.

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

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

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

Q5. Assertion : Money supply includes money held by all financial institutions.
Reason : Money held by government does not come into circulation.

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

Q6. ______________ releases data on money supply in India

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

Ans. 1. D , Ans.2. A, Ans 3. A
Ans.4 B Ans 5.D Ans.6. B

MULTIPLE CHOICE QUESTIONS (MCQ) WITH ANSWERS

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

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

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

(a)Coins (b) Currency
(c) Cash reserve of banks (d) Demand deposits in banks

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

(a)Margin requirement (b) Cash Reserve Ratio
(c) Bank rate (d) Open market operations

Q4. Which of the following statements is correct ?

(a) Supply of money refers to stock of money held by public at a point of time
(b) Supply of money is a flow variable
(C.) Supply of money includes cash reserve of banks
(d) Supply of money refers to bank money

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

(a) Repo rate (b) CRR

(c) Statutory liquidity Ratio (d) Reserve Repo Rate

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

(a) Reduces Repo Rate (b)Buys securities in the open market

(c) Sells securities in the open market (d) Reduces CRR

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

(a) Cash Reserve Ratio (b) Reverse Repo Rate

(c)Bank Rate (d) Legal Reserve Rate

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

(a) Time deposits (b)Secondary deposits

(c)Primary deposits (d) None of these

Q9. To reduce the supply of money in the economy, the Central Bank ______________

(a)Raises CRR

(b) Lowers the Repo rate

(c)Lowers the margin

(d)Buys Govt. securities from the market

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

(a) Advancing loans (b) Accepting deposits

(c) Both (i) and (ii) (d) Neither (i) nor (ii)

Answer key

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

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

Q1**. State the components of money supply.**

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

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

DD : Demand deposits of the people with the commercial bank

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

Q2. **Explain the 'Standard of deferred payments' Function of the Money**

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

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

Q3. **Explain the 'Store of Value' Function of the Money**. **Ans. Store of Value**

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

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

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

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

Q5.Explain the lender of last resort function of the central bank'

Ans. **Lender of the last Resort**:- Lander 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.

Q6.Explain how repo rate can be helpful in controlling credit creation

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

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

Q7. Explain how margin requirements are helpful in controlling credit creation.

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

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

Q8. Define credit multiplier. What role does it play in determining the credit creation power of the banking system? Use a numerical example.(CBSE 2019)

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

Money Creation = Initial Deposit x 1/LRR,

Money Multiplier = 1/LRR

Money Creation = Initial Deposit x Money Multiplier

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

Money Creation = Initial Deposit x Money Multiplier

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

Credit creation inversely related to the LRR

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

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

Q9. Discuss the function of central bank as a Banker, Agent and Advisor to the government.

(CBSE 2020)

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

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

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

Q10. Explain the " bank of note issue" function of central bank.(CBSE 2020)

Ans. 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.

UNIT-3 DETERMINATION OF INCOME AND EMPLOYMENT

Aggregate demand : Aggregated demand means the total demand for final goods in an economy. It also means the aggregate expenditure on final goods in an economy. (OR)

AD is the sum total of expenditure that the people plan to incur on the purchase of goods and services produced in the economy during the period of an accounting year corresponding to their different levels of income.

Components of Aggregate Demand: - **AD= C+ I + G + (X-M)**

1. C = Demand for goods and services for private consumption also called private final consumption expenditure.
2. I = Demand for private investment
3. G= Demand for goods and services by the government
4. (X-M) = Net exports.

Since the determination of income and employment is to be studied in the context of two sector model, the third and fourth components of aggregate demand are not discussed in details. The two sectors taken are households and firms.

BEHAVIOUR OF AD : AD Schedule :- Since AD is measured in terms of aggregate expenditure in the economy, Behavior of AD is studied in term of the behavior of aggregate expenditure at different levels of income (Y) .

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

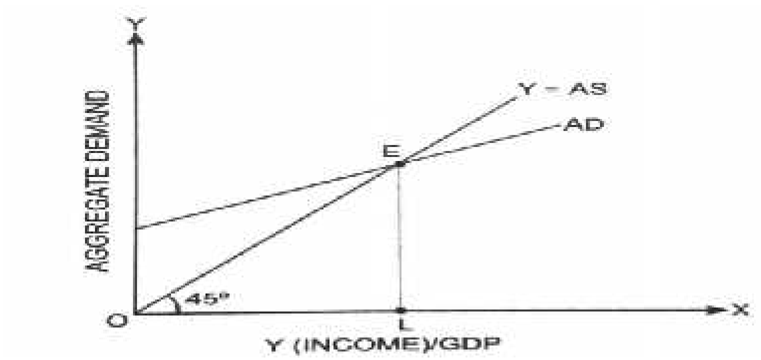
Y (INCOME)	AD
0	15
10	20
20	25
30	30
40	35
50	40

OBSERVATION: - 1. There is always some minimum level of expenditure in the economy even when Y=0. Thus, AD = 15 when Y = 0 called negative saving.

2. AD increases as Y increases. Thus, AD is positively related to Y.

3. After a certain level of Y is reached, Ad lags behind Y. Thus, when Y = 40, AD = 35 . Thus, happens because, at higher levels of Y, people start saving a part of their income.

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



CONCEPT OF AGGREGATE SUPPLY (AS)

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

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

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

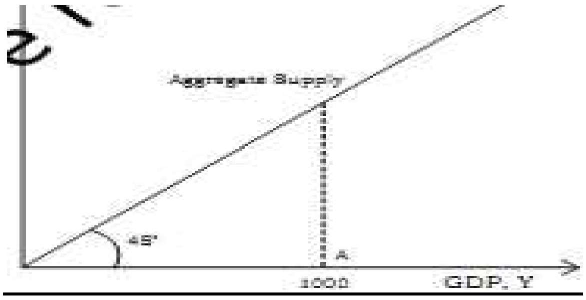
C= Consumption

S= Saving

AS Schedule:-Is a table showing the behavior of AS corresponding to different levels of Y in the economy.

Y (INCOME)	AS
0	0
10	10
20	20
30	30
40	40
50	50

<u>Diagrammatic Presentation of AS</u>



The Diagram shows that AS an Y are equal to each other. Therefore, As is indicated by a 45^0 line from the origin.

Significance of 45 degree line in Keynesian economics: - 45^0 line in Keynesian economics is a line of reference. Each point on this line shows that: AS=AD

The level of output income and employment in an economy move together in the same direction till full employment is reached. Increase in output means, increase in level of employment and increase in level of income. Decrease in output means less employment and lower level of income.

<u>Consumption Function/ Propensity to consume</u>

It is an expression which establishes the functional relationship between consumption Expenditure(C) & the level of income(Y). It describes that how the change in the level of income influence the consumption expenditure of the households. The rise in income level leads to rise in the consumption expenditure, & vice versa.

Behavior of C with respect to Y.

(i) There is always some minimum level of C, even when Y=0 , this is called Autonomous consumption . This leads to negative saving (- S) .

(ii) Consumption is positively related to income rise in Y causes a rise in C.

(iii) The entire increase in Y during a particular period is not converted into C. a part of saving.

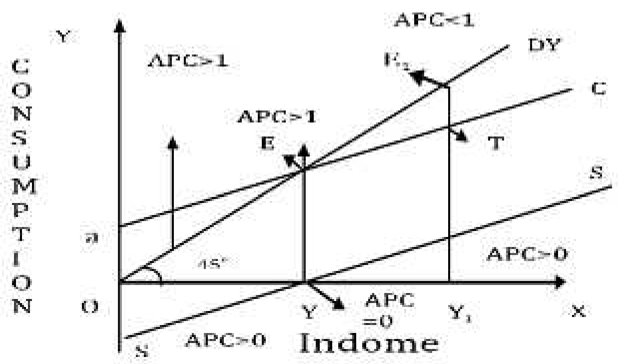
<u>Consumption Function: A Tabular presentation</u>

Y (INCOME)	C (Consumption)
0	5
10	10
20	15
30	20
40	25
50	30

(i)
(ii)
(iii)
(iv)
(v)

(a) is the minimum level of consumption. This is the level of C even when Y=0
(b) C rises in response to a rise in Y. Consumption is positively related to income.
(c) The rate at which C increases is lower than the rate at which Y increases.

Diagrammatic Presentation



The Algebraic presentation of consumption function may be represented by the following equation.

$C = \bar{C} + bY \qquad \bar{C} > 0,\ 0 < b < 1.$

Where,

C = Consumption

$\bar{C}$ = Autonomous Consumption

b = Marginal Propensity to Consume

Y = Level of income

Average Propensity to Consume (APC) and Marginal Propensity to Consume (MPC)

Average Propensity to Consume (APC):- APC is the ratio between total consumption and total disposable income.

APC = C/Y

Value of APC : value of APC is (i) It is never Zero (0) (ii) It is greater than Zero (0) (iii) It can be greater than 1 if C > Y (iv) It can be 1 if Y=C .

Marginal Propensity to Consume (MPC) - It refers to the ratio of change (additional) in Consumption and change (additional) in income.

MPC = ΔC/ ΔY

Value of MPC always lies between 0 and 1 i.e. 0<MPC<1.

Saving Function or propensity to save:- It refers to the functional relationship between S and Y (saving & level of income) , S = f (Y). In other words, it is the tendency of the households to save at a given level of income.
Income that is not spent on consumption is saved, that is S = Y – C

The savings function relates the level of saving to the level of income. Equation of the saving function.

$$S = Y - C$$

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

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

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

$-\bar{C}$ = Autonomous saving

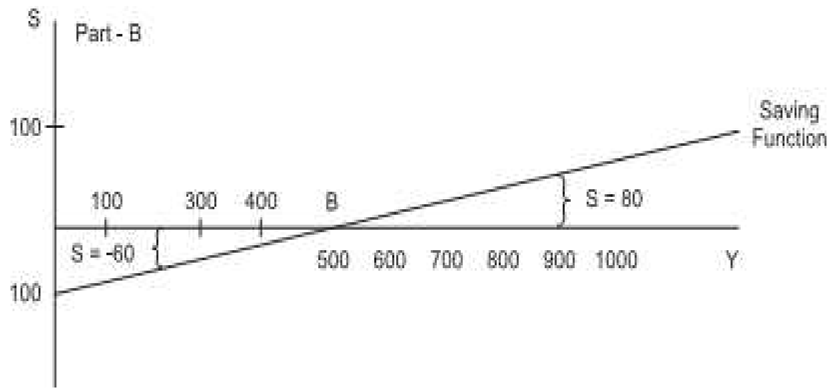
Saving Function: A Tabular presentation

Y (INCOME)	C (Consumption)	Saving (Y – C)
0	5	-5
10	10	0
20	15	+5
30	20	+10
40	25	+15
50	30	+20

OBSERVATION:- 1. S = -5 when Y = 0. This is because C= 5, this is called Autonomous Saving.
2. S increases as Y increases. Implying that S is positively related to Y .
3. S remains lower than Y. It is never greater than Y.

Y	C	S (Y-C)
0	100	-100
100	180	-80
200	260	-60
300	340	-40
400	420	-20
500	500	0
600	580	+20
700	660	+40

Diagrammatically Presentation



Average Propensity to Save (APS) and Marginal Propensity to Save (MPS)

Average Propensity to Save (APS) :- APC is the ratio between Aggregate Saving and Aggregate income.

APS = S/Y

Value of APS : value of APS is (i) It can be negative (-), If C > Y. (ii) It can be Zero (0) , if Y = C .

(d) It can be greater than 0, if Y > C. (iv) APS never 1 and greater than 1 .

Marginal Propensity to Save (MPS) :- It refers to the ratio of change (additional) in Saving and change (additional) in income.

MPS = ΔS/ ΔY

Value of MPS always lies between 0 and 1 i.e. $0<MPC<1$.

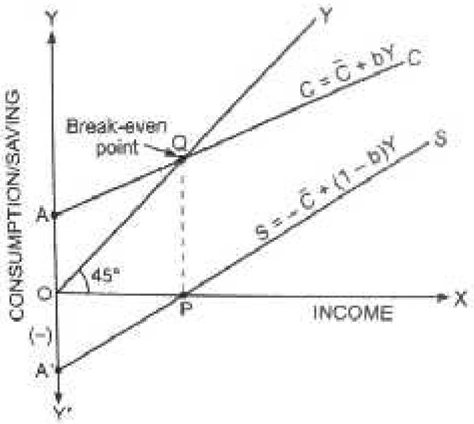
Relationship between APC and APS :- APC and APS is equal to one.

APC + APS = 1
APC = C / Y and APS = S / Y
APC + APS = C / Y + S / Y
= C+S /Y = Y/Y = 1

Relationship between MPC and MPS :- MPC and MPS is equal to one.

MPC + MPS = 1
MPC= ΔC/ ΔY and MPS = ΔS/ ΔY
MPC = MPS = ΔC/ ΔY + ΔS/ ΔY
= ΔC+ ΔS / Y = Y/Y =1

Derivation of Saving curve from Consumption Curve :-
Shows the Derivation of Saving curve from a given Consumption Curve.



It involves the following steps.

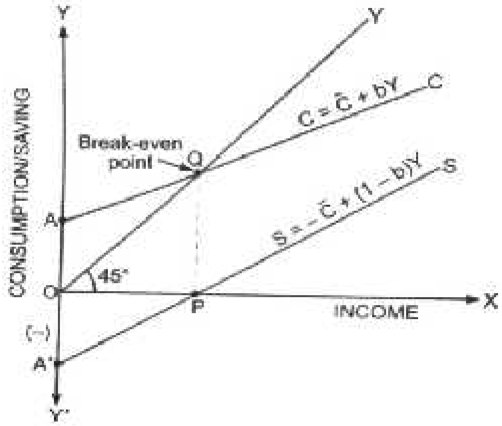
(i) We take OA’ = OA. Because OA= consumption when Y = 0, so that, OA’ is the negative saving When Y =0. It is indicated by $-\bar{C}$ in the saving function .

(ii) Point **P** on the saving curve is marked corresponding to point **Q** on the consumption curve.

(iii) By joining points **A’** and **P** and stretching it to from a straight line, we get S curve. S- function linear C- function.

<u>Derivation of Consumption curve from Saving Curve</u>

Shows the Derivation of consumption curve from a given saving Curve.



It involves the following steps.

(i) We take OA = OA’. Because OA’= negative saving when Y = 0, and this is exactly equal to minimum consumption when Y = 0.

(ii) Point Q on the y- line is marked corresponding to point **P** on the Saving curve.

(iii) By joining points **A** and **Q** and stretching it to from a straight line, we get **C** curve. C- Function is linear as it is derived from a linear S - function.

<u>Table : Average Propensities to Consume and Save</u>

Y	C	APC (C/Y)	S (Y-C)	APS (S/Y)	APC+APS
0	100	-	- 100	-	-
100	150	1.5	-50	-0.5	1
200	210	1.05	-10	0.05-	1

300	275	0.91	+25	0.09	1
400	350	0.87	+50	0.13	1
500	430	0.86	+70	0.14	1
600	525	0.87	+75	0.13	1

Table : MPC AND MPS

Y	C	ΔY	ΔC	MPC (ΔC/ ΔY)	S	ΔS	MPS (ΔS/ΔY)	MPC+MPS
0	100	-	-	-	-100	-	-	-
100	150	100	50	0.5	-50	50	0.5	1
200	210	100	60	0.6	- 10	40	0.4	1
300	275	100	65	0.65	+25	35	0.35	1
400	350	100	75	0.75	+50	25	0.25	1
500	430	100	80	0.80	+70	20	0.20	1
600	525	100	95	0.95	+75	5	0.5	1

Complete the following table:

Income (Rs.)	Saving	MPC	APS
20	-12		
40	-6		
60	0		
80	6		

MPC = - , 0.7,0.7, 0.7 MPS= -0.6, 0.15, 0 , 0.075

Complete the following table: Saving: -70, - 30, 10 APS: - 0.7, -0.15, 0.033

Income (Rs.)	MPC	Saving	APS
0	-	-110	-
100	0.6	-	-
200	0.6	-	-
300	0.6	-	-

Complete the following table: APC: - , 1.4, 1, 0.8, 0.75 MPC: - , 0.6, 0.6, 0.4, 0.6

Income (Rs.)	Saving (Rs.)	APC	MPC
0	-40	-	-
50	-20	-	-
100	0	-	0.6
150	30	0.8	-
200	50	-	-

<u>DETERMINATION OF EQUILIBRIUM OUTPUT (GDP) OR EQUILIBRIUM INCOME</u>

Two approaches to study the determination of equilibrium income (GDP):-

(i) Consumption plus Investment Approach (AS=AD approach)

(ii) Savings and Investment approach (S=I approach)

<u>Consumption plus Investment Approach (AS=AD) of Equilibrium level of Income</u>

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

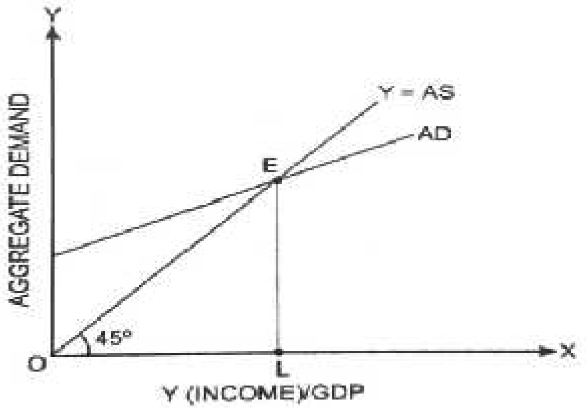
AS=AD

It is also called 'Effective demand'. Since AS=Y, therefore the economy is in equilibrium if Y = AD or Y= C+I.

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

INCOME (Y)	CONSUMPTION (C)	SAVING(Y-C) (S)	INVESTMENT (I)	AD(C+I)	AS(C+S)
0	50	-50	100	150	0
100	100	0	100	200	100
200	150	50	100	250	200
300	**200**	**100**	**100**	**300**	**300**
400	250	150	100	350	400
500	300	200	100	400	500
600	350	250	100	450	600

It is clear from the above schedule that, equilibrium is struck when AS =AD =300 .
Equilibrium of income of income =300.



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

ADJUSTMENT MECHANISM :

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

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

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

(i) The existing stocks of the producers would be sold out and

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

<u>AD < AS (Ex-ante AD < AS Ex-ante AS)</u> :- If AD < AS , flow of goods and service in the economy tends to exceed their demand. As result :
(i) Some of the goods would remain unsold .
(ii) To clear unwanted stocks.
(iii) The producer would plan a cut in production.
(iv) Consequently, AS would reduce to become equal to AD.

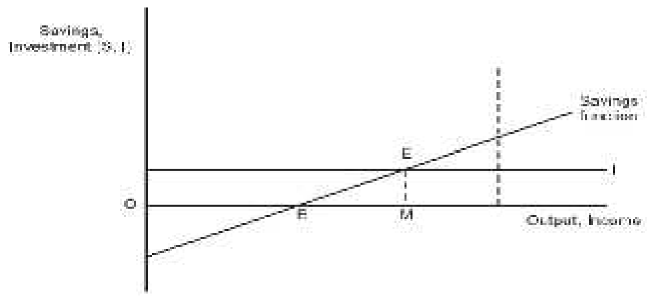
<u>Savings and Investment approach (S=I approach or Planned S = Planned I)</u>

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

AS = AD   Y= C+S and
AD= C+I
C+S = C+I
S=I
(as C is common on both side of the equation) (Alternative Approach)

INCOME (Y)	CONSUMPTION (C)	SAVING(Y-C) (S)	INVESTMENT (I)
0	50	-50	100
100	100	0	100
200	150	50	100
300	**200**	**100**	**100**
400	250	150	100
500	300	200	100
600	350	250	100

Equilibrium is struck when :
S = I = 100 and equilibrium income = 300 at the level AS =AD(300each)



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

ADJUSTMENT MECHANISM:
(i) S > I (Planned S > Planned I)
(ii) S < I (Planned S < Planned I)

<u>S > I (Planned S > Planned I</u>):- In such situation , the following changes will occur.
(i) Stock of the producer would be in excess of desired limit.
(ii) Profits will start shrinking.

(iii) Planned output for the subsequent year will fall.
(iv) Level of income and employment will tend to shrink to the point where S=I.
(v) The economy will come back to the state of equilibrium.

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

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

INVESTMENT MULTIPLIER AND ITS MECHANISM

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

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

Here : K = Multiplier
ΔY = Change in income
ΔI = Change in investment

RELATIONSHIP BETWEEN MULTIPLIER AND MPC : - There is direct relationship between investment multiplier and MPC . Higher the MPC, greater is the size of multiplier and vice versa. In fact, multiplier is often estimated with reference to MPC, as under :

K= 1 / 1-MPC (K= 1/MPS)

This equation establishes a direct relationship between MPC and K.

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

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

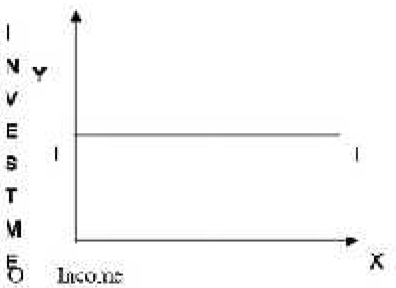
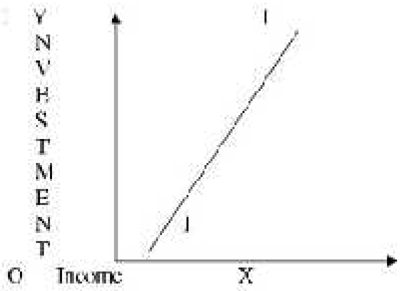
$$K = (\Delta Y) / (\Delta I)$$

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

K = 1 / 1-MPC
= 1 / 1-0.9 = 1 / 0.1 =10
Given that ΔI = 1,000, K= 10
ΔY = 10 x 1,000
= **Rs 10,000 crore**.

Investment

1. Autonomous investment. 2. Induced investment.

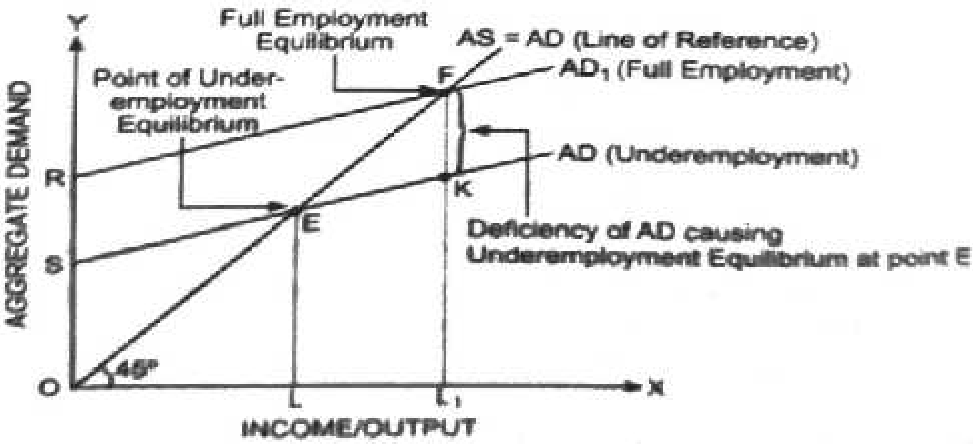
Autonomous investment (I0)	Induced investment (I1)
1. It refers to the investment expenditure which is incurred by the Government with the motive to promote the level of growth & development. It is not influenced by the level of profits or income of an economy.	It refers to the investment expenditure which is incurred by the enterprises with the motive to make greater investments & receive higher returns. It is positively related to level of income.
2. It is influenced by the change in population structure, natural calamities, change in technology & institution, war etc.	It is influenced by the level of income of an economy. Higher the income, greater is the induced investments, & vice versa.
3. The I0 curve is straight line parallel to income axis which shows that it remains same at all levels of income & output, & not influenced by change in income. 	The I1 curve is a positive slope which shows the positive relation between induced investment & level of income. 

PROBLEM OF DEFICENT DEMAND AND EXCESS DEMAND

SOME ESSENTIAL CONCEPTS:-

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

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



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

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

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

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

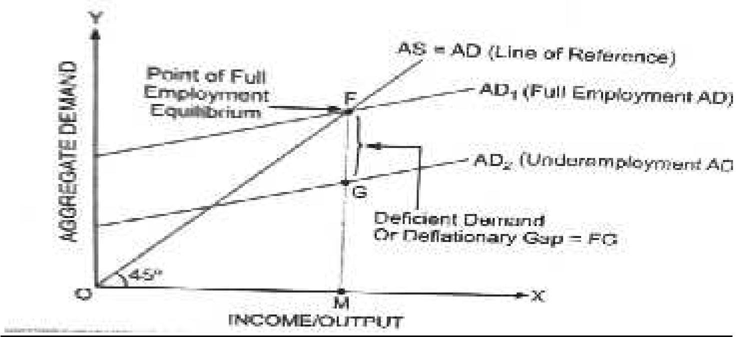
Structural unemployment:- Structural unemployment is the unemployment which is associated with structural changes in the economy, like change in technology.

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

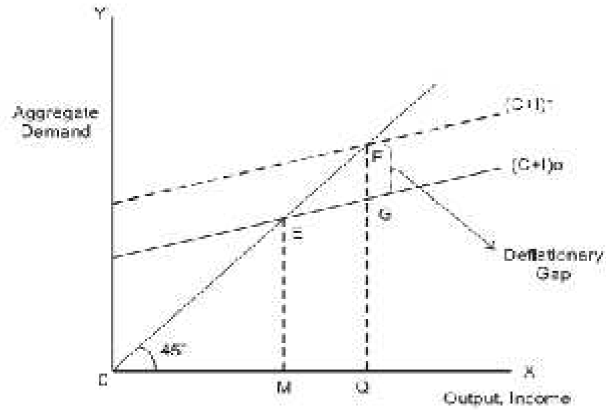
Problems of Deficient Demand and Deflationary Gap

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

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



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



- (C+I)1 line shows the required level of AD for full employment in the economy.
- (C+I) 0 line shows planned AD which is lower than the full employment AD.
- The vertical difference between (C+I)1 and (C+I)0 = FG.
- FG is Deflationary gap.

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

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

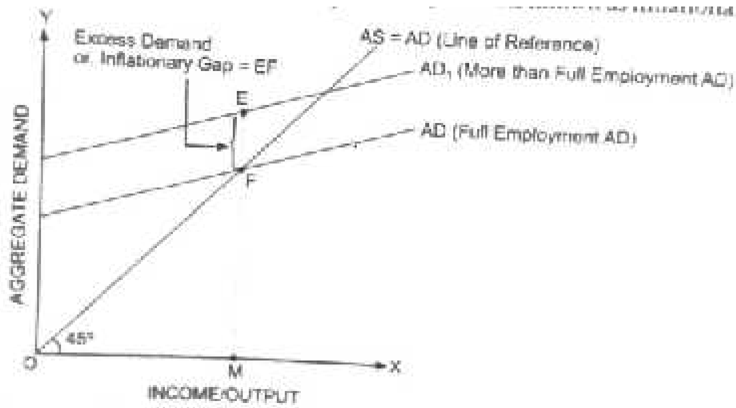
Consequences of Deficient Demand :- Deficient AD leads to four critical situations in the economy, as under.

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

PROBLEM OF EXCESS DEMAND (INFLATIONARY GAP)

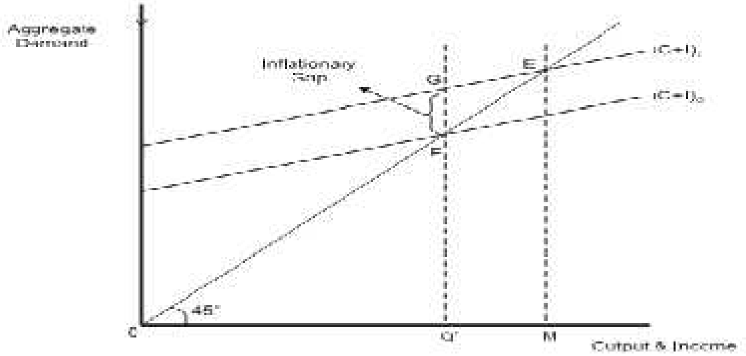
Excess demand (Inflationary gap) refers to situation when Aggregate Demand is more than Aggregate Supply (AD > AS) corresponding to full employment level in the economy'.

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



- AD (Full employment) line shows the required level AD for full employment in the economy.
- AD1 line shows planned AD which is higher than the full employment AD.

- The vertical difference between AD1 and AD =EF =Excess Demand.
Inflation Gap = Excess Demand



- (C+I)0 (Full employment) line shows the required level AD for full employment in the economy.
- (C+I)1 line shows planned AD which is higher than the full employment AD.
- The vertical difference between (C+I)0 and (C+I)1 =GF =Inflationary gap
- Inflation Gap = Excess Demand

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

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

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

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

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

The measures can be classified into two measures viz.

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

Fiscal Measures to correct	**Excess (Inflationary gap)**	**Deficient demand (Deflationary gap)**
1.Government Expenditure	Reduce	Increase
2.Taxes	Increase	Reduce
3.Public borrowing(Public Debt)	Increased(steps up)	Reduced its borrowing
4.Borrowing from RBI	Reduce	Increase

Monetary Measures to correct	**Excess (Inflationary gap)**	**Deficient demand (Deflationary gap)**
Quantitative Methods		
1.Bank rate and Repo rate	Increase	Decrease
2.Reverse Repo rate	Increase	Decrease

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

Measures to correct Excess (Inflationary gap)

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

(1) Public (Government) Expenditure: Excess demand / inflationary situation When AD> AS corresponding to full employment level in the economy. During this situation general price level to rise , causing a rise in the rate of interest ,fall in investment and fall GDP. **Correction of Excess demand / inflationary situation**: (i) Cut (Reduce)government expenditure (ii) Cause an overall cut in aggregate demand.(iii) So that excess aggregate demand is corrected.
(iv)Excess demand / inflationary gap situation eliminated.

(2) **Taxes:-** Taxes are a compulsory payment made to government by the household. Correction of Excess demand / inflationary situation: (i) By increasing the tax burden on households. (ii) The government reduces their disposable income. (iii) Accordingly, AD is reduced and Excess demand / inflationary situation managed.

(3)Public borrowing (Public Debt):- By borrowing from the public, the government steps up public borrowing. In the situation of Excess demand / inflationary gap AD needs to be reduced. **Correction of Excess demand / inflationary situation**: (i) The government steps up public borrowing by offering attractive rate of interest. (ii) This reduces liquidity with the people. (iii) Accordingly, aggregate expenditure also reduces and Excess demand / inflationary situation managed.

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

Correction of Excess demand / inflationary situation: (i) Reduced amount of borrowing by government. (ii) The amount of liquidity in the economy also reduced (iii) As desired to correct and Excess demand / inflationary situation.

Monetary Measures:

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

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

(1) **<u>Bank Rate and Repo Rate Policy</u>**: It refers to the rate of interest charged by the Central Bank on the loans & advances given to the Commercial Banks. The Bank Rate and Repo rate is determined by the Central Bank itself. **Correction of Excess demand / inflationary situation**: (i) The RBI (CB) Raised the bank rate and Repo rate. (ii) Which leads to rise in rate of interest.(iii) This leads to raise the savings & reduce the demand for loans (iv) There is a fall in purchasing power & further fall in AD and correct and Excess demand / inflationary situation.

(2) **<u>Reverse repo rate</u>:** This induces the commercial bank to park their surplus funds with the RBI for short period of time. To Correction **situation of Excess demand / inflationary gap : (**i)Reverse repo rate is increased. (ii) As a follow-up action, the commercial bank will be increase their deposits with the RBI (CB) (iii) This, in turn, will reduce their ability to land money. (iv) Consequently, consumption and investment expenditure will be reduced. (v) Implying a reduction in AD correct and Excess demand / inflationary situation.

<u>(3) Open Market Operations</u>: It refers to the process to sale & purchase of securities by the RBI (CB) in the economy. **Correction of Excess demand / inflationary situation** (i) The RBI sells the bonds & securities in the market which is purchased by the banks, individuals and other financial institutions of the economy. (ii) This helps in wiping out the excess of money supply from the society (iii) There is a fall in purchasing power of the people.(iv) Consequently, the AD falls, this helps in reducing the price level and correct and Excess demand / inflationary situation

<u>(4) Cash Reserve Ratio</u>: It is indicating some percentage of demand deposits of the commercial banks to be kept as cash reserves with RBI. The CRR is an important tool which is used to correct the Excess demand / inflationary situation : (i) As the rise in CRR leads to fall in the lending capacity of the banks. (ii) Leads to fall in the lending capacity of the banks. (iii) This results in fall in money supply & further fall in AD. (iv) The fall in AD leads to fall in price level and correct and Excess demand / inflationary situation.

<u>(5) Statutory Liquidity Ratio (SLR) :-</u> SLR refers to liquid assets of the commercial banks which they are required to maintain as a minimum percentage of their total deposits. The SLR is an important tool which is used to correct the Excess demand / inflationary situation : (i) As the rise in SLR leads to fall in the lending capacity of the banks. (ii) Leads to fall in the lending capacity of the banks. (iii) This results in fall in money supply &

further fall in AD. (iv) The fall in AD leads to fall in price level and correct and Excess demand / inflationary situation.

QUALITAVTIVE METHOD

(1) Margin Requirements:- The margin requirements refers to the difference between current value of the security offered for loans and the value of Loans granted. In case the Excess demand / inflationary situation: (i) As the rise in the margin requirement (ii) Leads to restrict the availability of credit. (iii) This results in fall in money supply & further fall in AD. (iv) The fall in AD leads to fall in price level and correct and Excess demand / inflationary situation.

(2) Moral Suasion & Direct Action :- It is refers to pressure exercised by the central bank on the commercial bank . In case the Excess demand / inflationary situation **:**

(i) Restricts and selective availability of credit**. (ii)** This results in fall in money supply & further fall in AD. (iii) The fall in AD leads to fall in price level and correct Excess demand / inflationary situation.

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

Measures to correct Deficient demand (Deflationary gap)

Fiscal measures: These measures are formulated & implemented by the Government to control Deficient demand (Deflationary gap). The following tools are used to control & combat Deficient demand (Deflationary gap)situation.

(1)**Public (Government) Expenditure**: Deficient demand (Deflationary gap)situation When AD< AS corresponding to full employment level in the economy. **Correction of Deficient demand / Deflationary situation**: (i) Government expenditure is Increased (ii) Cause an overall Increased in aggregate demand.(iii) So that less aggregate demand is corrected.(iv) Deficient demand (Deflationary gap) situation eliminated.

(2) **Taxes:-** Taxes are a compulsory payment made to government by the household. Correction of Deficient demand (Deflationary gap)situation: (i) By Lowering (Reduced) the tax burden on households. (ii) The government increases their disposable income. (iii) Accordingly, AD is raised and Deficient demand (Deflationary gap) situation managed.

(3)Public borrowing (Public Debt):- By borrowing from the public, the government create public debt In the situation of Deficient demand (Deflationary gap) AD needs to be increased. **Correction of Deficient demand (Deflationary gap) situation**: (i) The government reduces its borrowing from the public. (ii) So that people with greater liquidity . (iii) Accordingly, aggregate expenditure remains high and Deficient demand (Deflationary gap) situation managed.

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

Correction of Deficient demand (Deflationary gap situation: (i) Increased amount of borrowing by government. (ii) Higher borrowing releases greater liquidity in the economy (iii) As required to correct Deficient demand (Deflationary gap) situation.

Monetary Measures:

These measures are adopted by the Central Bank of a country in order to control Deficient demand (Deflationary gap. There are two methods or instruments of monetary policy.

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

1.Bank Rate and Repo Rate Policy: It refers to the rate of interest charged by the Central Bank on the loans & advances given to the Commercial Banks. The Bank Rate and Repo rate is determined by the Central Bank itself. **Correction of Deficient demand (Deflationary gap situation**: (i) The RBI (CB) Reduced the bank rate and Repo rate. (ii) Which leads to reduced in rate of interest.(iii) This leads to reduced the savings & Raised the demand for loans (iv) There is a increase in purchasing power & further raised in AD and correct and Deficient demand (Deflationary gap) situation.

(2)Reverse repo rate: This induces the commercial bank to park their surplus funds with the RBI for short period of time. **To Correction situation Deficient demand (Deflationary gap) : (**i)Reverse repo rate is Decrease. (ii) As a follow-up action, the commercial bank will be reduce their deposits with the RBI (CB) (iii) This, in turn, will increase their ability to land money. (iv) Consequently, consumption and investment expenditure will be increased . (v) Implying a increased in AD correct and Deficient demand (Deflationary gap) situation.

(**3**) **Open Market Operations**: It refers to the process to sale & purchase of securities by the RBI (CB) in the economy. **Correction Deficient demand (Deflationary gap) situation** (i) The RBI purchase the bonds & securities in the market which is sale by the banks, individuals and other financial institutions of the economy. (ii) This helps to inject liquidity into the system (iii) There is a increased in purchasing power of the people.(iv) Consequently, the AD increased , this helps in Deficient demand (Deflationary gap) situation

(4) Cash Reserve Ratio: It is indicating some percentage of demand deposits of the commercial banks to be kept as cash reserves with RBI. The CRR is an important tool which is used to correct the Deficient demand (Deflationary gap) situation : (i) As the Decrease in CRR leads to rise (ii) Leads to rise in the lending capacity of the banks. (iii) This results in rise in money supply & further rise in AD. (iv) The rise in AD leads correct and Deficient demand (Deflationary gap) situation.

(5) Statutory Liquidity Ratio (SLR) :- SLR refers to liquid assets of the commercial banks which they are required to maintain as a minimum percentage of their total deposits. The SLR is an important tool which is used to correct the Excess demand / inflationary situation : (i) As the Decrease in SLR leads to rise (ii) Leads to rise in the lending capacity of the banks. (iii) This results in rise in money supply & further rise in AD. (iv) The rise in AD leads correct and Deficient demand (Deflationary gap) situation.

QUALITAVTIVE METHOD

(1) Margin Requirements:- The margin requirements refers to the difference between current value of the security offered for loans and the value of
Loans granted. In case the Deficient demand / deflationary situation: (i) As the fall (lowered) in the margin requirement (ii) Leads to raised the availability of credit. (iii) This results in rise in money supply & further rise in AD. (iv) The rise in AD leads to correct and Deficient demand (Deflationary gap) situation.

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

(i) Liberal availability of credit**. (ii)** This results in rise in money supply & further rise in AD. (iii) The rise in AD leads to correct (iv) The rise in AD leads correct and Deficient demand (Deflationary gap) situation.

(3) **Rationing of Credit:** It is refers to fixation of credit quotas for different business activates. In case the Deficient demand / deflationary situation**:** (i) enhance the availability of credit. (ii) Accordingly, AD is increased (iii) This results in rise in money supply & further rise in AD. (iv) The rise in AD leads correct and deficient demand (Deflationary gap) situation.

Competency Based & Objective Type Questions

CBSE BOARD EXAM . 1 MARKS QUESTION FROM 2015 TO 2020

Q1. What is aggregate supply .(2015,2018) (**Aggregate supply refers to the flow of goods and services in an economy during one year. This is ex-ante output during the year)**

Q2. The value of multiplier is: (2015)

(a) 1/MPC **(b) 1/MPS** (C) 1/1-MPS (d) 1/MPC-1 (Ans. B)

Q3. What is aggregate demand in macroeconomics? (2015) (**Aggregate demand is the total demand for goods and services in an economy, measured in term of total expenditure)**

Q4. If MPC =1, the value of multiplier is : (2015)

(a) 0 (b) 1 (c) between 0 and 1 **(d) infinity** (Ans,D)

Q5.Name any two components of aggregate demand . (2015) (Ans. C+I+G+X-M)

Q6. If MPC =0, the value of multiplier is : (2015)

(a) 0 **(b) 1** (c) between 0 and 1 (d) infinity (Ans.B)

(b) Q7. Give the mining of involuntary unemployment.(2016,2019) (**involuntary unemployment refers to a situation when people are willing to work at the existing wage rate , but are not getting work owing to lack of demand in the market)**

Q8. Aggregate demand can be increased by : (2016)

(a) Increasing bank rate (c) Selling government securities by RBI

(b) Increasing cash reserve ratio **(d) None of the above** (Ans. D)

Q9. When aggregate demand is greater than aggregate supply, inventories: (2017)

(a) **Fall** (b) Rise (c) Do not change (d)First fall and then rise (Ans. A)

Q10. Give the mining of under-employment equilibrium. (2017) (**under-employment equilibrium is the situation in the economy when planned AS = planned AD but full employment is not achieved)**

Q11. Suppose in a hypothetical economy, the income rise from Rs.5000 crore to 6000 crore. As a result, the consumption expenditure rises from Rs. 4000 crore to 4600 crore. MPC in such a case would ____________ .(2019)

(a) 0.8 (b) 0.4 (c) 0.2 **(d) 0.6** (Ans. D)

(b) Q12. Which of two, APC or APS, can be negative and why ? (2019) (**APS can be negative. It happens in situations when saving is negative or when APC >1.)**

Q13. In case of an underemployment equilibrium which of the following alternative is not true? (2020)

(a) Aggregate demand is equal to aggregate supply
(b) There exist excess production capacity in the economy
(c) Resources are not fully and efficiently utilized
(d) **Resources are fully and efficiently utilized** (Ans. D)

Q14. If MPS is 0.25 and initial change in investment is RS.250 crore, then the final change in income would be _____________ . (2020) (Ans. A)

(a) Rs.1,000 crores (b) Rs.1,200 crores (c) Rs.500 crores (d) Rs.3,500 crores

CASE STUDY

CASE STUDY-1:

In Keynesian analysis, aggregate supply refers to the ex-ante, ie. Planned aggregate output produced in the economy in a given year. In a two sector economy, in the absence of indirect tax and subsidy,the value of total final goods and services is distributed among the factors of production (wages to labour, interest to capital and rent to land) whatever leftover is appropriated by the entrepreneur and is called profits. Thus, the sum total of aggregate factor payments in the economy ie. National income, is equal to the aggregate value of the output of final goods ie Aggregate Supply .

Questions:

1. Discuss the significance of 45°line in Keynesian economics.
2. Define Aggregate Supply.

CASE STUDY-2:

Consumption expenditure refers to that portion of income which is spent on the purchase of goods and services at the given level of income. Consumption function refers to functional relationship between consumption and national income. It represents the willingness of households to purchase goods and services at a given level of income during a given time period. It also shows the consumption level at different levels of income in an economy. It is a psychological concept as it is influenced by subjective factors like consumer's preferences , habits etc.

Questions:

1. What is the slope of consumption curve? Explain consumption function.
2. What is break even point?

ASSERTION & REASON

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

Q 1.ASSERTION (A): The point at which saving curve intersects the X axis is known as break even point.
REASON (R): At this point, S=0 and C=Y
Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

Q2. ASSERTION (A): APS can never be one or more than one.
REASON (R): APC increases with increase in income.
Ans: (c) Assertion (A) is true but Reason (R) is false.

Q3. ASSERTION (A): Higher income group has lower propensity to consume as compared to lower income group.
REASON (R): Consumption expenditure can never be zero as minimum expenditure to be incurred for survival even at zero level of income.
Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

Q4. **ASSERTION (A):** Full employment implies zero unemployment when nobody is ever unemployed in the economy.
REASON (R): There is always some minimum level of unemployment called natural unemployment or voluntary unemployment.
Ans: (d) Assertion (A) is false but Reason (R) is true.

Q5. **ASSERTION (A):** When Investment Multiplier is 1, the value of MPC is also 1.
Ans: (d) Assertion (A) is false but Reason (R) is true

True- False Alternatives Statement

Alternatives:

a) Both the statement are true

(b) Both the statement are false

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

(d) Statement 2 is true and Statement 1 is false

Q1. (i) statement 1: If the investment increases by Rs.100 crore and MPC = 0.5, the increase the income will be two times the increase in investment.

(ii) statement 2: Multiplier action is forward when there is multiple increase in income caused by an increase in investment .

Q2. (i.) statement 1:Value of APC can never be greater than one.

{ii.) statement 2: Value of MPC can be greater than one.

Q3. (i..) statement 1: Equality between As and AD does not imply the equality between Y and AD.

(ii) statement 2: Equilibrium GDP has nothing to do with actual savings and actual investment

Ans: 1. a) Both the statement are true

Ans.2 (b) Both the statement are false
Ans.3. (d) Statement 2 is true and Statement 1 is false

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

Q1. Assuming that increase in investment is Rs. 900 crore and MPC is 0.6, explain the working of multiplier. (CBSE 2017)

Ans. Assuming that increase in investment is Rs. 900 crore and MPC is 0.6 . Explain the working of multiplier.
Multiplier is the ratio of a change in income (ΔY) to a given change in investment (ΔI).

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

Round	ΔI	ΔY	Change in consumption [MPC(ΔY)]	Saving
1	900	900	540 (0.6 x 900)	360
2		540	324 (0.6 x 540)	216
3		324	194.4 (0.6 x 324)	129.6
			and so on ….	
	ΔI=900	**ΔY=2,250**	**1,350**	**900**

K = 1 / 1-MPC
= 1 / 1-0.6 = 1 / 0.4 =2.5
Given that ΔI = 900, K= 2.5
ΔY = 2.5 x 900
= **Rs 2,250 crore**.

Q2. Calculate Autonomous consumption expenditure from the following data about an economy which is in equilibrium : (CBSE 2017)
National income = 5,000 .

Marginal propensity to save = 0.2

Investment expenditure = 800 .

Ans. MPC = 1 – MPS

MPC = 1 – 0.2 = 0.8

At the equilibrium level : Y = C+ I

Here : C = $\bar{C}$+bY

5000 = $\bar{C}$ + 0.8 (5000) + 800

5000 = $\bar{C}$ + 4000 + 800

5000 = $\bar{C}$ + 4800

$\bar{C}$= 5000 – 4800 = 200

$\bar{C}$= 200

Q 3.An economy is in equilibrium. Calculate Investment expenditure. (CBSE 2017)

National income = 10,000

Autonomous consumption = 500 .

Consumption expenditure = 8,000.

Ans. At the equilibrium level : Y = C+ I

Here : C = $\bar{C}$+bY

10,000 + 100 + 0.9 (10,000) + I

10,000 = 100 + 9000+ I

I = 10,000 – 9,100 = 900

Investment expenditure = 900.

Q4.In an economy, investment increased by 1,100 and as a result of it income increased by 5,500. Had the MPS been 25 per cent, what would have been increase in income ?

(CBSE 2017)

Ans. We know,

$K = \Delta Y / \Delta I$

$= 5,500 / 1,100 = 5$

MPS is 25% i.e. 25 / 100 = 25%

$K = 1/ MPS = 1/ 0.25 = 4$

$K = \Delta Y / \Delta I$

$\Delta Y = K \times \Delta I$

$= 4 \times 1,100 = 4,400$

Increase in Income = 4,400

Q5. What is two alternative ways of determining equilibrium level of income? How are these related? (CBSE 2018)

Ans. Two approaches to study the determination of equilibrium income :

(a) Equilibrium is struck when AS=AD

(b) Equilibrium is struck when S=I

Ans. These two approach related to each other :

AS = AD (OR)

C + S = C + I (OR)

S = I

AS = AD Approach that equilibrium is struck when ex-ante AS is equal to ex- ante AD.

S = I Approach that equilibrium is struck when Planned Saving is equal to Planned Investment..

Q6. Define investment multiplier. How is it related to MPC ? (CBSE 2018)

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

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

Here : K = Multiplier
ΔY = Change in income
ΔI = Change in investment

RELATIONSHIP BETWEEN MULTIPLIER AND MPC : - There is direct relationship between investment multiplier and MPC . Higher the MPC, greater is the size of multiplier and vice versa. In fact, multiplier is often estimated with reference to MPC, as under :

K= 1 / 1-MPC (K= 1/MPS)

This equation establishes a direct relationship between MPC and K.
Higher MPC must lead to higher multiplier.

Q7. Define full employment in an economy. Discuss the situation when aggregate demand is more than aggregate supply at full employment income level. (CBSE 2018)

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

When aggregate demand is more than aggregate supply at full employment income level:

When AD exceed AS corresponding to the full employment level. It well lead to the flowing situation in the economy:

(a) The existing stocks of the producers would be sold out and

(b) Producer cannot more produce because recourses are already fully employed

(c) Pressure higher demand would lead to rise in the price level

(d) Inflationary gap would struck the economy.

Q8. State and discuss the components of aggregate demand in a two sector economy. (CBSE 2019)

Ans. **Components of Aggregate Demand: -** **AD= C+ I + G + (X-M)**

1. C = Demand for goods and services for private consumption also called private final consumption expenditure.
2. I = Demand for private investment
3. G= Demand for goods and services by the government
4. (X-M) = Net exports.

Since the determination of income and employment is to be studied in the context of two sector model, the third and fourth components of aggregate demand are not discussed in

details. The two sectors taken are households and firms.

Q9. Discuss the working of adjustment mechanism in the following situations. (CBSE 2019)

(a) Aggregate demand is greater than aggregate supply
(b) Ex-ant investment are lesser than Ex-ant saving

Ans. (a)Aggregate demand is greater than aggregate supply :

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

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

(b.) **Ex-ant investment are lesser than Ex-ant saving (I < S) : -** In such situation , the following changes will occur.

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

Q10.In an economy : (CBSE 2019)
Change in initial investment (ΔI) = Rs.500 crore.
MPS = 0.2.
Fined the value of the following:
(a) Investment multiplier (K)
(b) Change in final income (ΔY)

Ans. (a) Investment multiplier (K)

We know that,

Multiplier (K) = 1/ 1 – MPC = 1 / MPS

= 1/ 0.2 = 5

Investment multiplier (K) = 5

(b.) Increase in Income (ΔY)

K= ΔY/ ΔI

ΔY = K x ΔI

= 5 x 500 =2,500

Q11. Calculate change in final income, if MPC is 0.8 and change initial investment is Rs.1,000 crore. (CBSE 2019)

Ans : Change final income:

We know that,

Multiplier (K) = 1 / 1 – MPC = 1 / 1 – 0.8 = 5

$K = \Delta Y / \Delta I$

$\Delta Y = K \times \Delta I$

= 5 x 1,000 = 5,000 crore

Change final income = Rs. 5,000 crore

Q12. If MPS is 80% and content of all levels of income, and the autonomous consumption is Rs. 100 crore, construct consumption function of the given hypothetical economy. (CSE 2019)

Ans. MPS = 20% = 20 / 100 = 0.2

MPC = 1 – MPS = 1- 0.2 = 0.8

Autonomous consumption ($\bar{C}$) = 100

Consumption function would be:

C = $\bar{C}$+ MPC (Y)

= 100 + 0.8 Y

Q13 . If MPC is 20% and content of all levels of income, and the autonomous consumption is Rs. 400 crore, construct consumption function of the given hypothetical economy. (CBSE 2019)

Ans. MPC = 80% = 80 / 100 = 0.8

Autonomous consumption ($\bar{C}$) = 400

Consumption function would be:

C = $\bar{C}$+ MPC (Y)

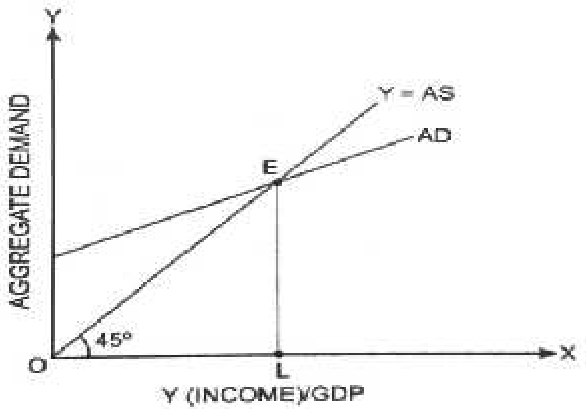
= 400 + 0.8 Y

Q14.what is meant by the 'Effective demand principal' in Keynesian theory of employment? Discuss using a schedule or a diagram. (CBSE 2019)

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

INCOME (Y)	CONSUMPTION (C)	SAVING(Y-C) (S)	INVESTMENT (I)	AD(C+I)	AS(C+S)
0	50	-50	100	150	0
100	100	0	100	200	100
200	150	50	100	250	200
300	**200**	**100**	**100**	**300**	**300**
400	250	150	100	350	400
500	300	200	100	400	500
600	350	250	100	450	600

It is clear from the above schedule that, equilibrium is struck when AS =AD =300 .
Equilibrium of income of income =300.



In the diagram, AD function shows different levels of AD. But it is only at point E that AS = AD. At the point E, level of AD = EL. Hence, EL is effective demand.

Q.15. **If in an economy : (CBSE 2020)**
Change in initial investment (ΔI) = Rs.4,000 crore.
MPC = 0.8
Fined the value of the following:
(a) Investment multiplier (K)
(b) Change in final income (ΔY)

Ans. (a) Investment multiplier (K)
We know that,
Investment Multiplier (K) = 1/ 1 – MPC = 1 / MPS
= 1/ 0.8 = 1 / 0.2 = 5
Investment multiplier (K) = 5
(b.) Increase in Income (ΔY)
K= ΔY/ ΔI
ΔY = K x ΔI
= 5 x 4,000 =20,000
Investment multiplier (K) **= 5**
Increase in Income (ΔY) = 20,000

Q16. In an economy increase in investment by Rs. 100 crore , discuss the working of

Q30. Discuss the working of the adjustment mechanism if, AS is greater than AD. (CBSE 2020)

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

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

Q17. Answer the following questions based on the data given below:

(i) Planned level of Investment =Rs. 200 crore

(ii) C = 100+ 0.8Y

(a) Determine the equilibrium of income

(b) Calculate the saving and consumption expenditure at equilibrium level of income.

Ans. (a) Planned level of Investment =Rs. 200 crore

At equilibrium, Y = C + I

Y = 100 + 0.8 y + 200

Y = 300+ 0.8 Y

Y – 0.8 Y = 300

0.2 Y =300

Y =300 / 0.2 = 1,500

(b.) we know that at equilibrium level, S =I

C = 100 + 0.8 Y

= 100+ 0.8Y (1500)

= 100 + 1200

= 1300

Saving = Y –C = 1500 – 1300 =200

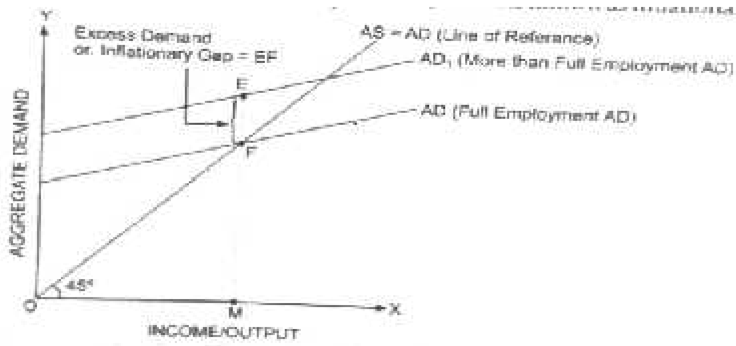
(a) equilibrium of income = Rs.1,500 crore

(b) Saving at equilibrium level = Rs.200 cror

Consumption at equilibrium level = Rs.1300 crore

Q18. In the given figure, what does the gap 'EF' represents? State discuss any two fiscal measures to correct the situation: (CBSE 2020)

Figure:



Ans: In the given figure 'EF' represents excess demand (Inflationary gap situation. When Aggregate Demand is more than Aggregate Supply (AD > AS) corresponding to full employment level in the economy'.

Fiscal measures to correct the situation:

(1) <u>Public (Government) Expenditure</u>: Excess demand / inflationary situation When AD > AS corresponding to full employment level in the economy.During this situation general price level to rise, causing a rise in the rate of interest, fall in investment and fall GDP. **Correction of Excess demand / inflationary situation**: (i) Cut (Reduce) government expenditure (ii) Cause an overall cut in aggregate demand.(iii) So that excess aggregate demand is corrected.
(iv)Excess demand / inflationary gap situation eliminated.

(2) **Taxes:-** Taxes are a compulsory payment made to government by the household. Correction of Excess demand / inflationary situation: (i) By increasing the tax burden on households. (ii) The government reduces their disposable income. (iii) Accordingly, AD is reduced and Excess demand / inflationary situation managed.

Q19. Explain how the Reverse Repo Rate helps in correcting excess demand in the economy. (CBSE 2020)

(1) **Ans. <u>Reverse repo rate</u>:** This induces the commercial bank to park their surplus funds with the RBI for short period of time. To Correction **situation of Excess demand / inflationary gap : (**i)Reverse repo rate is increased. (ii) As a follow-up action, the commercial bank will be increase their deposits with the RBI (CB) (iii) This, in turn, will reduce their ability to land money. (iv) Consequently, consumption and investment expenditure will be reduced. (v) Implying a reduction in AD correct and Excess demand / inflationary situation.

Q20. Calculate the equilibrium level of income for an imaginary economy, if it is given that: (2) (CBSE 2022)

(a) Saving Function , S= (-) 500+ 0.2Y
(b) Where Autonomous Investments = Rs. 1,500 crore

Ans. We know that, at equilibrium level:
Y = C+I
Y= 500+0.8Y+1000
0.2Y = 1500

Y = 7500 crore.
Thus, equilibrium level of income = Rs. 7500 crore.

Q21. State and discuss any one component of Aggregate demand in a two- sector economy. (2) (CBSE 2022)

Ans. **<u>Components of Aggregate Demand:</u> -** **AD= C+ I + G + (X-M)**

1. C = Demand for goods and services for private consumption also called private final consumption expenditure.
2. I = Demand for private investment
3. G= Demand for goods and services by the government
4. (X-M) = Net exports.

(Any one Component)

Q36.Define Deflationary Gap. State, how the government can control the situation of deflationary gap, using the taxation policy. (3) (CBSE 2022)

Ans. **<u>Problems of Deflationary gap :</u>-** Deflationary gap refers to situation when Aggregate Demand is less than Aggregate Supply (AD < AS) corresponding to full employment level in the economy'.

<u>Taxes</u>:- Taxes are a compulsory payment made to government by the household. Correction of Deficient demand (Deflationary gap)situation: (i) By Lowering (Reduced) the tax burden on households. (ii) The government increases their disposable income. (iii) Accordingly, AD is raised and Deficient demand (Deflationary gap) situation managed.

Q37. Define Inflationary Gap. State, how the Central bank of an economy can control the situation of inflationary gap, using any one monetary measure. (3) (CBSE 2022)

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

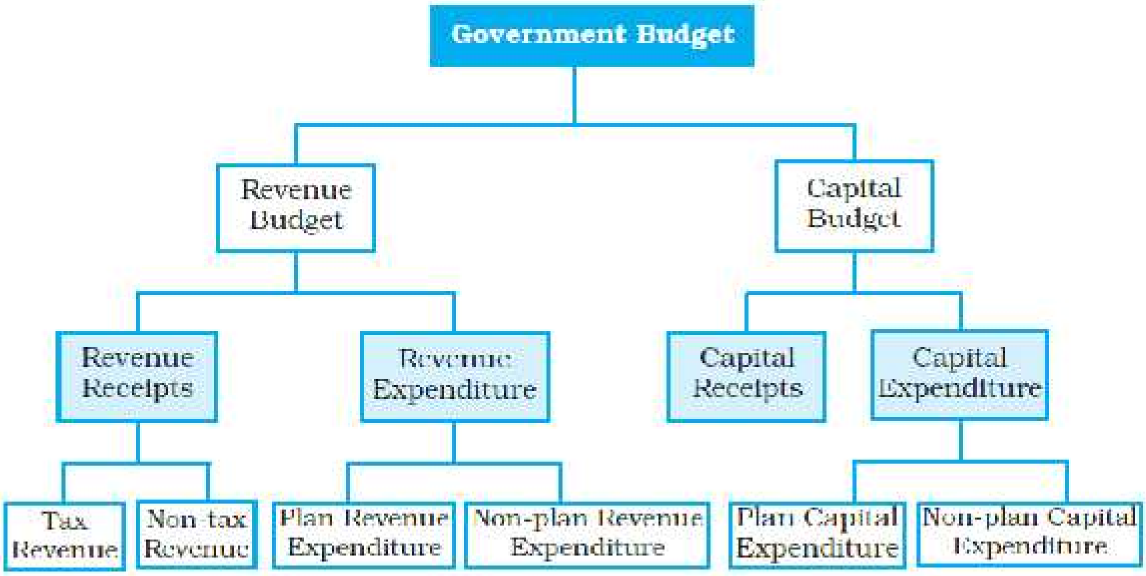
<u>Monetary Measures:</u>
These measures are adopted by the Central Bank of a country in order to control Excess demand / inflationary gap. There are two methods or instruments of monetary policy.
<u>i) Quantitative Methods or General methods</u>:- which refer to the control of quantity of Money supply through credit control. The following instruments are used in Quantitative method:

(1) **<u>Bank Rate and Repo Rate Policy</u>**: It refers to the rate of interest charged by the Central Bank on the loans & advances given to the Commercial Banks. The Bank Rate and Repo rate is determined by the Central Bank itself. **Correction of Excess demand / inflationary situation**: (i) The RBI (CB) Raised the bank rate and Repo rate. (ii)

Which leads to rise in rate of interest.(iii) This leads to raise the savings & reduce the demand for loans (iv) There is a fall in purchasing power & further fall in AD and correct and Excess demand / inflationary situation.

(2) Open Market Operations: It refers to the process to sale & purchase of securities by the RBI (CB) in the economy. **Correction of Excess demand / inflationary situation** (i) The RBI sells the bonds & securities in the market which is purchased by the banks, individuals and other financial institutions of the economy. (ii) This helps in wiping out the excess of money supply from the society (iii) There is a fall in purchasing power of the people.(iv) Consequently, the AD falls, this helps in reducing the price level and correct and Excess demand / inflationary situation. (Any One and any other Monetary Measures)

UNIT-4 GOVERNMENT BUDGET & THE ECONOMY



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

OBJECTIVES OF GOVERNMENT BUDGET

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

(a) Taxation Policy :-

(i) **Imposition of heavy tax** Production of goods which are injurious to health like: Cigarettes, Liquor, Tobacco etc. is discouraged through heavy taxation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(6) Employment Opportunities:- Budgetary policy focuses on the generation of employment opportunities through:

(i) Investment in public enterprises.

(ii) Budgetary provisions are made for employment schemes like MGNREGA.

(iii) Offering employment to poorer section of the society.

STRUCTURE OF THE BUDGET (OR) COMPONENTS OF THE BUDGET

Two broad components of the government budget are:

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

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

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

(1) Revenue receipts (2) Capital receipts.

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

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

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

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

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

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

Types of Taxes:-

(i) Progressive and Regressive tax

(ii) Value added tax and Specific tax

(iii)Direct and Indirect tax

(i) Progressive and Regressive tax

Progressive Tax:- Tax increases with an increases in income

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

(ii) Value added tax and Specific tax

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

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

(iii)Direct and Indirect tax

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

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

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

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

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

Capital Receipts :-

(i) **Recovery of loans:-** The central government offers loan 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'. Its involves transfer of ownership of public sector entrepreneurs, to private entrepreneurs. It causes reduction of assets of the government.

<u>Budget Expenditure</u> 'Budget expenditure refers to estimated expenditure of the government during the fiscal year'

Budget Expenditure is classified as:

(1) Revenue Expenditure (2) Capital expenditure

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

<u>The following two characteristics</u>

<u>(I)</u> **It does not create any asset for the government**. For example: expenditure by the government on old-age pensions, salaries, scholarships.

<u>(II)</u> **It does not cause any reduction in liability of the government**. For example **–** Grants to the state government tp 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.

<u>The following two characteristics</u>

(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.

Developmental and Non-developmental expenditure

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

Plan and Non-plan Expenditure

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

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

BALANCED & UNBALANCED BUDGET

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

Balance budget :- Government Receipts = Government

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

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

Budget Deficit

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

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

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

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

Revenue Deficit = Revenue expenditure – Revenue receipts

(RD= RE – RR, when RE > RR)

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

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

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

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

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

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

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

Primary Deficit = Fiscal Deficit – Interest Payments.

PD = FD – IP

CBSE BOARD 01 MARKS QUASTION (YEAR 2015 T0 2020)

Q1. Borrowing is government budget is: (2015)

(a) Revenue deficit

(b) Fiscal deficit

(c) Primary deficit

(d) Deficit in taxes **(ans. 'B' Fiscal deficit)**

Q2. The non-tax revenue in the following is : (2015)

(a) Export duty

(b) Dividends

(c) Import duty

(d) Excise **(ans. ' B' Dividends)**

Q3. Primary deficit in government budget is : (2015)

(a) Revenue expenditure – Revenue receipts

(b) Total deficit – Total Receipts

(c) Revenue deficit – Interest Payment

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

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

(a) The producers on goods produced

(b) The buyers of goods

(c) The sellers on goods sold

(d) The income earners **(Ans. D)**

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

(a) Interest payments

(b) Borrowings less Interest Payment **(Ans. B)**

(c Interest Payment less borrowing

(d)None of the above

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

(a) Purchase of shares

(b) Subsidies **(Ans. B)**

(c) Loans advanced

(d) Expenditure on acquisition of land

Q7.Fiscal deficit equals : (2016)

(a) Interest payments

(b) Interest Payment less borrowing **Ans.B**

(c) Borrowings

(d) (d) Borrowings less Interest Payment

Q8. Disinvestment by the government means : (2016)

(a) Selling of its fixed capital assets

(b) Selling of its buildings

(c) Selling of shares of public enterprises held by it **(Ans. C)**

(d) (d) All of its buildings

Q9. Primary deficit in a government budget will zero, when____________

(a) Revenue deficit is zero

(b) Fiscal deficit is zero

(c) Net interest payments are zero

(d**) Fiscal deficit is equal to interest payment** **(Ans.D)**

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

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

(b) Capital receipts
(c) Tax receipts
(d) Capital receipts

CBSE 2022 TERM-1

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

Statement -2 : Two components of government budge are : Revenue budget and Capital budget.

Alternatives: (CBSE Term-1 2022)

(a). Both the statement are true.
(b) Both the statement are false.
(c). Statement 1 is true, but Statement 2 is false
(d.) Statement 2 is true, but Statement 1 is false

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

Q2. Fiscal deficit in government budget indicats ________________(CBSE Term-1 2022)

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

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

Q3. Government of India has recently implemented various measures (like cash transfers to senior citizens and widows) (CBSE Term-1 2022)

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

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

Ans. Redistribution of income

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

	Column I		Column II
A	Direct Taxes	I	Goods and Services tax
B	Indirect Tax	Ii	Income Tax
C	Revenue Receipts	Iii	Disinvestment
D	Capital Expenditure	Iv	Construction of a school

(a) A-I (b) B –ii (c) C – iii (d) D- iv

Ans. (d) D- iv

Q18.The expenditure on education by the government is expressed as a percentage of _______________. (CBSE Term-1 2022)

(a) Goods & Service Tax (b) Disinvestment

(c). Gross Domestic Product (GDP) (d) Fiscal Deficit

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

Q19. On the basis of the following data, calculate the value of revenue deficit :

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

Alternatives:

(a) Rs. 1845 crores (b) Rs.82 crore

(c). Rs. 100 crore (d) Rs.588 crore **Ans. (b) Rs.82 crore**

ASSERTION & REASON

Alternatives:

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

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

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

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

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

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

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

Q2.ASSERTION (A) : Interest paid on National Debt is a revenue expenditure.

REASON (R): Revenue expenditure refer to those expenditure which neither create any liability nor causes any reduction in the assets of the government.

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

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

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

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

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

REASON (R): Fiscal deficit is the borrowing from the RBI plus other liabilities of the Government to meets it's expenditure.

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

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

REASON (R): Government spends tax receipts for common benefit of the society.
Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

True- False Alternatives Statement

Alternatives:

a) Both the statement are true

(b) Both the statement are false

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

(d) Statement 2 is true and Statement 1 is false

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

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

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

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

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

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

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

Ans2. a) Both the statement are true

Ans3. (b) Both the statement are false

CASE STUDY

CASE STUDY-1:

India's fiscal deficit touched 115% of the budgeted target in the first half of 2020-21 as the Covid-19 pandemic continued to hurt government's receipts while expenditure remained close to the same level of last year. The gap between revenue and expenditure stood at Rs 9.14 lakh crore during April-September, according to data on the website of the Controller General of Accounts.

Questions:

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

.**CASE STUDY-4:**

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

Questions:
1.Explaion Fiscal deficit .
2. In a government budget revenue deficit is Rupees 50,000 crores and borrowings are

MULTIPLE CHOICE QUESTIONS (MCQ) WITH ANSWERS

1.A government budget is an annual statement of ________ during a fiscal year.
 (A) Estimate receipts and expenditure
 (B) Actual receipts and expenditure
 (C) Revenue receipts and expenditure
 (D) Capital receipts and expenditures
2. Which one of the following is not an objective of government budget?
 (A) Reduction of poverty and unemployment
 (B) Reallocation of resources
 (C) Economic growth
 (D) Maintaining law and order
3. Direct taxes are ____________
 (A) Imposed on every member of the society
 (B) Helpful in reducing inequalities of income
 (C) Inflationary in nature
 (D) Helpful in reducing consumption of harmful commodities
4. The receipts of the government which create liabilities or reduce assets are called __________
 (A) Capital receipts
 (B) Revenue receipts
 (C) escheat
 (D) Fees and fines
5. Which of the following is not an indirect tax?
 (A) Sales tax
 (B) Corporate tax
 (C) Value added tax
 (D) Excise duty
6. Which of the following is a characteristics feature of tax?
 (A) Penalty for breaking traffic rules
 (B) Compulsory or legal payment
 (C) Payment for special payment
 (D) Direct payment for purchase of goods
7. Fiscal deficit –interest payment =____________
 (A) Revenue deficit
 (B) Budget deficit
 (C) Primary deficit
 (D) None of these
8. Borrowings are equivalent to ____________
 (A) Primary deficit
 (B) Fiscal deficit
 (C) Revenue deficit
 (D) None of these
9. What is repayment of loan? Choose one option.
 (A) Capital receipt

(B) Revenue receipt
(C) Capital expenditure
(D) Revenue expenditure

10. Loans to state government are a part of ____________
(A) Capital expenditure
(B) Revenue expenditure
(C) Revenue receipt
(D) Capital receipt

ANSWER KEY

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

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

Q1. Explain any one object of government budget.

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

(c) Taxation Policy :-

(iii) **Imposition of heavy tax** Production of goods which are injurious to health like: Cigarettes, Liquor, Tobacco etc. is discouraged through heavy taxation.

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

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

Q2. Distinguish between revenue expenditure and capital expenditure in government budget . Give an example of each. **(OR) How are capital expenditure different from revenue expenditure? Discuss briefly. (CBSE 2019)**

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

states even if some of these may be for creation of assets.

<u>The following two characteristics</u>

(a) It does not create any asset for the government. For example: expenditure by the government on old-age pensions, salaries, scholarships.

(b) It does not cause any reduction in liability of the government. For example – Grants to the state government tp 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

(a) **It creates assets for the government**. For example- Expenditure on land and building, Expenditure on machinery and equipment, purchase.

(b) **It causes reduction in liabilities of the government**. For example- Repayment of loans.

Q.3. How can budgetary policy be used to reduce inequalities of income.(OR) Explain how government budget can be used to influence distribution of income. (CBSE 2017)

Ans. **Redistribution of Income or Reduction in Income inequalities :-** Budget of the government shows its comprehensive exercise on the taxation and subsidies .The government uses fiscal instruments of taxation and subsides with the view to improving the distribution of income and wealth in economy :

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

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

Q4. Distinguish between revenue receipts and capital receipts. Give an example of each.

(OR) Hoe are capital receipts different from revenue receipts? Discuss briefly.(CBSE 2019)

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

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

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

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

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

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

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.

<u>These receipts cause reduction in assets of the government</u>. For example, money received by government by selling its shares, would cause reduction in assets of the government.

Capital Receipts :-

- **(i) Recovery of loans:-** The central government offers loan 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'. Its involves transfer of ownership of public sector entrepreneurs, to private entrepreneurs. It causes reduction of assets of the government.

Q5. Explain how government budget can helpful in bringing economic stabilization in the economy. (CBSE 2017)

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

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

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

Q6. Given the following data estimate the values of (i) Revenue deficit and (ii)Fiscal deficit .

(CBSE 2019)

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

Ans. Revenue deficit = Revenue expenditure – Revenue Receipts (tax revenue + non- tax revenue) = Rs.1500 crore – (Rs.1000crore + 150 crore) = Rs. 350 crore

Fiscal deficit = Net borrowing by government

= Rs. 780 crore

Q7. Explain the basis of classifying taxes into direct and indirect tax. Give examples.

(CBSE 2017)

Ans. **Direct Tax:-** ' A direct tax is really paid by the person on whom is legally imposed'. Which cannot be shifted. For example: Income (Direct) tax really paid by the person on whom is legally imposed'

Indirect tax:-'An indirect tax is imposed on one person but paid partly or wholly by another'. Which are paid to Government by one person but their burden shifted to another person. For example: GST paid to Government by one person but their burden shifted to another person.

Q8. Given reasons, classify the following into revenue receipts and capital receipts:

(CBSE 2017)

(i) Recovery of loans
(ii) Profit of public sector undertaking
(iii) Borrowings.

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

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

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

Q9. What is government budget? Explain its major components. (CBSE 2018)

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

STRUCTURE OF THE BUDGET (OR) COMPONENTS OF THE BUDGET

Two broad components of the government budget are:

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

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

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

(i.)Revenue receipts (ii) Capital receipts.

Budget Expenditure 'Budget expenditure refers to estimated expenditure of the government during the fiscal year'

Budget Expenditure is classified as:

(i.) Revenue Expenditure (ii) Capital expenditure

Q10. Explain (a) allocation of resources, (CBSE 2018, 2020) and (b) economic stability as objectives of government budget. (CBSE 2018)

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

Taxation Policy :-

Imposition of heavy tax Production of goods which are injurious to health like: Cigarettes, Liquor, Tobacco etc. is discouraged through heavy taxation.

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

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

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

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

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

Q11. Do 'disinvestment' and 'loan proceeds from abroad' constitute revenue receipts of the government? Give reason. (CBSE 2019)

Ans. **Disinvestment**: No, disinvestments is treated as capital receipts , because it leads to reduction in assets of the government.

Loan proceeds from abroad: NO, loan proceeds from abroad are treated as capital receipts, because it creates liability of the government.

Q12. State whether the following statements are true or false. Support your answer with reason. (CBSE 2019)

(a) Taxation is an effective tool to reduce the inequalities of income. (OR)

'Taxation is an effective tool to reduce the inequalities of income'. Justify the given statement with valid reasons. (CBSE 2020)

(b) Revenue deficit increases when government fails to recover loans forwarded to different nations.

Ans. (a) **Taxation is an effective tool to reduce the inequalities of income**: True, to correct inequality of income Indian government focuses on the equitable distribution of income pursues the policy of progressive taxation: Tax increases with an increases in income

(b.)Revenue deficit increases when government fails to recover loans forwarded to different nations: False, Recovery of loans is a capital receipt. It leads to reduction in assets of the government. It duos not affect the revenue receipts.

Q13. Given the following data estimate the values of (i) Revenue deficit and (ii)Fiscal deficit .

(CBSE 2020)

	Items	Rs.in crore
I	Tax revenue	1,000
Ii	Revenue expenditure	3,821
Iii	Non-tax revenue	2,000
Iv	Recovery of loans	135
V	Capital expenditure	574
Vi	Disinvestment	100
Vii	Interest payment	1,013

Ans. Revenue deficit = Revenue expenditure – Revenue Receipts (tax revenue + non- tax revenue) = Rs.3821 crore – (Rs.1000crore + 2000 crore) = Rs. 821 crore

Fiscal deficit = total expenditure (Revenue expenditure + Capital expenditure) – Total Receipts (Revenue receipts + Capital receipts) other than borrowings
= 3,821 crore + 574 crore – (1000 crore + 2000 crore) – (135 crore + 100 crore)
= 3821 crore + 574 crore – 3000 crore – 235 crore
= Rs. 4,395 crore – Rs. 3,235 crore
= Rs. 1,160 crore

(i) Revenue deficit Rs. 821 crore
(ii)Fiscal deficit Rs. 3,235 crore

Q14. Given the following data estimate the values of (i) Revenue deficit and (ii)Fiscal deficit .

(CBSE 2020)

	Items	Rs.in crore
I	Non-tax revenue	2,300
Ii	Tax revenue	1,000
Iii	Recovery of loans	145
Iv	Revenue expenditure	3,500
V	Capital expenditure	580
Vi	Disinvestment	300
Vii	Interest payment	1,013

Ans. **Revenue deficit** = Revenue expenditure – Revenue Receipts (tax revenue + non- tax revenue) = Rs.3,500 crore – (Rs.1000 crore + 2,300 crore) = Rs. 200 crore

Fiscal deficit = total expenditure (Revenue expenditure + Capital expenditure) – Total Receipts (Revenue receipts + Capital receipts) other than borrowings
= 3,500 crore + 580 crore – (1000 crore + 2,300 crore) – (145 crore + 300 crore)
= 3,500 crore + 580 crore – 3,300 crore – 445 crore

= Rs. 4,080 crore – Rs. 3,745 crore

= Rs. 335 crore

(i) Revenue deficit Rs. 200 crore

(ii)Fiscal deficit Rs. 335 crore

UNIT-5 BALANCE OF PAYMENT

Balance of Payments: 'It is a systematic record of all economic transactions between the residents of a country & rest of the world during a financial year'. In other wor ds, it is a summary record of all international economic transactions of a resident country with the rest of the world during a given period of time.

Economic Transaction (Monetary Transactions):- (i) Export and Import of goods (Visible trade or Merchandise)

(ii)) Export and Import of services (Invisible trade)

(iii) Unilateral transfers (transfers payments)

(iv)Capital account

COMPONENTS OF BOP ACCOUNT

(i) Current Account

(ii) Capital Account

(iii) Official Reserves Account

Current Account: Current Account records receipt and payment of foreign exchange on account of such transactions which do not impact asset-liability status of a country in relation to rest of the world. Liabilities or assets of a country are neither raised nor reduced.

The components of BOP on current account are:

1) Visible items (Export and import of goods) includes the export and import of the physical goods:- this is a visible trade because goods are tangible and therefore, can be seen while crossing the borders.

2) Invisible items i(Export and import of Service) :- this is a invisible trade because service are not tangible and therefore, cannot be seen while crossing the borders .Service are classified as factor service and non-factor services.

(i) **Non-factor services** include transportation, finance, tour & travel etc. The services rendered by the resident country to the ROW are recorded on the credit side, while the services rendered by the foreigners for the resident country are recorded on the debit side.

(ii)**Factor Service** Income on investment includes interest payments on foreign loans & credits, transfer of profits & miscellaneous for patents, royalties etc. The interest & dividend payments made by the foreigners are recorded on the credit side, and vice versa.

(3) **Unilateral Payments** (current Transfers) includes foreign gifts & grants, donations, military aid, technical assistance etc. These are also referred to as unrequired transfers. These refer to those receipts or payments which take place without getting anything in return. These transfers are further classified into Official & Private transfer payments.

Official unilateral transfers are the foreign donations & aids, while Private transfers refer to the gifts & donations from foreign residents to the domestic residents & vice versa. Payments of these transfers are recorded as debit & receipts are recorded as credit. Thus, the balance of visible trade, invisible trade & unilateral transfers is recorded as BOP on current account.

Capital Account

'Capital account records receipts and payments of such transactions which cause an impact on asset-liabilities status of a country in relation to rest of the world'. Liabilities or assets of the country are either raised or reduced.

Components:- Two principal components of capital accounts:

(1) Foreign investment (2) Borrowing

Other Components of Capital account:- (3) Banking Capital (4) NRI Deposits

(5) Short- term Trade Credit.

(1) Foreign investment:- Foreign investment may be of two kinds:

(i) Foreign Direct Investment (FDI)

(ii) Portfolio Investment

(i) **Foreign Direct Investment (FDI) :-** Relates to ownership of enterprises (in the domestic economy) by rest of the world. Example: Equity capital, Reinvested earnings and other direct capital lows.

(ii) **Portfolio Investment:** Relates to foreign institutional investment (FII). It is investment by rest of the world in shares and bonds of the domestic companies.

(2) **Borrowing: -** Borrowing is split as: (i) External borrowing (ii) External assistance

(i) **External borrowing:** It is available at the market rate of interest (in the international money market) **. Example:** External commercial borrowing, Short-term debt.

(ii) **External assistance:** It is available at the concessional rate of interest**. Example:** Government Aid, Multilateral and Bilateral loans.

Borrowing from rest of the world raises our liability to rest of the world. But not it carefully, that it is recorded as a 'credit item' in the capital account of BOP. The reason is this all receipts of foreign exchange are recorded as credit items of BOP**.**

(3) **Banking Capital (other than NRI deposits):** Banking capital Transactions includes movement in the external financial assets and liabilities of those banks (commercial banks converting their foreign assets into liquidity) which are authorized to deal in the foreign exchange.

(4) **NRI Deposits:-** NRI deposits is also a significant constituent of capital account. Only such NRI deposits are to be considered which are made in the domestic economy. Thus, non-resident Indian should make deposit in India.

(5) Short- term Trade Credit:- Short- term Trade Credit arises on account of purchases in the International market without making immediate payment. Repayment of short-term debt to rest of the world leads to outflow of foreign exchange to rest of the world.

Official Reserves Account

The overall balance is finally reflected in the official reserves account of the RBI. The Official Reserves are held in the form of foreign currency or foreign securities, gold & Special Drawing Rights (SDR) with the IMF. Reduction in these reserves implies purchase of foreign exchange which is taken as credit items in the BOP since it causes inflow of foreign exchange. On the contrary, an increase in these reserve assets is taken as a debit in the BOP as it causes outflow of foreign exchange.

The Foreign Official assets in the country are in the form of rupee reserves of foreign central banks. Increase in these rupee reserves of foreign banks is taken as a credit item as it causes inflow of foreign exchange in the resident country (India), while decrease in these reserves is taken as debit as it causes outflow of foreign exchange.

Differentiate between Balance of Payments & Balance of Trade

Balance of Payments	Balance of Trade
1. It is a systematic record of all economic transactions between the residents of a country & rest of the world during a financial year	1. It refers to the systematic record of visible items in a financial year. In other words, it is the value of imports and exports of commodities.
2. BOP is a wider concept & therefore offers a more comprehensive picture of economic transactions of a country with the rest of the world.	2.BOT is only one of the components of BOP
3. BOP as a whole always remain balanced.	3. BOT may be balanced, deficit or surplus, while BOP
4.BOP presents a classified record of all receipts on account of goods exported,	4.BOT is a simple statements related to the foreign trade of the country

services rendered and capital received, and payments made on account of goods imported, services rendered from, and capital transferred to abroad.	

Debit Side:- Any international transaction which results in outflow of foreign exchange is recorded on the debit side in the BOP account (the current account and or capital account).It is given a negative sign. For example:- payments for imports of goods and services, purchase of financial assets(shares, bonds, debentures) in a foreign country.

Credit Side:- Any international transaction which results in inflow of foreign exchange is recorded on the credit side in the BOP account (the current account and or capital account).It is given a positive sign. For example:-Receipts on account of export of goods and services , foreign investments, factor income earned from abroad, loans and grants from abroad.

Differentiate between BOP on current account & capital account.

Current account	Capital account
1. Current Account records receipt and payment of foreign exchange on account of such transactions which do not impact asset-liability status of a country in relation to rest of the world	1. Capital account records receipts and payments of such transactions which cause an impact on asset-liabilities status of a country in relation to rest of the world.
2. Current account deals with the receipts & payments for those goods which are currently produced	2. Capital account deals with debts & claims
3. Current account has a direct influence on the level of income of a country.	3. Capital account influences the volume of assets of the country.

Balance of Payments Deficit

Disequilibrium in the BOP:- It refers to such a situation when the BOP of the country is deficit or surplus. In other words, it is a situation when the net balance of all receipts & payments is not zero. If the net balance is in (+), it is surplus; while the negative (-) balance is deficit. In both of the situation, the BOP is in disequilibrium.

Equilibrium in the BOP :- It refers to such a situation when receipts and payment of a country on account of economic transactions with rest of the world are exactly equal to each other, and there is no movement of official reserves.

Balance of Payments Deficit:- Deficit in the BOP occurs when payment of a country on account of economic transactions with rest of the world exceed its receipts and consequently, there is a decrease in official reserves.

Balance of Payments Surplus:- Surplus in the BOP occurs when receipt of a country on account of economic transactions with rest of the world exceed its payment and consequently, there is a increase in official reserves.

Trade Deficit: - Refers to excess of value of import of visible (goods) over value of export of visible (goods) in the BOP of a country.

Trade Deficit = Exports of goods < Imports of goods

Trade Surplus:- Refers to excess of value of export of visible (goods) over value of import of visible (goods) in the BOP of a country.

Trade Surplus = Exports of goods >Imports of goods

Differentiate between Autonomous & Accommodating Items

Items in the BOP account can be also classified into two categories viz. Autonomous or above the line items and Accommodating or below the line items.

Autonomous Items	Accommodating Items
(i) Autonomous items refer to such Bop transactions which are undertaken for considerations of profit.	(i) Accommodating items refer to such Bop transactions which are free from the considerations of profit.
(ii) Autonomous items are the causes of Bop imbalance.	(ii) Accommodating transactions are undertaken to maintain the balance in Bop account.
(iii) Autonomous transactions take place on both current and capital accounts.	(iii) Accommodating transactions take place only on capital account.
(iv) These items are also known as above the line items.	(iv) These items are also known as below the line items.

FOREIGN EXCHANGE RATE

FOREIGN EXCHANGE MARKET: The market in which national currencies are traded for one another is known as the foreign exchange market.

Foreign Exchange Rate: - It refers to the rate at which one unit of currency of a country is exchanged for the currency of other country. In other words, it is the price of one currency in terms of another currency.

Flexible Exchange Rate:-Flexible Exchange Rate System refers to such a rate of exchange which is determined by the demand for & supply of the foreign exchange in the foreign exchange market. Under this system, the govt. or central bank does not intervene in the determination of exchange rates.

Demand for foreign exchange: Other things remaining constant inverse relationship between demand for foreign exchange and the rate of foreign exchange. Higher the rate of foreign exchange, lower the demand for foreign exchange and vice versa.

Supply for foreign exchange: Other things remaining constant positive relationship between supply for foreign exchange and the rate of foreign exchange. Higher the rate of foreign exchange, higher the supply for foreign exchange and vice versa.

Components of demand for foreign exchange:

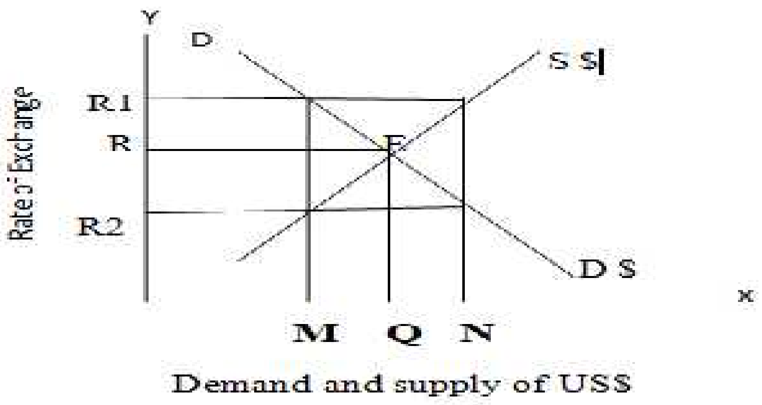
(1) Imports
(2) Repayment of international loans
(3) Grants and donations
(4) Investment in rest of the world
(5) Direct purchases abroad
(6) Payment of income

Components of supply of foreign exchange:

(1) Exports
(2) Loans from rest of the world
(3) Direct purchases by rest of the world
(4) Grants and donations from rest of the world
(5) Investment from rest of the world
(6) Income receipts.

Determination of Foreign Exchange Rate

(1) Equilibrium exchange rate occurs where supply of and demand for foreign exchange is equal to each other or intersection of both demand and supply curve determines the equilibrium rate of exchange



Observation- In the fig. demand and supply are measured on the x-axis and exchange rate on the y-axis. DD is the demand curve and SS is the supply curve of foreign exchange which intersect each other at point E. It is equilibrium point where OR is the equilibrium rate of exchange and OQ the equilibrium Quantity.

If the rate of exchange rises to OR1 then supply of foreign currency (ON) will exceed its demand (OM) by an amount equivalent to MN. Supply being more than demand, rate of exchange will come down to OR. On the contrary, if the rate of exchange falls to OR2 then demand for foreign currency (ON) will be more than its supply (OM) by MN. Demand being more than supply, rate of exchange will again rise to OR. Rate of exchange will, therefore, determined at a point where demand for and supply of foreign currency are equal.

Change (Increase and decrease) in Demand and Supply:

Impact of increase in demand for foreign currency: Other things remaining constant increase in demand for foreign currency leads to a rise in exchange rate and value of domestic currency (Indian rupee) fall as a situation of depreciation of the domestic currency.

Impact of decrease in demand for foreign currency: Other things remaining constant decrease in demand for foreign currency leads to a fall in exchange rate and value of domestic currency (Indian rupee) rise as a situation of appreciation of the domestic currency.

Impact of increase in supply for foreign currency: Other things remaining constant increase in supply for foreign currency leads to a fall in exchange rate and value of domestic currency (Indian rupee) rise as a situation of appreciation of the domestic currency.

Impact of decrease in supply for foreign currency: Other things remaining constant decrease in supply for foreign currency leads to a rise in exchange rate and value of domestic currency (Indian rupee) fall as a situation of depreciation of the domestic currency.

Appreciation of Domestic currency (Depreciation of Foreign currency) :

Refers to the situation when domestic currency (Rupee) appreciates in relation to a foreign currency (say US $) :

(i) It is a situation of a fall in exchange rate

(ii) Less rupee needed to by one US $

(iii) Causes : (a) Increase in supply of foreign exchange (OR) (b) Decrease in Demand for foreign exchange

(iv) Example: 1 US $: Rs. 80 to 1 US $: Rs. 70

Depreciation of Domestic currency (Appreciation of Foreign currency) : Refers to the situation when domestic currency (Rupee) depreciates in relation to a foreign currency (say US Dollar) :

(i) It is a situation of a rise in exchange rate

(ii) More rupee needed to by one US $

(iii) Causes : (a) Increase in demand for foreign exchange (OR) (b) Decrease in Supply of foreign exchange.

(iv) Example: 1 US $: Rs. 70 to 1 US $: Rs. 80

Merits of flexible exchange rate system

1. It eliminates the problem of overvaluation or undervaluation of currencies, Deficit or surplus in balance of payments is automatically corrected under this system.

2. It frees the government from problem of balance of payments.

3. There is no need for the government to hold any reserves.

4. It enhances the efficiency in the economy by achieving optimum resource allocation.

Demerits of flexible exchange rate system

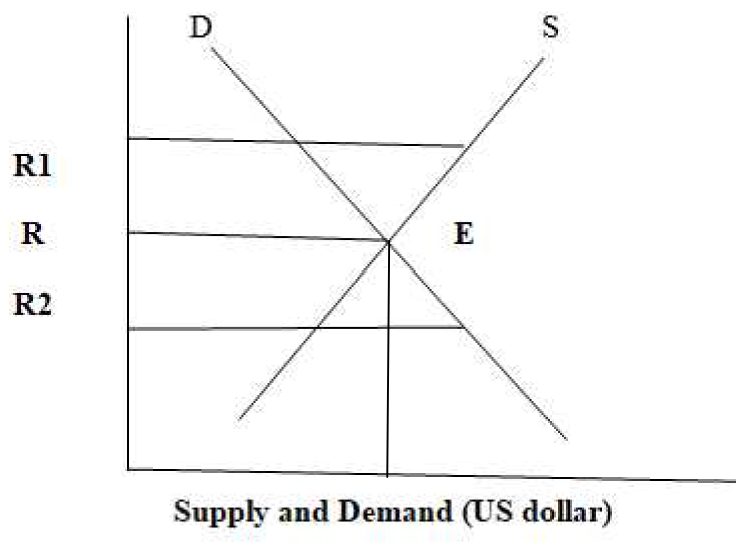
1. It creates situations of instability and uncertainty. Wide fluctuations in exchange rate are possible. This hampers foreign trade and capital movements between countries.

2. It encourages speculation which may lead to larger uncertainties and fluctuations.

3. The uncertainty caused by currency fluctuations can discourage international trade and investment.

Fixed exchange rate: - Fixed Exchange Rate System refers to the system in which the rate of exchange is determined by **Government** Or monetary authorities. It can be classified into Gold Standard System or Mint Parity of Exchange & Adjustable Peg System.

Exchange Rate is set higher than and lower than equilibrium exchange rate



Exchange Rate is set higher than equilibrium exchange rate:

The value of domestic currency (Rupee) has been deliberately lowered by the government this is called devaluation of the currency.

Exchange Rate is set lower than equilibrium exchange rate:

The value of domestic currency (Rupee) has been deliberately raised by the government this is called Revaluation of the currency.

Revaluation of the currency: When the value of domestic currency (Rupee) has been deliberately raised by the government.

(i) It is a situation of a fall in exchange rate (deliberately set by the government)
(ii) Less rupees are needed for foreign exchange
(iii) Government encourage Import
(iv) Government discourage Export
(v) The market force supply and demand play NO role.

Devaluation of the currency: When the value of domestic currency (Rupee) has been deliberately reduced by the government.

(i) It is a situation of a rise in exchange rate (deliberately set by the government)
(ii) More rupees are needed for foreign exchange
(iii) Government encourage Export
(iv) Government discourage Import
(v) The market force supply and demand play NO role.

Gold standard system exchange rate(Fixed exchange rate system):- According to this system gold was taken as a common unit of parity between currencies of different countries. Each country was to define value of its currency in terms of gold. Value of one currency in terms of the other currency was fixed considering gold value of each currency.

Bretton Woods System of Exchange Rate :- Bretton woods system (Fixed system of exchange) allowed some adjustments: (i) Deferent currencies were related to one currency, that is US dollar. (ii) US dollar was assigned gold value at a fixed price. (iii) Value of one currency in terms of US dollar ultimately implied value of the currency in term of gold.(iv) Gold currency to be the ultimate unit of parity between any two currencies.

Merits of fixed exchange rate:

1. It ensures stability in exchange rate. The exporters and importers have not to operate under uncertainty about the exchange rate. Thus it promotes foreign trade.

2. It promotes capital movements. Fixed exchange rate system attracts foreign capital because a stable currency does not involve any uncertainties about exchange rate that may cause capital loss,

3. Stable exchange rate prevents capital outflow

4. It prevents speculation in foreign exchange market

5. It forces the government to keep inflation in check. In case of fixed exchange rate system, inflation causes balance of payments deficit resulting in depletion of foreign exchange reserves.

Demerits of fixed exchange rate:

1. It contradicts the objective of having free markets

2. Under this system, countries with deficits in balance of payment run down this stock of gold and foreign currencies. This can create serious problem for them. They may be forced to devalue their currency. On the other hand countries with surplus in balance of payments will face the problem of inflation.

3. There may be undervaluation or overvaluation of currency. If the fixed exchange rate is at a level which is lower than the market level i.e. at which demand for foreign currency far exceeds its supply, its will result in deficit in balance of payment. If it is higher than the market level i.e. at which the supply exceeds demand then it may create inflationary pressure because of balance of payments surplus. It is difficult to fix a rate that may prove to be equilibrium rat.

MANAGED FLOATING

'Managed floating exchange rate is the floating (flexible) exchange rate which can be influenced by the intervention of central bank in the foreign exchange market'.

Manage Float: Managed floating is a tool employed by the central bank to restore the value of the country's currency (in relation to other currencies) within the desired limits, even when exchange rate is determined by the market force of demand and supply.

It is also called 'dirty floating'.

Central bank exercise its influence on the float or market exchange rate

It is through the sale and purchase of foreign currency in the international money market. When:

Appreciation of domestic currency

(i) When the exchange rate needs to be reduced, the central bank releases the supply of US dollar in the foreign exchange market.
(ii) Other things remaining constant, higher supply of US dollar would lower the price of US dollar, as desired.
(iii) This would lead to appreciation of domestic currency

Depreciation of domestic currency

(i) When the exchange rate needs to be raised, the central bank increases its demand for US dollar in the foreign exchange market.

(ii) Other things remaining constant, higher demand for US dollar would raise the price of US dollar, as desired.

(iii) This would lead to depreciation of domestic currency.

ASSERTION AND REASON

Alternatives:

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

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

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

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

Q1.ASSERTION (A): A country always tries to balances the BOP i.e balance in current account equals to balance in capital account.

REASON (R): Balance BOP indicates stable economic relation with rest of the world.

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

Q2. ASSERTION (A): If an Indian buys a UK Car Company, it enters capital account transactions as a debit item.

REASON (R): Sale of assets like sale of share of an Indian company to a Chinese customer is a credit item on the capital account..

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

Q3.**ASSERTION (A):** Current Account records receipt and payment of foreign exchange on account of such transactions which do not impact asset-liability status of a country in relation to rest of the world.

REASON (R): Capital account records receipts and payments of such transactions which cause an impact on asset-liabilities status of a country in relation to rest of the world.

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

Q4.ASSERTION (A): Managed Floating exchange rate system is also called as 'Dirty Floating'

REASON (R): Clean Floating rate is influenced by the intervention of the Central Bank in the Foreign Exchange Market.

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

Q5.ASSERTION (A): Repayment of international loans is component of foreign exchange demand

REASONING (R): Fixed Exchange Rate System refers to the system in which the rate of exchange is determined by government.

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

True- False Alternatives Statement

Alternatives:

a) Both the statement are true

(b) Both the statement are false

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

(d) Statement 2 is true and Statement 1 is false

Q1. Statement 1: Managed floating exchange rate is the floating (flexible) exchange rate which can be influenced by the intervention of central bank in the foreign exchange market'

Statement 2: Central bank exercise influence on the market exchange rate through the sale and purchase of foreign currency in the international money market.

Q2. Statement 1: Depreciation refers to reduction in price of domestic currency in terms of all foreign currencies under fixed exchange rate regime.

Statement 2: Devaluation refers to fall in market price of domestic currency in terms of a foreign currency under flexible exchange rate regime.

Q3. Statement 1: Trade Surplus = Exports of goods $<$ Imports of goods

Statement 2: Trade deficit = Exports of goods $>$ Imports of goods

Ans.1. a) Both the statement are true

Ans2. (b) Both the statement are false

Ans3. (b) Both the statement are false

MULTIPLE CHOICE QUESTIONS (MCQ) WITH ANSWERS

1. Which of the following items is entered on the credit side of B0P account?
   (A) Investment from abroad
   (B) Import of goods
   (C) Gifts paid to foreigners
   (D) Repayment of foreign loan
2. An account indicating a systematic record of all economic transactions between residents of a country and residents of foreign countries during a period of account is called ____________Account.
   (A) Balance of Trade
   (B) Balance of Payment
   (C) Government budget
   (D) None of these
3. Current account of BoP records
   (A) Exports and import of goods
   (B) Exports and import of services
   (C) Unilateral transfers from and to foreigners
   (D) All of these
4. There is___________ relationship between exchange rate and supply of foreign exchange.
   (A) a direct
   (B) an inverse
   (C) no
   (D) both (i) and (ii)
5. Outflow of foreign exchange is recorded on the ____________sides.
   (A) credit
   (B) debit
   (C) either (I) or (ii)
   (D) neither (I) nor (ii)

6. Which of the following is a component of capital account of BoP?
   (A) Export and import of goods
   (B) Export and import of services
   (C) Unilateral transfers
   (D) Sale of assets to foreigners
7. Which of the following is included in balance of trade?
   (A) Shipping
   (B) Insurance
   (C) Imports of goods
   (D) Unilateral transfers
8. The balance of trade shows a deficit of 500 crore. The value of exports is Rs. 700 crore. Find the value of imports.
   (A) Rs. 700 crore
   (B) Rs.1200 crore
   (C) Rs.900crore
   (D) Rs. 200 crore
9. Which of the following is a source of demand for foreign currency?
   (A) Foreign tourists visiting India
   (B) Exports of goods and services
   (C) Imports of goods
   (D) (iv) All of these
10. Under flexible exchange rate system, exchange rate is determined
   (A) by the government
   (B) by market forces of demand and supply
   (C) by Central Bank of a country
   (D) none of these

ANSWER KEY

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

Q11. Trade surplus refers to ________________.
(a) Export of goods and services > Import of goods and service
(b) Import of goods and service > Export of goods and services
(c) Export of invisible items > Import of invisible items
(d) Export of Visible items > Import of Visible items

Ans. (d) Export of Visible items > Import of Visible items

Q12. Exports of COVID- 19 vaccines manufactured in India has led to ______________

(a) Inflow of Indian currency
(b) Outflow of foreign currency
(c) Inflow of foreign currency and employment generation
(d) Outflow of foreign currency and employment generation

Ans. (c) Inflow of foreign currency and employment generation

Q13. In a hypothetical economy, the following data is given:

S.No	Items	Amount (in Rs. Crores)
1	Merchandise Exports	100
2	Merchandise Imports	90
3	Tourism	70
4	Net Remittances from abroad	(-) 20

The value of balance on current Account would be Rs. ________________ crores.

(a) 100 (b) 70 (c) 80 (d) 60

Ans. (d) 60

Q14. Statement -1 : BOP is an accounting statement which records all the economic transactions that take place between the residents of a country during a given period of time.

Statement -2 :Current account of BOP records that transactions that relate to assets or liabilities.

Alternatives:

(a). Both the statement are true.

(b) Both the statement are false.

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

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

Ans. (b) Both the statement are false.

Short and Long Answer Question (3,4 and 6 Marks))

Q1. Explain the effect of appreciation of domestic currency on imports.

Ans. **Appreciation of domestic currency**

(i) When the exchange rate needs to be reduced, the central bank releases the supply of US dollar in the foreign exchange market.

(ii) Other things remaining constant, higher supply of US dollar would lower the price of US dollar, as desired.

(iii) This would lead to appreciation of domestic currency

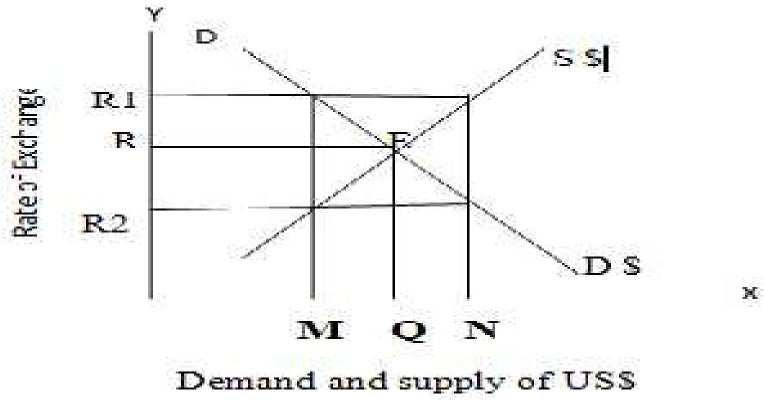
Effect of appreciation of domestic currency on imports: Less rupees are now required to buy good worth one US dollar in the US market. As a result, imports are likely to Rise.

Q2. How the foreign exchange rate determined in the foreign exchange market ? Explain**.**

Ans. **Foreign exchange rate determined in the foreign exchange market**:-Flexible Exchange Rate determined in the foreign exchange market System . Flexible Exchange Rate refers to such a rate of exchange which is determined by the demand for & supply of the foreign exchange in the foreign exchange market. Under this system, the govt. or central bank does not intervene in the determination of exchange rates.

Determination of Foreign Exchange Rate

Equilibrium exchange rate occurs where supply of and demand for foreign exchange is equal to each other or intersection of both demand and supply curve determines the equilibrium rate of exchange



<u>Observation</u>- In the fig. demand and supply are measured on the x-axis and exchange rate on the y-axis. DD is the demand curve and SS is the supply curve of foreign exchange which intersect each other at point E. It is equilibrium point where OR is the equilibrium rate of exchange and OQ the equilibrium Quantity.

If the rate of exchange rises to OR1 then supply of foreign currency (ON) will exceed its demand (OM) by an amount equivalent to MN. Supply being more than demand, rate of exchange will come down to OR. On the contrary, if the rate of exchange falls to OR2 then demand for foreign currency (ON) will be more than its supply (OM) by MN. Demand being more than supply, rate of exchange will again rise to OR. Rate of exchange will, therefore, determined at a point where demand for and supply of foreign currency are equal.

Q3. Distinguish between 'autonomous' and accommodating' balance of payments transaction. (OR) Give the meanings of 'autonomous' transaction and accommodating' transaction in the balance of payments accounts.

Ans. **<u>Differentiate between Autonomous & Accommodating Items</u>**

Items in the BOP account can be also classified into two categories viz. Autonomous or above the line items and Accommodating or below the line items.

Autonomous Items	Accommodating Items
(i) Autonomous items refer to such Bop transactions which are undertaken for considerations of profit.	(i) Accommodating items refer to such Bop transactions which are free from the considerations of profit.
(ii) Autonomous items are the causes of Bop imbalance.	(ii) Accommodating transactions are undertaken to maintain the balance in Bop account.
(iii) Autonomous transactions take place on	(iii) Accommodating transactions take

both current and capital accounts.	place only on capital account.
(iv) These items are also known as above the line items.	(iv) These items are also known as below the line items.

Q4. How is balance of payment 'deficit' measured ? Explain.

Balance of Payments Deficit:- Deficit in the BOP occurs when payment of a country on account of economic transactions with rest of the world exceed its receipts and consequently, there is a decrease in official reserves.

BOP deficit measured as the excess of payment to rest of the world over and above the receipts from rest of the world.

Q5. Name the broad categories of transactions recorded in the 'capital account' of the balance of payment accounts.

Ans. **Capital Account**

'Capital account records receipts and payments of such transactions which cause an impact on asset-liabilities status of a country in relation to rest of the world'. Liabilities or assets of the country are either raised or reduced.

Components:- Two principal components of capital accounts:

(1). Foreign investment (2) Borrowing

Other Components of Capital account:- (3) Banking Capital (4) NRI Deposits

(5) Short- term Trade Credit.

(1) Foreign investment:- Foreign investment may be of two kinds:

(i) Foreign Direct Investment (FDI)

(ii) Portfolio Investment

(iii) **Foreign Direct Investment (FDI) :-** Relates to ownership of enterprises (in the domestic economy) by rest of the world. Example: Equity capital, Reinvested earnings and other direct capital lows.

(iv) **Portfolio Investment:** Relates to foreign institutional investment (FII). It is investment by rest of the world in shares and bonds of the domestic companies.

(2) **Borrowing: -** Borrowing is split as: (i) External borrowing
(ii) External assistance

(ii. **External borrowing:** It is available at the market rate of interest (in the international money market) **. Example:** External commercial borrowing, Short-term debt.

(iii. **External assistance:** It is available at the concessional rate of interest**. Example:** Government Aid, Multilateral and Bilateral loans.

Borrowing from rest of the world raises our liability to rest of the world. But not it carefully, that it is recorded as a 'credit item' in the capital account of BOP. The reason is this all receipts of foreign exchange are recorded as credit items of BOP**.**

(3) **Banking Capital (other than NRI deposits):** Banking capital Transactions includes movement in the external financial assets and liabilities of those banks (commercial banks converting their foreign assets into liquidity) which are authorized to deal in the foreign exchange.

(4) **NRI Deposits:-** NRI deposits is also a significant constituent of capital account. Only such NRI deposits are to be considered which are made in the domestic economy. Thus, non-resident Indian should make deposit in India.

(5) Short- term Trade Credit:- Short- term Trade Credit arises on account of purchases in the International market without making immediate payment. Repayment of short-term debt to rest of the world leads to outflow of foreign exchange to rest of the world.

Q6. Explain by giving examples, the distinction between depreciation and devaluation of domestic currency.

Ans. <u>Depreciation and Devaluation</u>

Devaluation	**Depreciation**
1. Devaluation refers to reduction in price of domestic currency in terms of all foreign currencies under fixed exchange rate regime	1. Depreciation refers to fall in market price of domestic currency in terms of a foreign currency under flexible exchange rate regime.
2. It takes place due to government	2. It takes place due to market forces of demand and supply.
3. It takes place under fixed exchange rate system	3. It takes place under flexible exchange rate system.

Q7. Discuss briefly the meaning of :

Fixed exchange rate

Flexible exchange rate

Managed floating exchange rate

Ans. **<u>Fixed exchange rate :</u>** Fixed Exchange Rate System refers to the system in which the rate of exchange is determined by government OR monetary authorities.

<u>Flexible Exchange Rate</u>:-Flexible Exchange Rate System refers to such a rate of exchange which is determined by the demand for & supply of the foreign exchange in the foreign exchange market. Under this system, the govt. or central bank does not intervene in the determination of exchange rates.

<u>Managed floating exchange rate</u> :- Managed floating exchange rate is the floating (flexible) exchange rate which can be influenced by the intervention of central bank in the foreign exchange market

Q8. Define 'Trade Surplus' and 'Trade deficit'

Ans. **Trade Surplus:-** Refers to excess of value of export of visible (goods) over value of import of visible (goods) in the BOP of a country.

Trade Surplus = Exports of goods >Imports of goods

Trade Deficit: - Refers to excess of value of import of visible (goods) over value of export of visible (goods) in the BOP of a country.

Trade Deficit = Exports of goods < Imports of goods

Q9. Why the demand for foreign currency fall and supply does rise when its price rises? Explain (CBSE 2017)

Ans. When price of foreign currency (say US dollar), more domestic currency (Rupees) are needed to get one unit of the foreign currency:

Demand for foreign currency fall: (i) with rise in price of foreign currency, import tend to fall, leading to a fall in demand for foreign currency.

(ii.) A rise in price of foreign currency investment, travelling, study and other in rest of the world more expensive. According demand for foreign currency fall.

Supply of foreign currency rise: (i) Appreciation of foreign currency induce grater export from the domestic economy . (ii) Appreciation of foreign currency induce grater direct purchases by rest of the world, grants and donations from rest of the world and investment from rest of the world in the domestic economy.

Q10. State the meaning of the following: (CBSE2019)

(i) Fixed foreign exchange rate.

(ii) Trade surplus

(iii) Accommodating transaction

Ans. (i) Fixed foreign exchange rate: Fixed Exchange Rate System refers to the system in which the rate of exchange is determined by Government Or monetary authorities.

(ii) Trade surplus: Refers to excess of value of export of visible (goods) over value of import of visible (goods) in the BOP of a country.

Trade Surplus = Exports of goods >Imports of goods

(iii) Accommodating transaction: Accommodating items refer to such Bop transactions which are free from the considerations of profit. Accommodating transactions are undertaken to maintain the balance in Bop account. These items are also known as below the line items.

Q11. **(i) Distinguish between appreciation of home currency and depreciation of home currency.**

(ii) State any one source of supply of foreign currency for a country. (CBSE2019)

Ans. Distinguish between appreciation of home currency and depreciation of home currency

Appreciation of Home currency: Refers to the situation when domestic currency (Rupee) appreciates in relation to a foreign currency (say US $) :

(a) It is a situation of a fall in exchange rate

(b) Less rupee needed to by one US $

(c) Causes : (a) Increase in supply of foreign exchange (OR) (b) Decrease in Demand for foreign exchange

(d) Example: 1 US $: Rs. 80 to 1 US $: Rs. 70

Depreciation of Home currency: Refers to the situation when domestic currency (Rupee) depreciates in relation to a foreign currency (say US Dollar) :

(a) It is a situation of a rise in exchange rate
(b) More rupee needed to by one US $
(c) Causes : (a) Increase in demand for foreign exchange (OR) (b) Decrease in Supply of foreign exchange.
(d) Example: 1 US $: Rs. 70 to 1 US $: Rs. 80

(ii) Source of supply of foreign currency : (i) Exports (ii) Loans from rest of the world (iii) Direct purchases by rest of the world (iv) Grants and donations from rest of the world

Investment from rest of the world

Q12. State on which side of capital account / current account will the following transaction be recorded and why? (CBSE 2019)

(I) Interest on loan received from Nepal

(II) Import of mobile phones from China

Ans. (i) **Interest on loan received from Nepal:** Interest on loan received from Nepal will be recorded in the credit side of current account as it causes inflow of the foreign currency to the home country.

(II) **Import of mobile phones from China:** Import of mobile phones from China will be recorded in the debit side of current account as it causes outflow of foreign currency through visible imports.

Q13. 'Balance of payment is always balanced in the accounting sense'. Defend or refute the given statement with reasons.

Ans. Yes, Balance of payment is always balanced in the accounting sense.

(I) BOP deficit or BOP surplus occurs on account of the difference in receipts and payments of a country relating to autonomous transactions.

(II) In the event of surplus or deficit accommodating transactions are introduced in the BOP account.

(III) Autonomous and accommodating transactions are meant only to make such adjustments in the BOP account which eliminate the BOP deficit or surplus and Balance of payment is always balanced.

PART- B

INDIAN ECONOMIC DEVELOPMENT

Unit-6 INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

COLONIAL EXPLOITATION OF THE INDIAN ECONOMY UNDER THE BRITISH RULE: - Targeted exploitation of all sector of the economy by the British Govt.
Colonial Exploitation of agricultural sector: - Agricultural was exploited through Zamindari system of land revenue .
Zamindari system (Permanent settlement system) :- Zamindari system of land revenue is that system under which land is owned by a zamindar and tiller of the soil is not owner of the soil.(Introduced by Cornwallis in 1793 through Permanent settlement Act. It was introduced in Provinces of Bengal)
Colonial Exploitation of Industrial Sector:- India was known for its handicrafts . Indian handicrafts quality and varieties reputation was world-wide. But these were destroyed by British Govt. in a two ways.
Heavy duty on their exports.
(ii) Duty- free import of the British goods in the Indian markets.
Colonial Exploitation of International Trade :- International Trade was exploited through discriminatory tariff policy.

(i) Duty- free export of Indian raw material
(ii) Duty- free import of British goods.

FEATURES OF INDIAN ECONOMY ON THE EVE OF INDEPENDENCE
Backward economy: - In 1947-48, Per capita income in India was just Rs.230 .
Agricultural backwardness: - Nearly 72% of the working population was engaged in agriculture, but its contribution to GDP was only 50% .
Industrial backwardness: - Production of machines was almost negligible.
Stagnant economy: - Between 1860-1945 , growth rate of per capita income was as a low as 0.5% per annum. Limited Urbanization:- In 1948 only 14% of population lived in urban areas .
Poor infrastructure 7.Heavy dependence on Imports. 8. Colonial economy.

AGRICULTURAL SECTOR ON THE EVE OF INDEPENDENCE (Observations /Causes of backwardness of Indian agricultural)
(1) Low production and productivity 2.Subsistence farming 3.High degree of uncertainty. 4. Land revenue system which led to exploitation of the farmer 5. Small and fragmented holdings 6.Forced commercialization of agriculture 7.Lack of means of Irrigation 8.Impact of partition on agriculture.
INDUSTRIAL SECTOR ON THE EVE OF INDEPENDENCE (Observations)
Decay(decline) of Handicrafts :- 1. Discriminatory tariff policy 2.Low priced machine made goods 3. New patterns of Demand 4.Introduction of Railways in India
Slow progress of modern industry in the domestic economy: - 1. Lack of capital goods industries
Some industries were established by the private entrepreneurs 3.Lower contribution of GDP

4.Modern industrialization was very limited 5.Limited area of operation of the public sector

FOREIGN TRADE ON THE EVE OF INDEPENDENCE (UNDER THE BRITISH RULE (Observations)

Status of India as an exporter of raw materials and importer of finished goods 2. Monopoly control of India's foreign trade 3. Surplus trade, but only to benefit to the British Govt.

DEMOGRAPHIC PROFILE DURING BRITISH RULE

1. High birth rate and high death rate(48 and 40 Per thousand) 2. Infant mortality rate (218 Per thousand) 3. Literacy rate (16 Per cent) 4. Life expectancy (32 Year) 5. Poor state of health facilities

Demographic Transition:- 'Year of great divide' 1921. Prior to 1921, Population in India and After 1921, Population in India. Census 1901 total population decline 0.04 crore (from 23.87 crorein 1891 to 23.83 crore in 1901 . Again, Census of 1921 decline 0.07 crore (from 25.21 crorein 1911 to 25.14 crore in 1921). From the year 1921 onwards, total population in India never declined.

OCCUPATIONAL STRUCTURE ON THE EVE OF INDEPENDENCE (UNDER THE BRITISH RULE)

Agriculture –the principal source of occupation (About 72.7% of working population was engaged in agriculture) 2. Industry – An insignificant source of occupation Nearly 9.0% of working population was engaged in manufacturing industries) 3. Unbalanced growth

INFRASTRUCTURE ON THE EVE OF INDEPENDENCE

Economic infrastructure: 1.Roads 2.Railways 3.Air and water transport 4. Communication
Social infrastructure: Education, Health and Housing facilities.

WAS THERE ANY POSITIVE IMPACT OF THE BRITISH RULE IN INDIA?

Some positive side-effects: 1. Commercialization of agriculture 2. Monetary system of exchange
3. Development of infrastructure 4.Effective system of administration.

ASSERTION AND REASONING (01 Marks Questions)

Alternatives:

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

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

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

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

Q1. Read the following statements carefully – Assertion (A) and Reason (R) and choose the correct alternative. (**CBSE Term- 1 2022)**

ASSERTION (A): India could not develop a sound industrial base during the British rule.

REASON (R): Britishers followed restrictive trade policies, which led to the rise of Indian handicraft industries.

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

Q2.ASSERTION (A): The Zamindars were declared as owners of the soil. They were supposed to pay a fixed sum to the government while they could extract as much as they wanted from the actual tillers of the soil.
REASON (R):Agriculture was exploited through Zamindari system of Land Revenue.
Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q3. ASSERTION (A): More than Half of India's Foreign trade was restricted to Britain
REASON (R):Britain maintained Monopoly control on India's Import and Export
Ans. **(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)**
Q4.ASSERTION (A): The construction of railways led to huge economic losses to the Indian economy.
REASON (R): It enhanced commercialization of Indian agriculture, which adversely affected the comparative self-sufficiency of the village economies in India.
Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
Q5.ASSERTION (A): Indian agriculture sector suffered due to partition.
REASON (R): A sizeable proportion of the undivided countries highly irrigated and fertilizers land went to Pakistan.

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

Statement (01Marks)

Alternatives:

a) Both the statement are true

(b) Both the statement are false

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

(d) Statement 2 is true and Statement 1 is false

Q1. Read the following statements carefully and choose the correct alternative:
Statement 1: On the eve independence nearly 72% of the working population was engaged in agriculture.
Statement 2: Contribution to GDP in agriculture sector was nearly 75% .
Ans. (c) Statement 1 is true and Statement 2 is false

Q2. Read the following statements carefully and choose the correct alternative:
Statement 1: On the eve independence Infant mortality rate was 218 Per thousand.
Statement 2: Literacy rate in India on the eve of independence was 16 Per cent.
Ans. a) Both the statement are true

MULTIPLE CHOICE QUESTIONS (MCQ) WITH ANSWERS (01 Marks)

Q1. Which of the following statement is not true about the demographic condition of India during the colonial period? **(CBSE TERM-1 2022)**

(a) Infant mortality rate was very high.
(b) After 1921, India interred the second stage of demographic transition.
(c) Life expectancy was too high
(d) Female literacy rate was just 7%

Q2. Identify which of the following statement is correct: **(CBSE TERM-1 2022)**

(a) British colonial rule made India net import of raw material
(b) The real motivate behind infrastructure development by Britishers was to serve the people of India.
(c) India generated large export surplus during the British rule
(d) India handicraft industry enjoyed world-wide reputation under the British rule

Q3. ____________ sector played a predominant role in occupational structure during the Colonial period. **(CBSE TERM-1 2022)**

(a) Agriculture
(b) Manufacturing
(c) Service
(d) Infrastructure

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

a) Tertiary sector
b) Secondary sector
c) Primary sector
d) Both primary and secondary sector

5. The impact of British policy on India economic structure was

a) India becomes supplier of raw materials and consumer of finished industrial products from Britain
b) India became supplier of finished product to Britain
c) India became supplier of finished industrial products and consumer of raw materials from Britain
d) Both B and C

6. Decline of handicraft industries led to :

a) Massive unemployment
b) Import of finished goods
c) Both (a) and (b)
d) Neither (a) nor (b)

7. The Tata Iron and Steel Company was incorporated in the year:

a) 1907 (b) 1947
(c) 1908 (d) 1950

8. The major cause of decay of Indian handicrafts during British Rule:

a) Low priced machine made goods
b) Discriminatory tariff policy
c) Both (a) and (b)
d) Neither (a) nor (b)

9. Decay of handicrafts was caused by:

a) British tariff policy
b) Competition From Man-Made Machines
c) New Patterns of demand
d) all of these

10. Suez canal was opened for transport in :

a) 1850
b) 1869
c) 1853

d) 1901

11. **Name some notable economists who estimated India's per capita income during the colonial period. (CBSE 2020)**

Answer. DadabhaiNaoroji, V.K.R.V. Rao, Wiliam Digby, Findlay Shirras and R.C. Desai.

Q20. ____________________ is one of the main positive contribution made by the British in India. **(CBSE 2020)**

Ans. Introduction of Railways

Answer Key

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

Short and Long Answer Question (3,4 & 6 Marks Question)

Q1 . What were the main causes of India's agricultural stagnation during the colonial period? (CBSE 2020)

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

(ii). **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 occurence of famine. Indian agriculture was transformed into a raw material exporting sector for England.

(iii). **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.

Q2. What was the two-fold motive behind the systematic de-industrialisation effected by the British in pre-independent India? (CBSE 2020)

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:

1. 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.

2. To sell British manufactured goods in Indian market at higher prices. In this way, they exploited India through the device of double exploitation.

Q3. Highlight the salient features of India's pre-independence occupational structure. (CBSE 2020)

Answer. Occupational structure means the distribution of work-force among different

sectors of an economy. The state of occupational structure on the eve of independence was as
follows:
1.Pre-dominance of Agriculture Sector: The agricultural sector accounted for the largest share of work-force, which was about 72.7 per cent of working population was engaged in agriculture sector.
2. Industry /manufacturing sectors: On the eve of independence nearly 10.1 per cent of working population was engaged.
3. Tertiary sector / service sector: On the eve of independence nearly 17.2 per cent of working population was engaged.

Q4. Were there any positive contributions made by the British in India? Discuss.
Answer. (CBSE 2020 any one positive contribution)

Ans. British rule exploited India in many ways. But, the ways to achieve the motives sometimes yield positive effects. Their exploitative programmes and policies resulted in some positive impact on India. Some of these positive effects were:

1. Commercialisation of agriculture: Implied a good breakthrough in agriculture and resulted in self-sufficiency in food grain production.
2. The development of infrastructure: railways and roadways generated new opportunities for economic and social growth and broke cultural and geographical barriers.
3. Railways promoted commercialisation of agriculture through long distance movement of goods and it enabled people to move from one place to another easily.
4. The supply of food and essentials could be made available to drought affected areas through transportation.
5. Indian economy witnessed a huge expansion of monetary system and growth in production through division of labour and specialisation.

Q 5. Indicate the volume and direction of foreign trade of India at the time of independence.(CBSE 2020)

Answer. India has been an important trading nation since ancient times. But the restrictive policies of commodity production, trade and tariff pursued by the British government adversely affected the structure, composition and volume of India's foreign trade. The state of India's foreign trade on the eve of independence was as follows:
1.Net Exporter of Raw Material and Importer of Finished Goods: India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute, etc. and an importer of finished consumer goods like cotton, silk and woolen clothes and capital goods like light machinery produced in the factories of Britain.
2. Britain had Monopoly Control on Foreign Trade: Opening of Suez Canal in 1869 served as a direct route for the ships operating between India and Britain. The canal connected Port Said on the Mediterranean Sea with the Gulf of Suez. It provided a direct trade route for ships operating between European or American ports and ports located in South Asia, East Africa and Oceania.

Q6. Give a quantitative appraisal of India's demographic profile during the colonial period. (CBSE 2020)

Answer. The demographic condition on the eve of independence was as follows:
1. High Birth Rate and Death Rate: High birth rate and high death rate are treated as indices of backwardness of a country. Both birth rate and death rate were very high at 48 and 40 per thousand respectively.
2. High Infant Mortality Rate: If refers to death rate of children below the age of one year. It was about 218 per thousand live births.

3. Low Life Expectancy: Life expectancy means the number of years that a new bom child on an average is expected to live. It was as low as 32 years.
4. Literacy Rate: Literacy rate was less than 16 per cent.
5. Low Standard of Living.

Q7. India's agricultural stagnation What were the main causes of during the colonial period?

Ans. Main causes of Indian agricultural stagnation during the colonial period were :

(1) Low production and productivity
2. Subsistence farming
3.High degree of uncertainty.
4. Land revenue system which led to exploitation of the farmer
5. Small and fragmented holdings
6.Forced commercialization of agriculture
7.Lack of means of Irrigation
8.Impact of partition on agriculture.

Unit-6 INDIAN ECONOMY (1950- 1990)

INTRODUCTION:

Economic Planning: "Economic planning means utilization of country's resources in different development activates in accordance with national priorities" In 1950, the Planning

Commission was set up with the Prime Minister as its Chairperson.
Types of Economic Systems:- Every society has to answer three questions

- What goods and services should be produced in the country?
- How should the goods and services be produced? Should producers use more human labour or more capital (machines) for producing things?
- How should the goods and services be distributed among people?
  1. Capitalist economy
  2. Socialist economy
  3. Mixed economy

FIVE YEAR PLANS IN INDIA: GOALS AND ACHIVEMENTS

THE GOALS OF FIVE YEAR PLANS (Long period objectives/ goals) :-

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

2. Modernisation: To increase the production of goods and services the producers have to adopt new technology. For example, a farmer can increase the output on the farm by using new seed varieties instead of using the old ones. Similarly, a factory can increase output by using a new type of machine. Adoption of new technology is called modernization.

3. Self-reliance: A nation can promote economic growth and modernization by using its own resources or by using resources imported from other nations. The first seven five year plans gave importance to self-reliance which means avoiding imports of those goods which could be produced in India itself.

This policy was considered a necessity in order to reduce our dependence on foreign Countries, especially for food.

4. Equity: Now growth, modernization and self-reliance, by themselves, may not improve the kind of life which people are living. A country can have high growth; the most modern technology developed in the country itself, and also have most of its people living in poverty. It is important to ensure that the benefits of economic prosperity reach the poor sections as well instead of being enjoyed only by the rich. So, in addition to growth, modernisation and self-reliance, equity is also important. Every Indian .

FEATURES OF ECONOMIC POLICY PURSUED UNDER PLANNINING TILL 1991

1. Heavy reliance (reliability) on public sector (industrial policy resolution 1956) 2.Regulated development of private sector 3.Protection of small- scale industry 4.Protection from foreign competition 5.Centralised planning 6. Focus on import substitution

ACHIVEMENT (SUCCESS) OF PLANNING (PRINCIPAL OBSERVATIONS) :-

1. Increase in national income (Increase in national income during the 1st plan was 4.6% to 7.5% in 11th five year plan) 2. Increase in per capita income (1st plan growth was just 2.7% to increase per capita income was 5.7% per annum during 12th plan) 3. Rise in saving and investment (In 1950-51 ,rate of saving was 9.5% of national income, It increase 31.3% of 11th plan and Investment has risen from 9.3% of GDP to 33.3% in 2015-16) 4.Growth and Diversification of industry 5.Economic and social infrastructure 6.Institutional and technical change in agriculture 7.Employment 8. International trade .

FAILURES OF PLANNING IN INDIA (PRINCIPAL OBSERVATIONS) :-

1.Unemployment crises (53 lakh persons were unemployed at the end of 1st plan , this number rose to over 4 crore at the end of 11th plan) 2.Poverty (In India, 21.9% of population still BPL) 3 High rate of inflation 4.Inadequate Infrastructure 5. Inequality.

FEATURES, PROBLEMS AND POLIES OF AGRICULTURE

IMPORTANCE OF AGRICULTURE IN THE INDIAN ECONOMY

1. Agriculture as the principal source of the supply of raw material 2.Contribution to GDP 3.Agriculture as the principal source of the supply of wage goods (wage goods are the necessities of life such as wheat, rice, pulses etc.) 4. Agriculture as the principal sector of employment 5.Agriculture as the principal source of demand for the industrial goods 6.Contribution to Domestic trade and International trade 7.Wealth of Nation 8.Support of the transport industry.

FEATURES OF INDIAN AGRICULTURE :- 1.Law productivity 2.Subsistence farming
3. Disguised unemployment 4.Small holdings 5.Lack of modern inputs 6.Dependence on rainfall.

PROBLEMS OF INDIAN AGRICULTURE :- 1.Small and scattered holdings 2.Deficiency of finance 3.Lack of permanent means of irrigations 4.Conventional outlook 5. Lack of organized marketing system

REFORMS IN INDIAN AGRICULTURE (AGRARIAN REFORMS) :-
1. TECHNICAL REFORMS 2.INSTITUTIONAL REFORMS.

1.TECHNICAL REFORMS (GREEN REVOLUTION) [NEW AGRICULTURAL STRATEGY] :- **The Green Revolution**: his refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice. As a result, in the first phase of the green revolution (approximately mid 1960s upto mid 1970s),

- At independence, about 75 per cent of the country's population was dependent on agriculture. Productivity in the agricultural sector was very low because of the use of old technology and the absence of required infrastructure for the vast majority of farmers. India's agriculture vitally depends on the monsoon and if the monsoon fell short the farmers were in trouble unless they had access to irrigation facilities which very few had. The spread of green revolution technology enabled India to achieve self-sufficiency in food grains;
- **Use of HVY seeds**: This refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice.
- **Use of chemical fertilizers** :- The use of these seeds required the use of fertiliser and pesticide in the correct quantities
- **Use of insecticides and patricides**:- The use of these seeds required the use of fertiliser and pesticide in the correct quantities as well as regular supply of water; the application of these inputs in correct proportions is vital. for crop protection .
- **Marketed surplus: -** The portion of agricultural produce which is sold in the market by the farmers is called marketed surplus.
- **Scientific farm management practices.:**

ACHIVEMENTS OF AGRARIAN REFORMS :-

GREEN REVOLUTION :- " GREEN" refers to "crops" AND "revolution" refers to " SPURT" Green revolution refers to the large increase in food grains resulting :- (i) Use of HVY seeds (ii) Use of chemical fertilizers (iii) Use of insecticides and patricides for crop protection (iv) Mechanised means of cultivation (v) Scientific farm management practices.

Achievements of Green revolution: - 1. Spurt in crop productivity 2. Shift from subsistence farming to commercial farming 3. Change in farmer's outlook 4.Self- sufficiency in food grain production 5.Increase in employment.

SHORTCOMINGS (LIMITATIONS) OF GREEN REVOLUTION: - 1.Limited crops 2.Regional imbalance 3. Increase in the disparity between small and big farmers 4. Economic divide

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

2.Land ceiling was another policy to promote equity in the agricultural sector. This means fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands. The ownership conferred on tenants gave them the incentive to increase output and this contributed to growth in agriculture. However, the goal of equity was not fully served by abolition of intermediaries.

(3) Regulation of rent

(4) Cooperative farming

===
====

STRATEGY OF INDUSTRIAL GROWTH (1947-1990)

IMPORTANCE OF INDUSTRY :- Economists have found that poor nations can progress only if they have a good industrial sector. Industry provides employment which is more stable than the employment in agriculture; it promotes modernization and overall prosperity. It is for this reason that the five year plans place a lot of emphasis on industrial development.

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

ROLE OF PUBLIC SECTOR IN INDUSTRIAL DEVELOPMENT: - (**Public and Private Sectors in Indian**
Industrial Development) The big question facing the policy makers was — what should be the role of the government and the private sector in industrial development? At the time of independence, Indian industrialists did not have the capital to undertake investment in industrial ventures required for the development of our economy; nor was the market big enough to encourage industrialists to undertake major projects even if they had the capital to do so. It is principally for these reasons that the state had to play an extensive role in promoting the industrial sector. In addition, the decision to develop the Indian economy on socialist lines led to the policy of the

Role of state/ government was considered important because of the following factors: - 1.Lack of capital to undertake investment 2.Lack of incentives for the private sector 3.Growth with social justice.

INDUSTRIAL POLICY RESOLUTION -1956(IPR 1956) :- In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted. This resolution formed the basis of the Second Five Year Plan, the plan which tried to build the basis for a socialist pattern of society. This resolution classified industries into three categories.

Principal elements of IPR- 1956:-1.**Three- fold classification of industries** :-(i) Established and developed exclusively as a public sector enterprises (ii) Established both as the private and public sector enterprises (iii) All industries other than in categories (i) and (ii) were left to the private sector

2. Industrial license: private sector, the sector was kept under state control through a system of licenses.

No new industry was allowed unless a license was obtained from the government. This policy was used for

promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area.

3. Industrial concessions: This policy was used for promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area. In addition, such units were given certain concessions such as tax benefits and electricity at a lower tariff. The purpose of this policy was to promote regional equality.

DEVELOPMENT of small scale industry (SSI) :- A small scale industry defined as one whose investment does not exceed Rs. 5 crore (1951 one whose investment maximum Rs. 5 Lakh). In 1955, the Village and Small-Scale Industries Committee, also called the Karve Committee, noted the possibility of using small-scale industries for promoting rural development. A 'small-scale industry' is defined with reference to the maximum investment allowed on the assets of a unit. This limit has changed over a period of time.

CHARACTERISTICS OF SSI :-

1. Small scale industries are employment- oriented (Labor-intensive): they use more labour than the large-scale industries and, therefore, generate more employment.2. Small scale industries are equality- oriented (Regional equality) 3. SSI are Equity-oriented (Income equality)

Effect of Policies on Industrial Development: The achievements of India's industrial sector during the first seven plans are impressive indeed. The proportion of GDP contributed by the industrial sector increased in the period from 11.8 per cent in 1950-51 to 24.6 per cent in 1990-91. The rise in the industry's share of GDP is an important indicator of development. The six per cent annual growth rate of the industrial sector during the period is commendable.

SALIENT FEATURES OF INDUSTRIAL GROWTH DURING 1950-1990 AND ITS GOOD & BAD FFECTS 1. Public enterprises were play a central role in the process of industralisation 2.Private enterprises were play only a secondary role 3. Process of industralisation focused on "import substitution" 4. Large- scale industry was to be developed with view to building an "Infrastructural " base in the country 5. SSI was to be developed with view to achieving the objectives of "Employment and Equity" **.**

GOOD EFFECTS :- 1.Economic growth : Growth he six per cent annual growth rate of the industrial sector during the period is commendable 2.Growth of large-scale industry 3. Growth of SSI 4.There was a marked diversification in the industrial sector **BAD EFFECTS** :- 1.Public sector monopoly 2.Failed to achieve international standard of production- quality (due to protection of domestic industry) 3.Saving foreign exchange through import substitution.

===

INDIA'S FOREIGN TRADE

INDIA'S FOREIGN TRADE AT THE TIME OF INDEPENDENCE 1.Trade related to colonial exploitation;- (i) export of raw material (ii) Import of finished goods 2. Favorable balance of trade (export > import) 3. Direction of trade was restricted, being largely between England and India 4. Volume of trade was very small 5.Britain maintained a monopoly control over India's exports and imports

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

INWARD LOOKING TRADE STRATEGY (STRATEGY OF IMPORT SUBSTITUTION) :- The industrial policy that we adopted was closely related to the trade policy. In the first seven plans, trade as characterised by what is commonly called an inward looking trade strategy. Technically, this strategy is called import substitution.It is policy of reliance on " Import substitution" and protection to the domestic industry through import restriction and import duties in the area of international trade.

Protection from imports took two forms: **(i) Tariffs :-** Tariffs are a tax on imported goods; they make imported goods more expensive and discourage their use. **(ii) Quotas:-** Quotas specify the quantity of goods which can be imported. The effect of tariffs and quotas is that they restrict imports and, therefore, protect the domestic firms from foreign competition.

POLICY:- 1. Policy of the reliance on import substitution and protection of domestic industries through import duties (this strategy was adopted to:(i) Save foreign exchange(ii) achieve reliance) 2. In this policy Govt. protected the domestic industries from foreign competition 3. Foreign exchange was to be utilized for development imports.

IMPACT OF INWARD LOOKING TRADE STRATEGY (CRITICAL APPRAISAL OF INDUSTRIAL DEVELOPMENT1950-1990)

GOOD (POSITIVE) IMPACT :- 1. Rise industry's share of GDP(High rate of industrial growth with structural transformation 2.Diversification of industrial growth 3.Promotion of SSI 4. New opportunities of investment

BAD (NEGATIVE) IMPACT :- 1.Growth of inefficient public monopolies 2.Lack of modernisation (Lack of competition) 3.Growth of economically unviable state enterprises 4.Negative impact of protection from foreign competition 5.Misuse of licensing policy.

ASSERTION AND REASON (01 Marks Questions)

Alternatives:

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

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

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

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

1.ASSERTION (A): Growth and social justice is the central objective of Indian plans.
REASON (R): India opted for planning to utilize available recourses efficiently and to establish social justice.

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

2. ASSERTION (A): The industries became more diversified during 1950-90 as compared to the situation at the time of independence.
REASON (R): Excessive government regulation prevented industrial growth during this period.
Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

3. ASSERTION (A): Economic planning rules out the free play of market force.
REASON (R): It does not rule out free play of market forces rather it is dependent on model of economic planning.
Ans: (d) Assertion (A) is false but Reason (R) is true.
4. ASSERTION (A): Modernization includes adaptation of Technology and change in Social Outlook.
REASON (R): Modernization raises the standard of living of People.
Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
5. ASSERTION (A): Economic planning means utilization of country's resources.
REASON (R): Capitalist economy achieves equality of income.
Ans: (c) Assertion (A) is true but Reason (R) is false

Statement (01Marks)

Alternatives:

a) Both the statement are true

(b) Both the statement are false

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

(d) Statement 2 is true and Statement 1 is false

Q1. Read the following statements carefully and choose the correct alternative:
(CBSE Term- 1 2022)

Statement 1: Commercialisation of agriculture was coercively introduced by the Britishers.

Statement 2: The aim of commercialisation of agriculture was to support the British industries.

Ans. a) Both the statement are true.

Q2. Read the following statements carefully and choose the correct alternative:
(CBSE Term- 1 2022)

Statement 1: Object of modernisation has helped in setting up various types of technology oriented industries.

Statement 2: Modernisation refers to the change in the technology along with positive change in social outlook of the people.

Ans. **Ans. a) Both the statement are true.**

Q3. Read the following statements carefully and choose the correct alternative:
(CBSE Term- 1 2022)

Statement 1: Indian planners gave more importance to public sector during the period of 1950 – 1990.

Statement 2: Under Industrial Policy Resolution to public sector was given leading role in Industrial development.

Ans. **Ans. a) Both the statement are true.**

MULTIPLE CHOICE QUESTIONS (MCQ) WITH ANSWERS

1. Arrange the following events in the correct chronological order: (CBSE Term- 1 2022)

(i) Constitution of Karva Committee
(ii) Beginning of first Five Year Plain
(iii)Establishment of Planning commission
(iv)Establishment of NITI Aayog

Alternatives:
(a) (i), (ii), (iv), (iii)
(b) (ii), (i), (iii), (iv)
(c) (ii), (iii), (iv),(i)
(d) (iii), (ii),(i),(iv)

2. After Independence, in order to bring equity in agriculture, land reforms / policies were introduced by the government that includes ___________________. (CBSE Term- 1 2022)

(a) Abolition of Zamindari System
(b) Green Revolution
(c) Land Ceiling

Alternativs:
(a) Only (i)
(b) Only (ii)
(c) Both (i) and (iii)
(d) (i), (ii) and (iii)

3. Identify which of the flowing is not an advantage of Green Revolution. (CBSE Term- 1 2022)

(a) India has become self- sufficient in the production of food grains
(b) India has built sufficient buffer stock of food grains
(c) Increased marketed surplus
(d) Increase in the price of food grains.

4. In order to reduce over- dependence on agriculture sector it is necessary to opt for diversification With reference to the given statement, diversification includes__________(CBSE Term- 1 2022)
   (i) Change in cropping pattern
   (ii) Shift of workfors from agriculture to allied activities
   (iii) Shift of workfors from agriculture to non- agriculture sector
      (a) (i) and (ii)
      (b) (i), (ii) and (iii)
      (c) (i) and (iii)
      (d) Only (iii)
5. The economic system adopted in India is ___________.
   a) Mixed
   b) Capitalist
   c) Socialist
   d) Both (a) and (c)
6. Under which system the goods are disturbed among people not on the basis of what people need but on the basis of purchasing power?
   a) Capitalistic system
   b) Socialistic system
   c) Mixed system
   d) Dual system
7. The share of agriculture in India's GDP has _______ over the years.
   a) Remained constant
   b) Decreased
   c) Increased
   d) First decreased and then increased
8. Who is known as the architect of 'Indian Planning'?
   a) Jawaharlal Nehru
   b) DR. BR Ambedkar
   c) PC Mahalanobis
   d) Sardar Vallabh bhai Patel
9. From the following which is not the goals of planning India :
   a) Growth
   b) Correcting BOP
   c) Self-reliance
   d) None of the above
10. A good indicator of growth is steady increase in the
   a) Gross domestic product
   b) Net domestic product
   c) Population
   d) National income

ANSWER KEY

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

Short and Long Answer Question (3,4& 6 Marks)

Q1. **Discuss briefly the rationale behind ' equity with growth' as a planning objective from Indian economy**. **(CBSE 2020)**

Ans. (i) Economic Growth is an increase in the aggregate output of goods and services in a country in a given period of time.

(ii). Equity refers to reduction in inequality of income or wealth, uplifting weaker sections of the society and equal distribution of economic power.

(iii). Higher levels of growth and social justice are two main objectives of India's economic planning. When these two objectives are clubbed together, it is called development with social justice.

Q2. **Discuss briefly the rationale behind choosing 'Modernisation' as a planning objective for the Indian Economy**. **(CBSE 2020)**

Ans. Modernisation refers to adoption of new technology in the process of growth .

Rationale behind Modernisation:

(i) New methods of production (ii) changes in social outlook.

(iii.) Innovative technology

(iv) Contributed to the process of economic and social prosperity.

Q3. **Discuss briefly the rationale behind implementation of land reform in post independence era. (CBSE 2020)**

INSTITUTIONAL REFORMS (LAND REFORMS) :- Need for land reform was felt because of widespread poverty of the farming population in India Their holdings were small and scattered and rent were extremely high.

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

2.Land ceiling was another policy to promote equity in the agricultural sector. This means fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands. The ownership conferred on tenants gave them the incentive to increase output and this contributed to growth in agriculture. However, the goal of equity was not fully served by abolition of intermediaries.

(3) Regulation of rent

(4) Cooperative farming

Q4. **Explain how import substitution can protect domestic industry. (OR) 'Import restrictions were imposed in India with the dual objective to save foreign exchange reserves and to be self sufficient' Justify the given statement with valid arguments. (CBSE 2020)**

Ans. The import substituting industrialisation was the objective of second Five year plan (1956-61) till the Seventh FYP (till 1990). The Mahalanobis strategy of development was based on import substitution.

(i). The rationale of the import substitution strategy is based on infant industry argument.

(ii). It helped to save foreign exchange by drastically reducing import of goods.

(iii). The foreign exchange saved was to be used for the developmental imports such as capital goods, sophisticated technology, etc.

(i) It created a protected market and large demand for domestically produced goods.

(ii) In this policy Govt. protected the domestic industries from foreign competition.

Q5. Discuss briefly the rationale behind implementation of land reforms in post independence era. (CBSE 2020)

Ans. Need for land reform was:

(i) Widespread poverty of farming population in India.

(ii) Farmers were poor because their holdings were small and scattered.

(iii) Rents were extremely high

The government after independence following steps were taken :

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

2.Land ceiling was another policy to promote equity in the agricultural sector. This means fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands. The ownership conferred on tenants gave them the incentive to increase output and this contributed to growth in agriculture. However, the goal of equity was not fully served by abolition of intermediaries.

(3) Regulation of rent

(4) Cooperative farming

Q6. What is Green Revolution? Why was it implemented and how did it benefit the farmers? Explain in brief.

Ans. Green Revolution: This strategy, which was launched in October 1965, ‘ GREEN’ refers to ‘crops’ and ‘revolution’ refers to ‘ SPURT’ Green revolution refers to the large increase in food grains resulting :- (i) Use of HVY seeds (ii) Use of chemical fertilizers (iii) Use of insecticides and patricides for crop protection (iv) Mechanised means of cultivation (v) Scientific farm management practices.

Before adopting the New Agricultural Strategy (NAS), the state of Indian agriculture was as follows:

(a) there was low and erratic growth,
(b) there was extreme regional unevenness and growing interclass inequality, (c) there were serious droughts for two consecutive years
(d) there was a war with Pakistan
(e) USA denied India PL 480 imports.

India decided to get rid of this dependence on foreign aid in such a vital matter as food supply.

And that was the genesis of our Green Revolution, i.e., biochemical technology to step up output per acre by using scientifically inclined techniques and methods of production.

Benefits of Green Revolution.

(i) Increase in Income: Since the Green Revolution was limited to wheat and rice. The income of farmers in these States grew sharply. Green Revolution succeeded in removing rural poverty in these States.

(ii) Impact on Social Revolution: Along with economic revolution there was a social revolution. The old social beliefs and customs were destroyed and people were willing to accept changes in technology, seeds and fertilizers.' The traditional methods of farming were transformed into modern methods of farming.

(iii) **Increase in Employment:** Green Revolution solved the problem of seasonal unemployment to a great extent because with the possibility of growing more than one crop on a piece of land, more working hands were needed throughout the year.

Q7. Why was public sector given a leading role in industrial development during the planning period?

Ans. Public sector has been playing a very significant role in the development of industries in the following way:

(a) Creation of a strong industrial base.
(b) Development of Infrastructure.
(c) Development of backward areas.
(d) To mobilise savings and earn foreign exchange.
(e) To prevent concentration of economic power.
(f) To promote equality of income and wealth distribution.
(g) To provide employment.

Q8. What do you understand by term 'Import Substation' ? Explain the role of tariffs and quotas in India to achieve import substation.

INWARD LOOKING TRADE STRATEGY (STRATEGY OF IMPORT SUBSTITUTION) 'Import substation is a strategy to save foreign exchange by encouraging domestic production of the goods and services which we are importing from rest of the world. Domestic industry is offered protection from foreign competition through import restriction and import duties'.

The industrial policy that we adopted was closely related to the trade policy. In the first seven plans, trade as characterised by what is commonly called an inward looking trade strategy. Technically, this strategy is called import substitution.It is policy of reliance on " Import substitution" and protection to the domestic industry through import restriction and import duties in the area of international trade.

Protection from imports took two forms: **(i) Tariffs :-** Tariffs are a tax on imported goods; they make imported goods more expensive and discourage their use. **(ii) Quotas:-** Quotas specify the quantity of goods which can be imported. The effect of tariffs and quotas is that they restrict imports and, therefore, protect the domestic firms from foreign competition.

POLICY:- 1. Policy of the reliance on import substitution and protection of domestic industries through import duties (this strategy was adopted to:(i) Save foreign exchange(ii) achieve reliance) 2. In this policy Govt. protected the domestic industries from foreign competition 3. Foreign exchange was to be utilized for development imports.

Q9. **Why and how was private sector regulated under the IPR 1956?**

Ans. Private sector was given minimum role in IPR 1956. New industry could start operation after it had obtained licence from the government. Licence was given after scrutiny by the government.

These categories were:

(i). Schedule A: 17 industries which were to be an exclusive responsibility of the state/government (public sector enterprises).

(ii). Schedule B: 12 industries which were to be progressively state-owned and in which the state would generally set up new enterprises, but in which private enterprise would be expected only to supplement the effort of the state; and

(iii).Schedule C: all the remaining industries and their future development would, in general be left to the initiative and enterprise of the private sector.

Q10. What were the features of the Industrial policy of 1956 ?

INDUSTRIAL POLICY RESOLUTION -1956(IPR 1956) :- In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted. This resolution formed the basis of the Second Five Year Plan, the plan which tried to build the basis for a socialist pattern of society. This resolution classified industries into three categories.

Principal elements of IPR- 1956:-1.**Three- fold classification of industries** :-(i) Established and developed exclusively as a public sector enterprises (ii) Established both as the private and public sector enterprises (iii) All industries other than in categories (i) and (ii) were left to the private sector

2. Industrial license: private sector, the sector was kept under state control through a system of licenses.

No new industry was allowed unless a license was obtained from the government. This policy was used for

promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area.

2. **Industrial concessions**: This policy was used for promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area. In addition, such units were given certain concessions such as tax benefits and electricity at a lower tariff. The purpose of this policy was to promote regional equality.

Unit-6 ECONOMIC REFORMS SINCE 1991 (NEW ECONOMIC POLICY)

INTRODUCTION

Economic reforms refer to a set of economic policies directed to accelerate the pace of "growth and development".

NEED FOR NEW ECONOMIC POLICY:- 1. High fiscal deficit:- fiscal deficit estimated to be 5.4 per cent of GDP in 1981-82and its shot up to 8.4 per cent in 1990-91. It is led to a "Dept trap"

1. Adverse balance of payment: - BOP in 1980-81 was Rs. 2,214 crore and in 1990-91it shot up to Rs. 17,367 crore. Borrowing from ROW 12% of GDP in 1980-81 shot up 23% of GDP in 1990-91 .

2. Fall in Foreign exchange reserves :- In 1990-91 , India Forex fell to such a low level that was not adequate to pay for an import bill of even 10 days.
3. Rise in price/ Inflation :- The rate of inflation was 16.7% in 1990-91
4. Poor performance of public sector undertakings 6. Inefficient management.

ELEMENTS OF NEW ECONOMIC POLICY (LPG)

Three main elements of NEP: 1.Liberalisation 2.Privatisation 3.Globalisation.

LIBERALISATION

"Freedom of the economy from the direct controls imposed by the Government"

Reform under liberalization : 1. **INDUSTRIAL SECTOR REFORMS** :- (I) Abolition of industrial licensing : Industrial licensing was abolished for almost all but product categories — alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace and drugs and pharma-ceuticals. - (ii) Decrease in role of public sector:- The only industries which are now reserved for the public sector are a part of defense equipment, atomic energy generation and railway transport. (iii) De-reservation of production by small scale industries:- Many goods produced by small-scale industries have now been dereserved. (iv) Freedom to import capital goods (v) Expansion of production capacity (vi) In many industries, the market has been allowed to determine the prices.

2. FINANCIAL SECTOR REFORMS :- Financial sector includes (a) Banking and non-banking financial institutions (b) Stock exchange market (c) Foreign exchange market .
The various reforms are :- (i) Role of RBI :- The financial sector in India is regulated by the Reserve Bank of India (RBI). All banks and other financial institutions in India are regulated through various norms and regulations of the RBI. One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take
decisions on many matters without consulting the RBI . (ii) establishment of private sector banks :- The reform policies led to the establishment of private sector banks, Indian as well as foreign.
(iii) Foreign investment :- Foreign investment limit in banks was raised to around 50 per cent. (iv) Foreign Institutional Investors (FII):- such as merchant bankers, mutual funds and pension funds, are now allowed to invest in Indian financial markets.

3.FISCAL REFORM(Tax Reforms) :- Tax reforms are concerned with the reforms in the government's taxation and public expenditure policies, which are collectively known as its fiscal policy. (i) Reduction in direct taxes: -Since 1991, there has been a continuous reduction in the taxes on individual incomes as it was felt that high rates of income tax were an important reason for tax evasion. It is now widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income. (ii) Reform of indirect taxes (GST):- Recently, the Parliament passed a law, Goods and Services Tax Act 2016, to simplify and introduce a unified indirect tax system in India. This law came into effect from July 2017. This is expected to generate additional revenue for the government, reduce tax evasion and create 'one nation, one tax and one market'. (iii) simplification of tax- paying procedure

4**. FOREIGN EXCHANGE REFORMS:-** (I) Devaluation of rupee:- The first important reform in the external sector was made in the foreign exchange market. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange. (ii) Foreign exchange reforms:- markets determine exchange rates based on the demand and supply of foreign exchange. (iii)Foreign trade policy:- Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy. The aim was also to promote the efficiency of local industries and adoption of modern technologies. The trade policy reforms aimed at (i) dismantling of quantitative restrictions on imports and exports (ii) reduction of tariff rates and (iii) removal of licensing procedures for imports.

Salient features of trade policy after liberalisation :- (i) Import quotas have been abolished (ii) Import licensing has been abolished (iii) Moderation of import duty)

PRIVATISATION

"Privatisation means partial or full ownership and management of public sector enterprises by the private sector "It implies shedding of the ownership or management of a government owned enterprise. It may happen in two ways: - 1.Outright of the Govt. enterprises to the private entrepreneurs (OR) 2. Withdrawal of the Govt. ownership and management the mixed enterprise . **Disinvestment:** Privatisation of the public sector enterprises by selling off part of the equity of PSEs to the public is known as disinvestment. The purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernisation.

NEED FOR PRIVATISATION :- Because of poor performance of PSUs note the following observations in this regard : (i) Key role to the PSUs during 2nd five year plan (ii) The IPR (1956) clearly stated the significance of PSUs in process of growth and development (iii) It was on account of the spread of PSUs that the Indian economy underwent a structural transformation (iv) Mounting losses of PSUs became unsustainable (v) In 1991, the Govt. decided to phase out public enterprises by selling its equity to the private enterprises (vi) In view of their efficient performance Navratnas were to be retained as PSUs .

NAVRATNAS : Navratnas refer to nine such profit making companies , these nine industries :- (i) IOC (ii) BPCL (iii) ONGC (iv) SAIL (v) BHEL (vi) IPCL (vii) VSNL (viii) NTPC (ix) HPCL **MAHARATNAS** :- In 2009, the Govt. also started according maharatna status : (i) CIL (ii) IOC (iii) NTPC (iv) ONGC (v) SAIL (vi)BHEL (vii) GAIL (viii) BPCL **MINIRATNAS** :- Recently, yet another status called Miniratna has been created to encourage PSUs to improve efficiency . 75 PSUs have been awarded Miniratna status.

POSITIVE AND NEGATIVE IMPACT OF PRIVATISATION :- POSITIVE IMPACT :-

1. Improve the efficiency of management 2.Financial discipline 3.Reduction of deficit 4.Competitiveness 5.Diversification of production 6. Increase in foreign direct investment (FDI) **NEGATIVE IMPACT**:- 1. Neglect of social interest 2 Highly priced goods 3. Monopoly control 4. Not achieving the objective of the full employment.

GLOBALISATION:"Globalisation is generally understood to mean integration of the economy of the country with the world Economy" It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration.

Outsourcing: In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country (like legal advice, computer service, advertisement, security — each provided by respective departments of the company. As a form of economic activity, outsourcing has intensified, in recent times, because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). Many of the services such as voice-based business processes (popularly known as BPO or call centres), record keeping, accountancy, banking services, music recording, film editing, book transcription, clinical advice or even teaching are being outsourced by companies in developed countries to India.

World Trade Organisation (WTO):- The WTO was founded in 1995 as the successor organisation to the General Agreement on Trade and Tariff (GATT). GATT was established in 1948 with 23 countries as the global trade organization to administer all multilateral trade agreements by providing equal opportunities to all countries in the international market for trading purposes.

POLICY STRATEGIES UNDERTAKEN PROMOTINNG GLOBALISATION OF THE INDIAN ECONOMY:- 1. Long term trade policy(Removal of controls on foreign trade) – (A new 5 year foreign trade policy was announced, All restrictions and controls on foreign trade have been removed) 2. Rise in equity limit of foreign investment (equity limit of foreign capital has been raised from 40% and new range between 51to 100%) 3. Convertibility of Indian rupee (sale and purchase of foreign currency at the price determined by the market , convertibility of Indian rupee has been allowed : export and import of goods & service ,Payment of interest) 4. Reduction of tariffs (Tariff barriers have been withdrawal most of goods traded between India and ROW)5. Devaluation of rupee (Devaluation of rupee in July 1991 by nearly 20%, to encouraged export and discouraged import) 6.Withdrawal of quantities restrictions.

INDIAN ECONOMY DURING REFORMS: AN ASSESSMENT/AN APPRAISAL OF LPG POLICE (ARGUMENTS IN FAVOUR/ MERITS OF ECONOMIC REFORMS/LPG

1. Increase in growth rate of the economy:- The growth of GDP increased from 5.6 per cent during 1980–91 to 8.2 per cent during 2007–12. During the reform period, the growth of agriculture has declined. While the industrial sector reported fluctuation, the growth of the service sector has gone up.

2. Increase foreign direct investment (FDI) and foreign institutional investment (FII):- has increased from about US $100 million in 1990-91 to US $ 36 billion in 2016-17. There has been an increase in the foreign exchange reserves from about US $ 6 billion in 1990-91 to about US $ 321 billion in 2014-15. 3. A check on inflation 4. **Growth and Employment**: Though the GDP growth rate has increased in the reform period, scholars point out that the reform-led growth has not generated sufficient employment opportunities in the country.

DEMERITS OF LPG POLICY/ ECONOMIC REFORMS :- 1.Adverse effect on agriculture

2.Low level of industrial growth 3. Economic colonialism 4.Cultural erosion 5. Spread of consumerism.

CONCLUSION (Critically Examine) of ECONOMIC REFORMS: - The process of globalisation through liberalisation and privatisation policies have produced positive, as well as, negative results both for India and other countries.

1.Some scholars argue that globalisation should be seen as an opportunity in terms of greater access to global markets, high technology and increased possibility of large industries of developing countries to become important players in the international arena. 2. On the contrary, the critics argue that globalisation is a strategy of the developed countries to expand their markets in other countries. According to them, it has compromised the welfare and identity of people belonging to poor countries.

DEMONETISATION :-“ Demonetisation refers to withdrawal of the status of ‘ legal tender’ to the currency in circulation” (Demonetisation notes of Rs. 500 & 1000 with immediate effect on 08 Nov. 2016)

FINANCIAL INCLUSION: - 1. People could deposit Rs. 500 & 1000 banned notes in the banks 2. Millions of the people opened their bank accounts to deposit their cash transactions 3.As those who were not used to banking, started participating in the organized financial system of the country.

WAS DEMONETISATION A GOOD POLICY DECISION? / Impact on the money supply of economy: - Its pros and cons 1. It was a good move because it induced people shift to the digital mode of transactions 2. Its improved the degree of finical inclusion in the economy 3. It moves as it unearthed the stock of black money in the economy 4. Reducing levels of corruption 5.It well lead to money supply contraction in the form of cash

DEMERITS:-1. It led to a severe cash crunch in our cash-sensitive economy 2. Fall in production activity 3.Fall (dent) in GDP growth 3. Opportunities of employment were also deeply hurt .

GOODS AND SERVICE TAX :- GST which was implemented from 1st July 2017. " GST is one tax replacing all indirect taxes in the economy". Also, it is a uniform tax across all part of country 'one tax, one nation, one market' **TYPES OF GST IN INDIA**: - 03 types CGST, SGST, IGST(INTEGRATED G &S inter – state trade) AND UTGST . **GST SLAB: -** 0% (zero) or exempt category, It includes items of common man consumption (three items exempted from the GST- Common salt, Health service, Educational services).

04 slabs GST :- (i) 5% GST category (This includes of mass consumption, such a medicines, tea, sugar) (ii) 12% GST category (This includes computers, processed food) (iii) 18% GST category (This includes hair oil, toothpaste, soaps, pasta, cakes) (iv) 28% GST category, This is the highest GST (This includes luxury items)

HOW GOOD IS A SYSTEM OF GST AS COMPARED TO OLD TAX SYSTEM? :- GST is the ' single comprehensive indirect tax' on supply of goods and services right from manufacturer to the consumer. GST COMPARED TO THE OLD TAX SYSTEM

ASSERTION AND REASON

Alternatives:

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

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

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

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

1.ASSERTION (A): Huge reforms have been made in indirect taxes to facilitate establishment of common national market for goods and commodities.

REASON (R): In order to encourage better compliance on the part of taxpayers, many procedures have been simplified.

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

2.ASSERTION (A): Foreign exchange reserves declined to a level that was not enough to pay for the import bill of more than 2 weeks.

REASON (R): Liberalisation implies controls and restrictions on trade and industry.

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

3. ASSERTION (A): Launch of LPG policies has caused a significant shift in the structure of the Indian markets they are now increasingly shedding their monopoly nature and becoming more competitive in nature.

REASON (R): Equity limit of foreign capital investment has been raised from the initial 40% it's now range between 51 - 100%

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

4. ASSERTION (A): Developed countries oppose outsourcing of work to India.

REASON (R): Outsourcing increase the income disparity between the two countries.

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

5. ASSERTION (A): One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector.

REASON (R): This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI.

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

explanation of Assertion (A)

CASE STUDY

Question No. 1 to 5 are to be answered on the basis of the following text and common knowledge: (CBSE TERM-1 2022)

India's growth path grabbed the attention of the world after the introduction of the New Economic policy in 1991 . Economic reforms stabilization and structural reforms.

Liberalisation led to the breakdown of license raj. Reforms were interdicted in various sectors with the aim of decreasing government intervention. It was done in order to build a new framework to make markets more competitive.

India's low foreign exchange reserves were one of the reasons for the introduction of reforms. At present, India enjoys a leading position in term of foreign exchange reserves across the world. These reforms completely transformed the Indian economy.

However, today many economists many economists feel the need for a new set of reforms.

Q1. Which of the following is not the introduction of economic reforms in 1991?

(a) Decrease in foreign exchange reserves
(b) High rate of inflation
(c) Balance of Payment crisis
(d) Increase in exports

Ans.(a) Decrease in foreign exchange reserves

Q2. **Alternatives:**

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

Q3 Read the following statements carefully and choose the correct alternative:

Statement 1: Structural refers aimed at improving the efficiency of the economy and increasing its international competiveness

. **Statement 2:** Structural reform measures are the short- term measures intended to correct weaknesses of the economy.

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

Q3. In order to mark end of the license raj ______________ measure(s) was/ were taken by the Government of India.

(i) Liberalisation
(ii) Privatisation
(iii) Globalisation

Alternatives:

(a) Only (i)
(b) Only (ii)
(c) Both (i) and (ii)
(d) (i), (ii) and (iii)

Ans. (a) Only (i)

Q4. Privatisation of Public Sector enterprises implies:

(a) Strategic sales
(b) Sale of private companies
(c) Minority sales
(d) Both strategic sales and minority sales

Ans. (d) Both strategic sales and minority sales

Q5.

	Column I		**Column II**
A	Industrial Sector Reform	i	Role of RBI changed from regulator to facilitator.
B	Financial Sector Reform	ii	Reduction in the tax rates
C	Fiscal Sector Reform	iii	Determination of exchange rate through demand and supply
D	Foreign Exchange Reform	iv	Abolition of licensing system

Alternatives:

(a) A-ii, B-iii, C-i, D- iv
(b) A-i, B-ii, C- iii, D-iv
(c) A-iv, B-i, C-ii, D-iii
(d) A-iii, B-iv, C-I, D-ii

Ans. A-iv, B-i, C-ii, D-iii

MULTIPLE CHOICE QUESTIONS (MCQ) WITH ANSWERS

1. In 1991, India met with an economic crisis due to ____________
a) Rise in foreign exchange reserves
b) Fall in Price
c) Huge debts burden
d) Good performance of public sector undertakings

2. The most urgent problem which promoted the introduction of New Economic Policy in 1991 Was:
(a) Bad performance of public sector units.
(b) Foreign exchange crises.
(c) High tax rates leading to tax evasion.
(d) Both A and B

3. Which of the policy is not initiated under the new economic policy?
a) Liberalization
b) Privatisation
c) Globalisation
d) Urbanization

4. ______means integrating the domestic economy with the world economy.
a) Globalisation
b) Liberalization
c) Privatisation

d)Demonetisation

5. ____________refers to relaxation of Government restrictions.
   a) Privatisation
   b) Globalisation
   c) Disinvestment
   d) Liberlisation
6. Foreign exchange reforms was done by
   a) Devaluating the Rupee against foreign currency
   b) Introducing the fixed exchange rate system
   c) Determination of the exchange rate by the market forces
   d) Both (a) and (c)
7. Government taxation and expenditure policy is known as
   a) Trade policy
   b) Monetary policy
   c) Fiscal policy
   d) Taxation policy
8. Import Licensing was abolished except in case of :
   a) Hazardous items
   b) Environmentally sensitive industries
   c) both (a) and (b)
   d) none of these
9. Industry reserved for public sector:
   a) Defense equipment
   b) Atomic energy generation
   c) Railway transport
   d) All of these
10. Financial sector reforms does not include
   a) Foreign investment limit in banks was raised to around 50 per cent
   b) Foreign Institutional Investors (FII), allowed to invest in Indian financial markets
   c) Reduce the role of RBI from regulator to facilitator
   d) Removal of licensing procedures for imports
11. __________________ is one of the texes eliminated after implementation of Goods & Service Tax . **(CBSE 2020)**

    Ans. **Value added tax**
12. World Trade Organisation (WTO) was established in 1995, as a successor organization to______________**(CBSE 2020)**

    Ans. General Agreement on Tariffs And Trade (GATT)
13. Name any one Navratna company**. (CBSE 2020)**

    Ans. Mahanagar Telephone Nigam Limited (MTNL) (any other Navratna)
14. State whether the following statement is true or false:

    'World Bank is also known as International bank for Registration and Delimitation (IBRD) **(CBSE 2020)**

    Ans. False.
15. State whether the following statement is true or false: **(CBSE 2020)**

    'GATT was established in 1923 with 48 member countries'

    Ans. False

ANSWER KEYS

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

Short and Long Answer Question(3,4 & 6 Marks)

Q1 Discuses any two major steps taken by the government of India on Financial sector front under the economic reform 1991. (CBSE 2020)

FINANCIAL SECTOR REFORMS :- Financial sector includes (a) Banking and non-banking financial institutions (b) Stock exchange market (c) Foreign exchange market .

The various reforms are :-

(i) Change in role of RBI from regulator to Facilitator:- The financial sector in India is regulated by the Reserve Bank of India (RBI). All banks and other financial institutions in India are regulated through various norms and regulations of the RBI. One of the major aims of financial sector reforms is to reduce the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take decisions on many matters without consulting the RBI .

(ii**). Origin of Private Banks**: The reform policies led to the establishment of private sector banks, Indian as well as foreign such as ICICI, HSBC banks increased the competition and benefitted the consumers through lower interest rates and better services.

(iii). Increase in limit of Foreign investment: Foreign investment limit was raised to around

51%. FII such as merchant bankers, mutual funds and pension funds were now allowed to invest in Indian Financial markets. Though banks have given permission to generate resources from India and Abroad, certain aspects have been retained with the RBI to safeguard the interests of the account-holders and the nation.

(iv). Comfort in Expansion Process: Banks were given freedom to set up new branches (after fulfillment of certain conditions) without the approval of the RBI.

Q2. **'India is often called as outsourcing destination of the world' Discuss the prime reasons for this name given to India. (CBSE 2020)**

Ans. The following points will highlight the reasons that make India a favorite outsourcing destination:

(i). Wage rates in India is less as compared to other developed nations and it makes MNC's invest in Indian workers and shifts a part of the business to India.

(ii). Indians are educated and can be easily trained, but lack job opportunities, so job training cost will be low.

(iii) . India is an emerging market for goods and services, the cost of production is cut by half if it is produced in India, and therefore it makes sense to invest in India.

(iv). India offers a stable political environment suitable for setting up businesses.

(v). India has been developing the infrastructure section since the last 10-20 years and connectivity has become much improved, this helped MNC's in reducing the cost of production.

(vi). India has abundant natural resources which make for a steady source of raw materials to

ensure the proper functioning of MNC's.

Q3. Explain fiscal reforms introduced in India under new economic policy 1991.

Ans. **FISCAL REFORM(Tax Reforms)** :- Tax reforms are concerned with the reforms in the government's taxation and public expenditure policies, which are collectively known as its fiscal policy.

(i). Reduction in direct taxes: -Since 1991, there has been a continuous reduction in the taxes on individual incomes as it was felt that high rates of income tax were an important reason for tax evasion. It is now widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income.

(ii).Reform of indirect taxes (GST):- Recently, the Parliament passed a law, Goods and Services Tax Act 2016, to simplify and introduce a unified indirect tax system in India. This law came into effect from July 2017. This is expected to generate additional revenue for the government, reduce tax evasion and create 'one nation, one tax and one market'.

(iii). Simplification of tax- In order to encourage better compliance on the part of taxpayers, many procedures have been simplified.

Q4. Discuses any two major steps taken by the government of India on Foreign exchange reform under the economic reform 1991.

Ans. **FOREIGN EXCHANGE REFORMS:-** **(i). Devaluation of rupee:-** The first important reform in the external sector was made in the foreign exchange market. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange.

(ii). Foreign exchange reforms:- markets determine exchange rates based on the demand and supply of foreign exchange.

(iii)Foreign trade policy:- Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy. The aim was also to promote the efficiency of local industries and adoption of modern technologies. The trade policy reforms aimed at (i) dismantling of quantitative restrictions on imports and exports (ii) reduction of tariff rates and (iii) removal of licensing procedures for imports.

Q5. **Do you think outsourcing is good for India? Why are developed countries opposing it?**

Ans. Yes, it is good for India. These points below further help in justifying that:

1. For a country like India which is developing, employment generation is a concern and outsourcing provides a solution for generating employment opportunities.
2. It enables the transfer of knowledge about the processes and technology from developed countries to the developing countries.
3. By providing outsourcing services India makes itself credible in the international market, it will help in bringing international investment to India.
4. Outsourcing opens up avenues across service sectors and helps the educated youth in getting skills which will result in human capital formation
5. Jobs will help in the building of society by reducing poverty and also pave the way for education, which will build the nation as a whole.

Developed countries oppose outsourcing as it leads to outflow of jobs from the developed countries to the developing countries, it leads to outflow of investment and revenue and helps develop the weaker country, but results in job scarcity for the developed countries.

Q6. **Define privatisation. Explain the objectives of privatisation in India.**

Ans. Privatization: is defined as the transfer of a function, activity or organization from the public to the private sector.

Objectives of Privatisation:
1-Improving the government financial Composition: Raising funds from the sales of enterprises or their assets; Making the enterprises raise internal resources and from capital markets.
2-Improving the performance of an enterprise: Increasing efficiency; requiring enterprises to meet performance objectives; greater responsiveness to consumers, in terms of quantity, quality, diversity or services; relief from public sector financial constraint; more managerial autonomy.
Besides the above two broad objectives, privatization would help in reducing the burden on public administration by reducing the size of the public sector, strengthening market forces and competition within an economy and promoting wider share ownership among public.

Q7. Define disinvestment. Explain objectives and methods of disinvestment.
Ans. DISINVESTMENT: is sale of a part of equity holdings held by the government in any public sector undertaking to private investor.
Objectives of Disinvestment:
Disinvestment has been a major strategy by which the government has financed fiscal deficit. Besides financing fiscal deficit, the economic motivation behind it is to improve efficiency of PSUs.
Two main methods of disinvestment are:
(i)- Minority Sale: Under it, the general policy was to sell the shares of the PSUs maximum upto 49% so that government ownership of the companies is maintained.
In this method, equity is offered to investors through domestic public issue.
(ii)-Strategic Sale: Under it, the government sells 50% or more shares of the PSUs.
The ownership of the company transfers from the government to the private sector.
In this method, government offloads above 51% in strategic sale.
Q8. **Agriculture sector appears to be adversely affected by the reform process. Why?**
Ans. Economic reforms initiated in 1991 did not have an impact on the agriculture industry. Here are the reasons:
(i)- Public investment decreased in the agriculture sector after 1991, the Indian government has reduced support for research and development in agriculture and supported services that had
a negative impact on agriculture.
(ii)- As subsidies were removed from fertilisers, the cost of production escalated which made farming more expensive, it also affected poor farmers.
(iii)- By complying with WTO regulations, import duties on agricultural products were reduced which made it difficult for poor farmers to compete against products of the international market.
(iv)- Shifting focus on producing more cash crops and removal of subsidies exerted a double impact which resulted in inflation making the cost of production more expensive

Q9. Explain arguments in favour and against of New Economic reforms.
POLICE (ARGUMENTS IN FAVOUR/ MERITS OF ECONOMIC REFORMS/LPG
1. Increase in growth rate of the economy:- The growth of GDP increased from 5.6 per cent during 1980–91 to 8.2 per cent during 2007–12. During the reform period, the growth of

agriculture has declined. While the industrial sector reported fluctuation, the growth of the service sector has gone up.
2. Increase foreign direct investment (FDI) and foreign institutional investment (FII):- has increased from about US $100 million in 1990-91 to US $ 36 billion in 2016-17. There has been an increase in the foreign exchange reserves from about US $ 6 billion in 1990-91 to about US $ 321 billion in 2014-15.
3. A check on inflation
4. **Growth and Employment**: Though the GDP growth rate has increased in the reform period, scholars point out that the reform-led growth has not generated sufficient employment opportunities in the country.
DEMERITS OF LPG POLICY/ ECONOMIC REFORMS :- 1.Adverse effect on agriculture
2. Low level of industrial growth 3.Economic colonialism 4.Cultural erosion 5. Spread of consumerism.
CONCLUSION (Critically Examine) of ECONOMIC REFORMS: -The process of globalisation through liberalisation and privatisation policies have produced positive, as well as, negative results both for India and other countries.
1. Some scholars argue that globalisation should be seen as an opportunity in terms of greater access to global markets, high technology and increased possibility of large industries of developing countries to become important players in the international arena.
2. On the contrary, the critics argue that globalisation is a strategy of the developed countries to expand their markets in other countries. According to them, it has compromised the welfare and identity of people belonging to poor countries.

Q10.Discuss economic reforms in India in the light of social justice and welfare.

Ans. Economic reforms in India in the light of social justice and welfare
The process of globalisation through liberalisation and privatisation policies have produced in India in the light of social justice and welfare as, negative results:
On the contrary, the critics argue that globalisation is a strategy of the developed countries to expand their markets in other countries.
According to them, it has compromised the welfare and identity of people belonging to poor countries.

Unit 7: Current challenges facing Indian Economy

HUMAN CAPITAL FORMATION IN INDIA

INTRODUCTION

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 **OR (**Human

capital formation is the addition stock of abilities and skills among the population of the country)

PHYSICAL CAPITAL:- Physical capital refers to stock of produced means of production

DETERMATION/ SOURCES OF HUMAN CAPITAL FORMATION:- 1.Expenditure on education:- Spending on education by individuals is similar to spending on capital goods by companies with the objective of increasing future profits over a period of time. Likewise, individuals invest in education with the

objective of increasing their future income. **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. Who can work better — a sick person or a person with sound health? A sick labourer without access to medical facilities is compelled to abstain from work and there is loss of productivity. Hence, expenditure on health is an important source of human capital formation. Health expenditure directly increases the supply of healthy labour force and is, thus, a source of human capital formation.

3.On-the- job training :- Firms spend on giving on-the-job-training to their workers.This may take different forms: one, the workers may be trained in the firm itself under the supervision of a skilled worker; two, the workers may be sent for off-campus training. In both these cases firms incur some expenses. Firms will, thus, insist that the workers should work for a specific period of time, after their on-the-job training, during which it can recover the benefits of the enhanced productivity owing to the training. 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. Technically qualified persons, like engineers and doctors, migrate to other countries because of higher salaries that they may get in such countries. Migration in both these cases involves cost of transport, higher cost of living in the migrated places and psychic costs of living in a strange socio-cultural setup. 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. For example, people want to know the level of salaries associated with various types of jobs, whether the educational institutions provide the right type of employable skills and at what cost. This information is necessary to make decisions regarding investments in human capital as well as for efficient utilisation of the acquired human capital stock. Expenditure incurred for acquiring information relating to the labour market and other markets is also a source of human capital formation. 6. Study programmes for adults

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. growth of human capital (education and health):- growth of human capital (education and health) to economic growth . Two independent reports on the Indian economy, in recent times, have identified that India would grow faster due to its strength in human capital formation. Deutsche Bank, a German bank, in its report on 'Global Growth Centres' (published on 1.7.05) identified that India will emerge as one among four major growth centres in the world by the year 2020. It further states, "Our empirical investigation supports the view that human capital is the most important factor of production in today's economies. Increases in human capital are crucial to achieving increases in GDP." With reference to India it states, "Between 2005 and 2020 we expect a 40 per cent rise in the average years of education in India. World Bank, in its recent report, 'India and the Knowledge Economy — Leveraging Strengths and

Opportunities', states that India should make a transition to the knowledge economy and if it uses its knowledge as much as Ireland does (it is judged that Ireland uses its knowledge economy very effectively), then the per capita income of India will increase from a little over US $1000 in 2002 to US $ 3000 in 2020. 5. Improvement in quality of life 6.Positive change in attitude.

HUMAN CAPITAL AND HUMAN DEVELOPMENT: - <u>Human capital</u>:- 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. Therefore, basic education and basic health are important in themselves, irrespective of their contribution to labour productivity.

STATE OF HUMAN CAPITAL FORMATION IN INDIA: - In this section we are going to analyses human capital formation in India. We have already learnt that human capital formation is the outcome of investments in education, health, on-the-job training, migration and information. Of these education and health are very important sources of human capital formation. We do understand that education and health care services create both private and social benefits and this is the reason for the existence of both private and public institutions in the education and health service markets. Expenditures on education and health make substantial long-term impact and they cannot be easily reversed; hence, government intervention is essential.

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:- Expenditure on education by the government is expressed in two ways (i) as a percentage of 'total government expenditure' (ii) as a percentage of Gross Domestic Product (GDP) . **(i) As a percentage of total government expenditure:-** During 1952-2014, education expenditure as percentage of total government expenditure increased from 7.92 to 15.7. (ii) **As a percentage of Gross Domestic Product (GDP):-** During 1952-2014, as percentage of GDP increased from 0.64 to 4.13. Throughout this period the increase in education expenditure has not been uniform and there has been irregular rise and fall.

One can understand the inadequacy of the expenditure on education if we compare it with the desired level of education expenditure as recommended by the various commissions. **About 50 years ago, the Education Commission (1964–66) had recommended that at least 6 per cent of GDP be spent** on education so as to make a noticeable rate of growth in educational achievements.

The Tapas Majumdar Committee, appointed by the Government of India in 1998, estimated an expenditure of around Rs 1.37 lakh crore over 10 years (1998-99 to 2006-07) to bring all Indian children in the age group of 6-14 years under the purview of school education. Compared to this desired level of education expenditure of around 6 per cent of GDP, **the current level of a little over 4 per cent has been quite inadequate. In principle, a goal of 6 per cent needs to be reached—this has been accepted as a must for the coming years.**

(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 1to 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.

Major Education Programmes:- **1.Sarva Shiksha Abhiyan :-** SSA was launched in 2001.SSA is programmes for universalisation of elementary education **2. RTE Act 2009** :- In 2009, the Government of India enacted the Right of Education Act to make free education a fundamental right of all children in the age group of 6-14 years.**3.Mid- day meal scheme** 4**.Skill India** :- Skill India programmes was launched on July 16, 2015.Its main objective is to train over 40 crore people in India in different skills by 2022. **5.Beti Bachao Beti Padhao (BBBP) :-** Beti Bachao Beti Padhao was launched January 22, 2015 for survival, protectionand education of girl child. **6. Digital India:-** Digital India was launched on July 01, 2015.

EDUCATION STILLS A CHALLENGING PROPOSITION (THE CHALLENGE OF EDUCATION):- 1**. Education for All Still a Distant Dream** (Large number of illiterate's) :- Though literacy rates for both — adults as well as youth — have increased, still the absolute number of illiterates in India 2. **Gender Equity — Better than Before:** - The differences in literacy rates between males and females are narrowing signifying a positive development in gender equity; still the need to promote education for women in India is imminent for various reasons such as improving economic independence and social status of women and also because women education makes a favourable impact on fertility rate and health care of women and children. **3.Higher Education — a Few Takers**: - The Indian education pyramid is steep, indicating lesser and lesser number of people reaching the higher education level. Moreover, the level of unemployment among educated youth is the highest. As per NSSO data,in the year 2011-12, the rate of unemployment among youth males who studied graduation and above in rural areas was 19 per cent. Their urban counterparts had relatively less level of unemployment at 16 per cent. 4.Inadequate vocational education 5.Privatisation of education 6.Low access level of rural areas 7.Low standard of education 8.Insufficient government expenditure.

ASSERTION & REASON

Alternatives:

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

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

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

(d) Assertion (A) is false but Reason (R) is true

Q1. Read the following statements carefully Assertion (A) and Reason (R) and choose the correct alternative: **(CBSE Term- 1 2022)**

ASSERTION (A): Expenditure on health increases the physical and mental ability of human beings..

REASON (R): Expenditure on health makes long term impacts and these can be easily reversed.

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

Q2.ASSERTION (A): According to human capital, human beings are ends in themselves.

REASON (R): Human capital considers education and health as a means to increase labour productivity.

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

Q3.ASSERTION (A): Human Capital of a nation is raised when skill and expertise of the people rises.

REASON (R): Rising population is an impediment to the process of human capital formation in India.

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

Q4.ASSERTION (A): Cause and effect relation between Human Capital and economic growth can be easily proved.
REASON (R): Due to measurement problems, it is difficult to establish a relation of cause and effect from the growth of human capital(Education and Health) to economic growth.
Ans: (d) Assertion (A) is false but Reason (R) is true.
Q5. ASSERTION (A): World Bank, in its recent report, 'India and the Knowledge Economy **REASON (R):**India would grow faster due to its strength in human capital formation.
Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

Statement (01Marks)

Alternatives:

a) Both the statement are true

(b) Both the statement are false

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

(d) Statement 2 is true and Statement 1 is false

Q1. Read the following statements carefully and choose the correct alternative**: (CBSE Term- 1 2022)**

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

Ans. a) Both the statement are true

Q2. Read the following statements carefully and choose the correct alternative**: (CBSE Term- 1 2022)**

Statement 1: quality of education is measured in terms of years of schooling and enrolment rates.

Statement 2: Education provides knowledge to understand changes in society and scientific advancements.

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

MULTIPLE CHOICE QUESTIONS (MCQ) WITH ANSWERS

1. In the year ____________________ the Indian Government made education free and compulsory for all children between 6-14 years. **(CBSE 2020)**
   (a) 2001
   (b) 2009
   (c) 2003
   (d) 2007
2. Which of the following source of Human capital formation exhibits high cost of living and transportation? **(CBSE Term- 1 2022)**

(a) Expenditure on Health

(b) Expenditure on Education

(c) Expenditure on Migration

(d) Expenditure on Information

3. Economic growth requires ___________.
   (A) Human capital
   (B) Physical capital
   (C) Both (a) and (b)
   (D) Neither (a) nor (b)
4. Before introducing new technology, a firm provides the basic skills to the workers regarding its usage. This is which source of human capital formation?
   (A) Study programme for adults
   (B) On the job training
   (C) Expenditure on information
   (D) Investment in education
5. The stock of skill and expertise of nation at a point of time is called:
   (A) Human capital
   (B) Human development
   (C) Human capital formation
   (D) Physical capital

6. ____________ is better indicator of development.
   (A) National output
   (B) Per capita income (monetary)
   (C) Real per capita income
   (D) National income
7. Source of Human capital formation :
   (A) Investment in education
   (B) Investment in Health
   (C) Investment in on-the-job training
   (D) All of these
8. From the following which is not a source of human capital :
   (A) On-the job training
   (B) Migration
   (C) Investment in education
   (D) None of the above
9. Expenditure on education is __________.
   (A) Wasteful
   (B) Investment
   (C) Skill
   (D) Not required
10. Which of the following is the problem of human capital formation in India?
    (a) Brian drain
    (b) (b) Rising population
    (c) (c) Low academic standards
    (d) (d) All of these

Answer Key

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

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

Q1**. Explain how does 'Investment in human capital' contributes to growth of an economy.(CBSE 2020)**

(OR) **Examine the role of education in the economic development of a nation. (OR) "Education plays a significant role in economic development'. Discuss.**

Answer- Education is an important source of human capital formation. Investment in education stimulates economic development in the following ways:

a) Raises production- Knowledgeable and skilled workers can make better use of resources at their disposal. It will increase production in the economy. An educated and trained person can apply his knowledge and skill at farm, factory and office to increase production.
b) Raises efficiency and productivity- Investment in education increases efficiency and productivity, and hence yields higher income to the people.
c) Brings positive changes in outlook and attitudes. - Knowledgeable and skilled people have modem outlook and attitudes, that they make rational choice in respect of places and jobs.
d) Improves quality of life. Education improves quality of life as it provides better job, high income and improves health. It results in better standard of living.

Q2. Bring out the need for on-the-job-training for a Employee. (CBSE 2020)

Answer. Technical training adds to the capacity of the people to produce more. Firms given on- the-job- training to enhance the productive skills of the workers so as to enable them to absorb new technologies and modem ideas. It can be given in two forms:

(i) The workers may be trained in the firm itself under the assistance of a senior and experienced worker.

(ii) The workers may be sent off the firm campus for the training.

Q3. **'Economists believe that India should spend at least 6% of its GDP on Education for achieving desired results'**

Justify the statement with valid reason.**(CBSE 2020)**

Ans Education Commission (1964–66) had recommended that at least 6 per cent of GDP be spent on education so as to make a noticeable rate of growth in educational achievements. Compared to this desired level of education expenditure of around 6 per cent of GDP, the current level of a little over 4 per cent has been quite inadequate. In principle, a goal of 6 per cent needs to be reached—this has been accepted as a must for the coming years.

In 2009, the Government of India enacted the Right of Children to Free and Compulsory Education Act to make free education a fundamental right of all children in the age group of 6-14 years.

Government of India has also started levying a 2 per cent 'education cess' on all Union taxes. The revenues from education cess has been earmarked for spending on elementary education.

In addition to this, the government sanctions a large outlay for the promotion of higher education and new loan schemes for students to pursue higher education. Thus, our performance in the area of education has been far from satisfactory.

Q4. **What do you mean by human capital formation? What are the sources of human capital formation?**

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

Sources of Human Capital Formation:

1) **Expenditure on education:** It is one of the most important sources of human capital Formation. Proper utility of man power depends on the system of education, training and experience of the people. Spending on education by individuals is similar to spending on capital goods by companies with the objective of increasing future profits once a period of time. This increase the income of the people and their standard of living. Investment in education is not only highly productive but also it is yields increasing return and accelerates economic growth of all the resources.

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

(a) Preventive medicine known as vaccination

(b) Curative medicines, i.e., medical intervention during the time of illness

(c) Social medicine I.e spread of health literacy.

(d) Provision of clean drinking water and good sanitation is very important for improvement of health. Health expenditure directly increases the physical capacity of human being and it raises the supply of healthy labour force.

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

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

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

Q5. Explain the main challenges of education in India.

Ans. **EDUCATION STILLS A CHALLENGING PROPOSITION (THE CHALLENGE OF EDUCATION)**:- 1**. Education for All Still a Distant Dream** (Large number of illiterate's) :- Though literacy rates for both — adults as well as youth — have increased, still the absolute number of illiterates in India 2. **Gender Equity — Better than Before: -** The differences in literacy rates between males and females are narrowing signifying a positive development in gender equity; still the need to promote education for women in India is imminent for various reasons such as improving economic independence and social status of women and also because women education makes a favourable impact on fertility rate and health care of women and children. **3.Higher Education — a Few Takers**: - The Indian education pyramid is steep, indicating lesser and lesser number of people reaching the higher education level. Moreover, the level of unemployment among educated youth is the highest. As per NSSO data,in the year 2011-12, the rate of unemployment among youth males who studied graduation and above in rural areas was 19 per cent. Their urban counterparts had relatively less level of unemployment at 16 per cent. 4.Inadequate vocational education 5.Privatisation of education 6.Low access level of rural areas 7.Low standard of education 8.Insufficient government expenditure.

Unit-7 RURAL DEVELOPMENT

WHAT IS RURAL DEVELOPMENT?- Rural development means an 'action- plan' for the social and economic growth of the rural areas.

KEY ISSUES OF RURAL DEVELOPMENT (areas which are challenging for development in rural India) - 1.Development of human resources2.Land reform 3.Development of infrastructure 4.Alleviation of poverty 5.Development of the productive resources of each locality

CREDIT AND MARKETING IN RURAL AREAS (Action- plan): The action plan focus on the lingering and emerging challenges in rural areas**. Lingering challenges:-1.** Challenge of rural credit 2. Challenge of rural marketing. **Emerging challenges:** 1.Exploring options of the sustainable livelihood, other than farming 2.The challenge of organic farming.

CREDIT IN RURAL AREAS: - As the time gestation between crop sowing and realisation of income after production is quite long, farmers borrow from various sources to meet their initial investment on seeds, fertilisers, implements and other family expenses of marriage, death, religious ceremonies etc.

Credit needs of the farmers can be classified in to two categories: 1. **According to time**: - 1.Short-term credit (Period ranging between 6 to 12 month) 2.Medium-term credit (Period ranging between 12 months to 5 years) 3. Long-term credit (Period ranging between 5 years to 20 years) 2.**According to Purpose**: - 1.Productive purpose2.Unproductive purpose.

SOURCES OF RURAL CREDIT:- 1.Non-institutional sources 2.Institutional sources. **Non-institutional sources (Informal sector)**:- At the time of independence(i) Landlords (ii) Moneylenders (iii) Traders and commission agents exploited small and marginal farmers and landless labourers by lending to them on high interest rates and by manipulating the accounts to keep them in a debt-trap.

Institutional sources (Formal sector) :- A major change occurred after 1969 when India adopted social banking and multi-agency approach to adequately meet the needs of rural credit. Later, the National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 as an apex body to coordinate the activities of all institutions involved in the rural financing system. The institutional structure of rural banking today consists of a set of multi-agency institutions, namely:-

1. Cooperative credit societies (These contribute nearly 16-17 % of rural credit flow) 2.Regional rural bank and Land development bank 3.Commercial bank credit 4.**National bank for agricultural and rural development (NABARD)** :- National Bank for Agriculture and Rural Development (NABARD) was setup in 1982 as an apex body to coordinate the activities of all institutions involved in the ruralfinancing system. (i) To serve as an apex funding agency for the institutions providing credit in rural areas (ii) To provide assistance to the non-farm sectors (iii) To control and evaluate the projects financed by it (Iv) To take appropriate to improve the credit delivery system. 5.**Self-Help Groups :-** Self help groups have emerged to fill the gap in the formal credit system because the formal credit delivery mechanism has not only proven inadequate but has also not been fully integrated into the overall rural social and community development. By March end 2003, more than seven lakh SHGs had reportedly been credit linked. Such credit provisions are generally referred to as micro-credit programmes. SHGs have helped in the empowerment of women. It is alleged that the borrowings are mainly confined to consumption purposes.

Rural Banking — a Critical Appraisal :- Rapid expansion of the banking system had a positive effect on rural farm and non-farm output, income and employment, especially after the green revolution — it helped farmers to avail services and credit facilities and a variety of loans for meeting their production needs**.** Famines became events of the past; we have now achieved food security which is reflected in the abundant buffer stocks of grains.

Problems of rural credit in India: - 1.Lack of adequate institutional finance 2.Lack of coordination 3.Long paper work 4.Unequal distribution 5.Problem of over dues.

Suggestions for improving rural credit in India :- 1.Expansion of institutional credit facilities 2.Credit on easy terms 3.Co-ordination among financial institutions 4.Timely and adequate availability of credit.

AGRICULTURAL MARKET SYSTEM:- Agricultural marketing is a process that involves the:- (i)assembling,(ii) storage, (iii) processing, (iv)transportation, (v)packaging, (vi)grading and (vii) distribution of different agricultural commodities across the country.

MEASURES INITIATED BY GOVERNMENT TO IMPROVE AGRICULTURAL MARKETING SYSTEM:- Prior to independence, farmers, while selling their produce to traders, suffered from faulty weighing and manipulation of accounts. Farmers who did not have the required information on prices prevailing inmarkets were often forced to sell at low prices. They also did not have proper storage facilities to keep back their produce for selling later at a better price. Measures that were initiated to improve the marketing aspect.1.**Regulated markets**:- The first step was regulation of markets to create orderly and transparent marketing conditions. By and large, this policy benefited farmers as well as consumers. **2. Provision of physical infrastructure facilities: -** like roads, railways, warehouses, godowns, cold storages and processing units. The current infrastructure facilities are quite inadequate to meet the growing demand and need to be improved**. 3. Cooperative marketing**: - Cooperative marketing, in realising fair prices for farmers' products, is the third aspect of government initiative. The success of milk cooperatives in transforming the social and economic landscape of Gujarat and some other parts of the country is testimony to the role of cooperatives. **4. policy instruments** :- like (i) assurance of Minimum support prices (MSP) for agricultural products (ii) Maintenance of buffer stocks of wheat and rice by Food Corporation of India and (iii) Distribution of food grains and sugar through PDS. These instruments are aimed at protecting the income of the farmers and providing foodgrains at a subsidised rate to the Poor.

Emerging Alternate Marketing Channels :- It has been realised that if farmers directly sell their produce toconsumers, it increases their incomes. Some examples of these channels are Apni Mandi (Punjab, Haryana and Rajasthan); Hadaspar Mandi (Pune); Rythu Bazars (vegetable and fruit markets in Andhra Pradesh and Telangana) and Uzhavar Sandies (farmers markets in Tamil Nadu).

PROBLEMS OF AGRICULATURAL MARKETING IN INDIA: - 1 Predominance of private traders 2.Lack of transport facilities 3.Lack of regulated markets 4.Lack of infrastructural facilities 5.Lack of organization

Government measures for improving agricultural marketing:- 1. Providing market information 2.Minimum support price 3.Warehousing facilities 4.Regulated market 5.Co-operative marketing.

DIVERSIFICATION INTO PRODUCTIVE ACTIVITIES:- Diversification includes two aspects –(I) Change (Diversification) in cropping pattern:- Shift from single cropping system to multi-cropping system. and (II) Diversification of production activity :- Relates to a shift of workforce from agriculture to other allied activities (livestock, poultry, fisheries etc.) and non-agriculture sector.

Importance of agricultural diversification:- (i) Increase in income (ii) Stability Farm income (iii) Beneficial to small and marginal farmer

IMPORTANT NON-FARM AREAS OF EMPLOYMENT (AGRICULTURE DIVERSIFICATIONIN INDIA)

1. Animal husbandry: -Livestock production provides increased stability in income, food security, transport, fuel and nutrition for the family without disrupting other food-producing activities. Today, Livestock sector provide employment to over 70 million small and marginal farmers including landless labourers.

Milk production in the country has increased by more than eight times between 1951-2014. Thiscan be attributed mainly to the successful implementation of

"**OPERATION FLOOD**"

2.Fisheries:- Presently, fish production from inland sources contributes about 64 per cent to the total value of fish production and the balance 36 per cent comes from the marine sector (sea and oceans). Today total fish production accounts for 0.8 per cent of the total GDP. India is the second largest producer of fish in the world.

3. **Horticulture**: - India has adopted growing of diverse horticultural crops such as fruits, vegetables, tuber crops, flowers, medicinal and aromatic plants, spices and plantation crops. Horticulture sector contributes nearly one-third of the value of agriculture output and **six per**

cent of Gross Domestic Product of India. India has emerged as a world leader in producing a variety of fruits like mangoes, bananas, coconuts, cashew nuts and a number of spices and is **the second largest producer of fruits and vegetables**. During the period 1991-2003 investment in horticulture sector it has been term as a "**GOLDEN REVOLUTION**"

4. Other Alternate Livelihood Options:- The IT has revolutionised many sectors in the Indian economy. There is broad consensus that IT can play a critical role in achieving sustainable development and food security in the twenty-first century. Governments can predict areas of food insecurity and vulnerability using appropriate information and software tools so that action can be taken to prevent or reduce the likelihood of an emergency. It also has potential of employment generation in rural areas. Experiments with IT and its application to rural development are carried out in different parts of India.

ORGANIC FARMING AND SUSTAINABLE DEVELOPMENT

'Organic farming is a system of farming that relies upon the use of organic inputs for cultivation'. In recent years, awareness of the harmful effect of chemical-based fertilisers and pesticides on our health is on a rise. Conventional agriculture relies heavily on chemical fertilisers and toxic pesticides etc.

WHY ORGANIC FARMING? (BENEFITS OF ORGANIC FARMING:- Organic agriculture offers a means to substitute costlier agricultural inputs (such as HYV seeds, chemical fertilisers, pesticides etc.) with locally produced organic inputs that are cheaper and thereby generate good returns on investment. Organic agriculture also generates income through exports as the demand for organically grown crops is on a rise.

1.Discards the use of non-renewable resources 2.Environment- friendly 3.Sustains soil fertility 4.Healthier and tastier food 5.Inexpensive technology for the small and marginal farmer's 6.Economical 7.Maintains natural eco-system 8.Source of employment. CHALLENGES BEFORE ORGANIC FARMING:- 1.Need popularization 2.Less output 3.Inadequate infrastructure and marketing 4.Limited choice in production.

RURAL DEVELOPMENT PROGRAMMES :- 1. The Poor Women's Bank: - 'Kudumbashree' is a women-oriented community-based poverty reduction programme being implemented in Kerala. In 1995, a thrift and credit society was started as a small savings bank for poor women with the objective to encourage savings. The thrift and credit society mobilised Rs 1 crore as thrift savings. These societies have been acclaimed as the largest informal banks in Asia in terms of participation and savings mobilised.

2. Tamil Nadu Women in Agriculture (TANWA) :- Tamil Nadu Women in Agriculture (TANWA) is a project initiated in Tamil Nadu to train women in latest agricultural techniques. It induces women to actively participate in raising agricultural productivity and family income. At a Farm Women's Group in Thiruchirapalli, run by Anthoniammal, trained women are successfully making and selling vermicompost and earning money from this venture. Many other Farm Women's Groups are creating savings in their group by functioning like mini banks through a micro-credit system.

3.Pradhan Mantri Gram Sinchai Yojana:- Launched: July 01,2015. Main objective: Irrigating the field of every farmer "**PER DROP MORE CROP**"

4.Pradhan Mantri Fasal Bima yojana :- Launched: January 2016. **Main objectives:** (i) To provide insurance cover and financial support to the farmer (ii) To stabilize the income of farmer to ensure their continuance in farming. **5. Bharat Nirman Programme :- BNP was** launched for the development of rural infrastructure in 2005 . Targets: Irrigation, Rural roads, Rural housing, Rural water supply **6.Mission for integrated development of horticulture (MIDH):** MIDH was launched during the 12th plan with effect from 2014-15. **7.Soil Health Card Scheme:-** Soil Health Card Scheme was launched on February 19,2015. Under this scheme , SHC was to be provided to all farmer in the country . SHC will enable them to improving social health and its fertility.

ASSERTION & REASON

Alternatives:

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

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

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

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

Q1 .ASSERTION (A): Rural development is an action plan for complete and comprehensive development of rural area.

REASON (R): Its required to increase the standard of living of Indians as two third of the population of India lives in rural areas.

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

Q2. ASSERTION (A): Rapid expansion of the banking system had a positive effect on rural farm and non-farm output, income and employment.

REASON (R): The institutional credit arrangement continues to be inadequate as they have failed to cover the entire rural farmers of the country.

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

Q3.ASSERTION (A): National Bank for Agriculture and Rural Development (NABARD) was set up in 1980.

REASON (R): National Bank for Agriculture and Rural Development (NABARD) is an apex body to coordinate the activities of all institutions involved in the rural financing system.

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

Q4.ASSERTION (A): India has adopted growing of diverse horticultural crops such as fruits, vegetables, tuber crops, flowers, medicinal and aromatic plants, spices and plantation crops.

REASON (R): Investment in horticulture sector it has been term as a OPERATION FLOOD Agriculture Marketing' needs urgent attention in the scheme of securing rapid rural development.

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

Q5. ASSERTION (A): Rural development means an 'action- plan' for the social and economic growth of the rural areas.

REASONI (R): The action plan focus on the lingering and emerging challenges in rural areas**.**

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

SHORT AND LONG ANSWER TYPE QUESTION

Q1.**State any three challenges facing rural development in India. (CBSE 2020)**

Ans. The principal three challenges facing rural development in India are :

1. **Challenge of rural marketing:** Agricultural marketing is a process that involves the:- (i)assembling,(ii) storage, (iii) processing, (iv)transportation, (v)packaging, (vi)grading and (vii) distribution of different agricultural commodities across the country.
2. **Challenge of rural credit : -** As the time gestation between crop sowing and realization of income after production is quite long, farmers borrow from various sources to meet their initial investment on seeds, fertilisers, implements and other family expenses of marriage, death, religious ceremonies etc.
3. **Challenge of Non- farm area or agricultural diversification**

Q2. State the meaning of 'Agriculture Marketing'. (CBSE 2020)

Ans. Agriculture marketing may be defined as the Agricultural marketing is a process that involves the:- (i)assembling,(ii) storage, (iii) processing, (iv)transportation, (v)packaging, (vi)grading and (vii) distribution of different agricultural commodities across the country.

Q3. Distinguish between Green Revolution and Golden Revolution. (CBSE 2020)

Ans. Green Revolution: Green Revolution refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice. The spread of green revolution technology enabled India to achieve self-sufficiency in food grains;

Golden Revolution: Golden Revolution refers to the large increase in production of horticultural crops such as fruits, vegetables, tuber crops, flowers, medicinal and aromatic plants, spices and plantation crops. Investment in horticulture sector it has been term as a "**GOLDEN REVOLUTION**"

Q4. **Explain three non-farm areas of employment for rural population**.

Ans- Census reports reveal that around 42 million people work for the non-farming activities in rural India. This census constitutes nearly about 47% of the total nonfarm employment of rural areas. Manufacturing, social or personal service and most importantly retail trade are the three major own account establishments of non-farming activities. The percentage of the three however varied to a large extent.

(i) So while the category of retail and manufacturing, example pickles industry, farm-based manufacturing and handicraft etc.

(ii) The social and personal service shopkeeper etc..

(iii) Employment in the non-farming sectors like mining, quarrying, electricity, gas and water supply, or other activities like financial intermediation was found to be near to negative. However, trade, transport, manufacturing, business services or construction- such non-farming activity percentage was seen to be much higher.

Q5 . **Why is it important to develop proper storage facilities in rural areas?**

Ans- Farmers are forced to sell their crops at very low prices to traders because of the fear of it getting damaged from fire, rodents or pests due to lack of proper storage.

(i) It is essential to develop proper storage facilities in rural areas so that farmers are not compelled to sell their produce immediately after the harvesting of crops and can wait for a better price for their produce in the market.

(ii) This enhances the bargaining power of the farmers.

(iii) The government and cooperative societies have taken some important steps towards the provision of such facilities.

(iv) As a result, many god owns and warehouses have been built at the village and mandi-town level.

Q6. **Explain the term Rural Credit. What are the sources of rural credit.**

Ans- Rural Credit means provision of loans specially in production for agriculture and non-agricultural sectors.

Credit facilities in the rural areas have contributed a large increase in agricultural productivity and employment facilities in non-agricultural sectors.

The loans have provided in rural areas to the frames in order to purchase machineries agricultural implements etc.

Sources of Rural Credit:

Rural Credit availability can be broadly classified into two categories:

(i) **Non-institution Sources**: - These are the traditional sources of agricultural credit in India. They include money lenders, relatives, traders, commission agents and land lords.

(ii) **Institutional Sources**:- They are cooperative credit, land development banks, commercial banks, regional rural banks, govt., national bank for agricultural and rural development(NBNR) and also self-help groups.

Q7. **What is Agricultural Marketing System? What are the measures can be followed to**

Improve Agricultural Marketing?

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

Measures to Improve Agricultural Marketing: After Independent govt. has adopted various measures to improve of the system of agricultural marketing in the country. It has brought about following measures in order to regulate the markets:-

(i) **Regulated Markets:-** The first measure was regulation of markets, to create orderly and transparent marketing condition. This is organized in order to protect farmers from malpractices of sellers and brokers.

(ii) **Cooperative Marketing:-**Marketive societies are formed by farmers to sell the output collectively and to take advantages of collective bargaining , for obtaining a better price. Cooperatives are not functioning properly in a recent past due to inadequate coverage of farmer members and processing cooperatives and also inefficient management.

(iii) **Infrastructural facilities:-** Govt. had also provided infrastructural facilities like roads, railways, warehousing, old storage and processing units.

(iv) **Standardization and Grading:-** Grading And quality control helps farmers to get good price for quality products produced by them.

(v) **Minimum Support Price:-** To safeguard the Interest of the farmers government fixes the minimum support price for agricultural products like wheat, rice, maize, cotton, sugarcane, pulses etc. the government willingly will buy any amount of grains from the farmers at a price higher than the market price in order to help them recover their loss.

Q8. **What do you mean by Organic Farming? What are the Advantages and Disadvantages of Organic Farming?**

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

Advantages of Organic Farming :

(i) It substitutes costlier agricultural inputs such as HYV seed, Chemical fertilizers, pesticides etc. locally produced organic inputs, which are cheaper and thereby generate good returns on Investments.

(ii) It generates income through export as the demand, for organically grown crops are on the raise.

(iii) It provides healthy food as organically grown food has more nutritional value than food grown through chemical farming.

(iv) It can provide more employment opportunities in India as it requires more labourers for production than chemically produced goods.

(v) Organic food is a pesticide free and is produced in an environmentally sustainable way.

Disadvantages of Organic Farming- A Demerits or challenges before organic farming

(i) Organic farming needs to be popularized by creating awareness and willingness on the part of the farmers for adoption of new methods.

(ii) There is no proper infrastructure and marketing facilities for these products alone.

An appropriate agricultural policy should be brought in for organic farming.

(iii) The fields from organic farming are less than modern agricultural farming in the initial years. Therefore small and marginal farmers may find it difficult to adapt to large scale production.

UNIT-7 EMPLOMENT AND ENEMPLOYMENT

WORKERS AND EMPLOYMENT

UNEMPLOYMENT:-Situation when people are willing to work at the existing wage rate, and are able to work, but are not getting work.

WORKER: - All those who are engaged in economic activities, in whatever capacity — high or low, are workers (Those activities which contribute to the gross national product are called economic activities).

SELF-EMPLOYED WORKERS: - Those workers who are engaged in their own business or own profession.

HIRED WORKER: - Those workers who work for others and get wages and salaries as a reward for their services.

CASUAL WORKERS:- Casual workers are like daily wagers, not on permanent rolls of the employer, and not entitled to social security benefits.

REGULAR WORKERS:- Workers are hired on regular basis and are on permanent pay-roll of their employees and are entitled to social security benefits.

LABOR SUPPLY: - amount of labor that the workers are willing to offer corresponding to different wage rates.

LABOR FORCE:-Number of persons actually working, or willing to work at the existing wage rate.

WORK FORCE: - Number of persons actually working, and does not account for those who are willing to work.

JOBLESS GROWTH:- Jobless growth is a situation when the level of output in the economy tends to rise owing to innovative technology without any perceptible rise in the level of employment.

SIZE OF WORK FORCE IN INDIA:- 1.India has a workforce of nearly 47.3 crore of persons. 2.About 70% of the workforce of the male workers and only 30% are female workers. 3.Nearly 75% of the workforce found in rural areas and urban workforce is only 25% of the total. 4.Female workforce in rural areas is nearly 25% , while it is only 20% in urban areas

RATE OF PARTICIPATION IN INDIA (RURAL- URBAN, MALE- FEMALE RATE OF PARTICIPATION):- (i) Rate of participation for the urban areas is about 33.9 % in 2017-18 (ii) Rate of participation for the rural areas is about 35% in 2017-18 (iii) In urban areas, rate of participation is about 53% for man and 14.2% for women. (iv) In rural areas, rate of participation is about 51.7% for man and 17.5% for women.

SELF- EMPLOYMENT AND HIRED WORKERS IN INDIA:- **URBAN WORKERS:-** Hired worker 61% and self-employed 38% (2017-18). **RURAL WORKERS:-** Hired worker 42% and self-employed worker 58% (2017-18)

MALE WORKFORS:- Hired male worker 48% and self-employed 52% (2017-18). **FEMALE WORKFORS:-** Hired female worker 48% and self-employed female worker 52% (2017-18).

CAUSES OF LOWER WOMEN PARTICIPATION IN WORK: - 1.women education in India is still lagging behind implies low employment opportunities for women 2.In urban areas, most families do not like women to do work 3.Women , by and large, undertake productive work only under compulsion 4. Many activities performed by women of India are not recognized as economic activities.

EMPLOYMENT IN FIRMS, FACTORIES AND OFFICES :- In the course of economic development of a country, labour flows from agriculture and other related activities to industry and services. Generally, we divide all economic activities into eight different industrial divisions. They are (i) Agriculture (ii) Mining and Quarrying (iii) Manufacturing (iv) Electricity, Gas and Water Supply (v) Construction (vi) Trade (vii) Transport and Storage and (viii) Services.

For simplicity, all the working persons engaged in these divisions can be clubbed into three major sectors viz., (a) primary sector which includes (i) , (b) secondary sector which includes (ii), (iii), (iv) and (v) and (c) service sector which includes divisions (vi), (vii) and (viii).

DISTRIBUTION OF WORKFORCE IN DIFFERENT SECTORS (OCCUPATIONAL STRUCTURE):-Percentage distribution of our workforce across primary, secondary tertiary sectors of the economy during the year 2017-18 - (i) **Primary sector**- primary sector is the main source of employment in India, which provides employment to about 44.6% of the workforce. (ii) **Secondary sector –** In this sector provides employment only about 24.4% of workforce. (iii) **Tertiary sector**- Nearly 31.0% of the workforce are employed in the service sector. **DISTRIBUTION OF RURAL-URBAN WORKFORCE ACROSS DIFFERENT SECTORS:-** (I) About 59.8% in rural areas and 6.6% in urban workforce depends upon agriculture and allied activities (2017-18). (ii) About 20.4% rural workforce and 34.3% urban workers are working in secondary sector (2017-18). (iii) Nearly 19.8% rural workforce and 59.1% % urban workers are working in tertiary sector (2017-18). **DISTRIBUTION OF MALE-FEMALE WORKFORCE ACROSS DIFFERENT SECTORS:-** 1. Male and female workers are heavily employed in the primary sector 2. A huge percentage of female workforce is engaged in primary sector that is 57.1% and about 40.7% male are employed in that sector (2017-18). 3. About 17.7% female workforce and

26.5% male workers are working in secondary sector (2017-18) 4. Nearly 25.2% female workforce and 32.8% male workers are working in tertiary sector (2017-18).

JOBLESS GROWTH:-" Jobless growth is a situation when the level of output in the economy tends to rise owing to innovative technology without any perceptible rise in the level of employment".

(i) Jobless growth leads to chronic unemployment, even when there is a rise in GDP(ii) During the recent past, GDP of India grew positive and higher than the employment growth

Why are we relying more on technology and less on employment? :- 1.Our growth process is being increasingly hijacked by MNCs 2.MNCs achieving high growth through efficient use of technology rather than through greater use of manpower 3.Result growth is moving faster than the opportunities of employment.

CASUALISATION OF WORKFORCE:-"It is refers to a situation when the percentage of casually- hired workers in the total workforce tends to rise over time" The distribution of workforce in different status indicates that over the last four decades (1972 -2012), people have moved from self-employment and regular salaried employment to casual wage work. Yet self-employment continues to be the major employment provider. Scholars call the process of moving from self-employment and regular salaried employment to casual wage work as casualisation of workforce. **Distribution of workers by category of employment: -** 1.Self- employment 2.Regular workers 3. Casual workers

INFOALISATION OF WORKFORCE:- "Situation where percentage of workforce in the formal sector tends to decline and that in the informal sector tends to rise". Classify the workforce into two categories:

FORMAL WORKERS: - 1.Work in organized sector of the economy 2. Are entitled to social security benefits 3.Can form trade unions 4.Are protected by various labor laws.

INFORMAL WORKERS: - 1.Work in unorganized sector of the economy 2. Are not entitled to social security benefits 3.Cannot form trade unions 4.Are not protected by various labor laws.

RURAL AND URBAN UNEMPLOYMENT (NATURE OF UNEMPLOYMENT IN INDIA)

RURAL UNEMPLOYMENT: - 1.**Disguised unemployment**:- "When the number of workers engaged in a job much more than actually required" for example If three persons are required to cultivate a farm measuring one hectare but actually six persons are engaged there, then three persons are disguisedly unemployed. disguised unemployment is a feature of Indian agriculture because:- (i) On account of joint family system (ii) Per person holding size continues to shrink (iii) Lack of job opportunities outside agriculture. **2. SEASONAL UNEMPLOYMENT:-** It occurs simply because agriculture is a seasonal occupation . During the off- season, often the farm workers are out of job. They have no work to do . Workers engaged for few month in a year rest of period, they remain unemployed. There are three sources of data on unemployment (i) Reports of Census of India, (ii) National Sample Survey Organisation's (NSSO) Reports (iii) Employment Exchanges.

URBAN UNEMPLOYMENT:- **1.Industrial unemployment :-"** Industrial unemployment refers to the unemployment among the illiterates who wish to work in industries, mining, transport, trade and construction activities, but are not getting jobs because of insufficient demand for labor" . The principal causes of Industrial unemployment are :- (i) Rapid rise in population overtime (ii) Concentration of industry in the urban areas (iii) Labor- saving western Technology . **2. Educated unemployment**: - "Among the educated people which include matriculates to higher educated" educated unemployment arises due to :- (i) On account of expansion of educational institutions (ii) Education system in India is not job-oriented (iii) Increase in the size of educated labor force.

COMMON TYPES OF UNEMPLOYMENT ACROSS RURAL AND URBAN AREAS:- 1.**Open unemployment** :- "When worker is willing to work, and has the necessary ability to work, yet he does not get work"(found among agricultural and educated persons) 2.**Structural unemployment**:- **"**Structural unemployment occurs due to structural change in the economy." Structural changes are broadly of two types: (i) Changes in technology (ii) Changes in pattern of demand. 3. **under unemployment**: - "Situation in which a worker does not get a full time job". He remains unemployment for some month in a year or some hours every day Under unemployment is of two kinds: (i) Visible unemployment (ii) Invisible unemployment 4. **Frictional unemployment**:-"It occurs due to imperfections in the mobility of labor across different occupations". One wishes to move from one job to the other, but in the process of change may remain unemployed for some time. 5. **Cyclical unemployment**: - It occurs owing to cyclical fluctuations in the economy: Phases of boom, recession, depression and recovery in the market economy.

CAUSES OF UNEMPLOYMENT IN INDIA:- 1.High population growth 2.Slow economic growth 3.Joint family system 4.Agriculture is a seasonal occupation 5.Faulty education system 6.Decay of cottage and small industries 7.Limmited mobility of labor.

ECONOMIC AND SOCIAL CONSEQUENCES OF UNEMPLOYMENT

ECONOMIC CONSEQUENCES:- 1.Non-utilisation of manpower 2.Loos of output 3.Low capital formation 4. Low productivity **SOCIAL CONSEQUENCES:-** 1.Low quality of life 2.Social unrest 3.Class struggle 4.Greater inequality.

SUGGESTIONS TO SOLVE THE PROBLEM OF UNEMPLOYMENT:- 1. Increase in production 2.High rate of capital formation 3.Increase in productivity 4. Employment exchanges 5.Educational reforms 6.Help to self-employed persons 7.Technique of production 8. Importance to employment programmes .

GOVERNMENT POLICY AND PROGRAMMES:- Most poverty alleviation programmes implemented are based on the perspective of the Five Year Plans. Expanding self-employment programmes and wage employment programmes are being considered as the major ways of addressing poverty . **Self-employment programmes :-** (i)Rural Employment Generation Programme (REGP),(ii) Prime Minister's Rozgar Yojana (PMRY) and Swar na Jayanti Shahari Rozgar Yojana (SJSRY) (iii) Swarnajayanti Gram Swarozgar Yojana (SGSY) (iv) National Rural Livelihoods Mission (NRLM)**. Wage employment programmes** :- (i) Mahatma Gandhi National Rural Employment Guarantee Act 2005. (MGNREGA):- The Parliament passed a new Act to provide guaranteed wage employment to every rural household whose adult volunteer is to do unskilled manual work for a minimum of 100 days in a year. (ii) Pradhan Mantri Gram SadakYojana,(iii) Pradhan Mantri Gramodaya Yojana, (iv) Valmiki Ambedkar Awas Yojana (v) Development of small and cottage industries (vi) Minimum needs programme (vii) Twenty- point programme (viii) Micro Units Development Refinance Agency Bank (MUDRA BANK) Government has set up MUDRA Bank in April 2015.Its objective is to meet credit needs of micro enterprise and self- employed persons. Under MUDRA yojna , a micro enterprise is entitled for a loan up to Rs. 10 lakh per unit.

ASSERTION & REASON (01 Marks)

Alternatives:

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

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

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

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

Q1. **ASSERTION** (A): Percentage of Female worker is low in Urban Area.

REASON (R): In urban areas, job for women is governed by Family decisions rather than Individual Decision.

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

Q2. ASSERTION (A): Disguised unemployment is present in India.

REASON (R): Agricultural productivity at the margin is close to zero.

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

Q3.**ASSERTION (A):** Worker-population ratio of women workers in rural areas is more than the women in urban areas.

REASON (R): The number of women workers in our country are generally underestimated because many activities undertaken by them are not recognised as productive work.

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

Q4.ASSERTION (A): Labour force refers to the number of persons actually working and does not account for those who are willing to work.

REASON (R): Workforce is a measurement of actual labour force.

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

Q5.**ASSERTION (A):** Women participation in workforce is less.

REASON (R): Women education in India is still lagging behind which implies low employment opportunities for women.

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

CASE / SOURCE BASED QUESTION

Case / Source Based Question - 1: Read the following text carefully. Answer question number 1 (a) and 1 (b) on the basis of the given text common understanding :
(CBSE Term-2 2022)

Year 2020 began with the once-in-a-century pandemic, which saw the frontline workers working tirelessly to save human lives from COVID-19. The pandemic caused its ripples on the economy and on social sectors. Governments, at all levels, intervened in a timely manner to respond to the pandemic.

India has one of the lowest case fatalities rates of less than 1·5%. India has been able to save lakhs of lives through its effective policy responses. Public spending on social sector was increased in 2020 – 21 to mitigate the hardships caused by the pandemic and the loss to livelihood due to the lockdown.

The lockdown period saw the growth of the 'gig economy' and increasing 'work from home' in the organised sector. As per the Periodic Labour Force Survey (PLFS) report 2018 – 19, there was an increase in workforce totalling 48·78 crores in 2018 – 19 as compared to 47·14 crores during 2017 – 18. Out of 1·64 crores increased workforce, 1·22 crores were in rural sector and 0·42 crores in urban sector.

The female labour force participation rate increased from 17·5% in 2017 – 18 to 18·6% in 2018 – 19. The net payroll data of Employees' Provident Fund Organisation (EPFO) as on 20th December, 2020 shows a net increase of new subscribers of 78·58 lakhs in 2019 – 20 as compared to 61·1 lakhs in 2018 – 19. The PLFS report also showed improvement in 2020 – 21 (Quarter 4) when compared to 2019 – 20 (Quarter 4).

Considering the proportion of the male workforce, casual labour decreased by 1% points, while self-employed and salaried workers increased by 0·6% points and 0·4% points respectively. Similarly, in case of female workforce, self-employed increased by 2% points, regular/wage salaried workers decreased by 0·7% points and casual labour decreased by 1·4% points.

Source : Economic Survey 2020 – 21, Volume II, Chapter 10 (excerpt)

Q1(a). Analyse the nature/ distribution of Indian workforce for the fourth quarter of the year 2020-21. (2 Marks)

Ans. In the quarter of the year 2020-21, as per the given text, the total casual labour employment has decreased. Also the said period saw a growth in gigeconomy and increase in the work from home in the organized sector.

Q1 (b): State and discuss any two initiatives taken by the Government to control the adverse impacts of the pandemic. (3 Marks)

Ans. Two initiatives taken by the government to control the adverse impact of pandemic.

(i) Imposition of Lockdown to save human lives.

(ii) Increase in Public spending

(any other argument with valid explanation)

MCQ

1. Workers who are on permanent pay-roll of their employer are called:
   (A) Self- employed workers
   (B) Casual workers
   (C) Regular workers
   (D) None of the above
2. Unemployment is defined as:
   (A) The section of the population that is not capable of being employed
   (B) The section of population willing to work but unable to find employment
   (C) The section of population that is waiting to be employed
   (D) The section of population that are without the skills needed by employers
3. Data on unemployment in India can be obtained from which source?
   (A) Reports of Census of India
   (B) National sample survey organisation(NSSO)
   (C) Directorate general of employment
   (D) All the above
4. When more persons are working in a job than actually required, it is known as ________.
   (A) Disguised unemployment
   (B) Seasonal unemployment
   (C) Educated unemployment
   (D) Open unemployment
5. Those who work in their own establishment using their own resources are called _______.
   (A) Hired workers
   (B) Casual workers
   (C) Regular workers
   (D) Self-employed
6. __________ is a common form of unemployment in rural India.
   (A) Disguised unemployment
   (B) Structural unemployment
   (C) Educated unemployment
   (D) None of these
7. Unemployment common in urban areas
   (A) Seasonal unemployment
   (B) Disguised unemployment
   (C) Open unemployment
   (D) None of these
8. An establishment with four hired workers is known as _____________ sector establishment.
   (A) Formal
   (B) Informal

(C) (a) and (b)
(D) None of the above

9. Most of the unemployment in India is
(A) Voluntary
(B) Structural
(C) Frictional
(D) Technical

10. ____________ unemployment may result some workers are temporarily out of work while hanging job.
(A) Cyclical
(B) Voluntary
(C) Fictional
(D) Seasonal

11. If construction site manager hires two workers on daily wages basis, such a situation is covered under ___________________ (formal / informal) sector. **(CBSE 2020)**

Ans. informal

12. In the past few decades __________________ (primary/ secondary/ tertiary) sector has created maximum jobs opportunities in India. **(CBSE 2020)**

Ans. tertiary

13. State whether the following statement is true or false**:** **(CBSE 2020)**

'In the past few decades, primary sector has created maximum jobs in India'**.**

Ans. False

Answer Key

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

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

Q1. (a)Comment upon the informalisation of labour force in India.
(b) Define the worker- population ratio.(CBSE 2020)

Ans.(a) INFOALISATION OF WORKFORCE:- "Situation where percentage of workforce in the formal sector tends to decline and that in the informal sector tends to rise". Formal sector is the organized sector of the economy.

INFORMAL WORKERS: - 1.Work in unorganized sector of the economy 2. Are not entitled to social security benefits 3.Cannot form trade unions 4.Are not protected by various labor laws.

(b.) Worker- population ratio : Worker-population ratio is an indicator which is used for analysing the employment situation in the country.

This ratio is useful in knowing the proportion of population that is actively contributing to the production of goods and services of a country. If the ratio is higher, it means that the engagement of people is greater; if the ratio for a country is medium, or low, it means that a very high proportion of its population is not involved directly in economic activities.

Q2. Analyse the trends in sectoral distribution of workforce in India on the basis of Data: (CBSE 2020)

Trends in Employment pattern (sector- wise), 1972-2012 (in %)

Item	*1972-73*	*1983*	*1993-94*	*2011-2012*
Sector				
Primary	74.3	68.6	64	48.9
Secondary	10.9	11.5	16	24.3
Services	14.8	16.9	20	26.8
Total	**100.0**	**100.0**	**100.0**	**100.0**

Ans. As a evident the table, between period of 1972-73 to 2011-12, percentage of workforce:

Primary sector: percentage of workforce engaged in primary sector has declined from 74.3% to 48.9% .

Secondary and Service Sector: Secondary and service sectors are showing promising future for the Indian workforce. These sectors have increased from 10.9 to 24.3 per cent and 14.8 to 26.8 per cent, respectively.

Q3. Discuss briefly, why less women are found in regular salaried employment. (CBSE Term- 2 2022, CBSE 2020)

Ans: In India, lesser women are found in regular salaried employment;

(i) As such jobs require high level of skills and literacy.

(ii) Lack of mobility among women in India due to various socio- economic constraints, adds to problem.

Q4. 'Is it necessary to generate employment in the formal sector rather than in the informal sector'. Defend or refute the given statement with valid arguments. (CBSE 2020)

Answer: The formal sector not only provides employment but also several social security benefits. A worker in the formal sector gets higher salary and social security benefits. Various social security benefits that the worker can be assured of better quality of life when he becomes old or physically disabled. After the life of a worker, his family members can be assured of a decent life.

The situation is totally opposite in the informal sector where even regular salary is a dream for most of the workers.

Hence, it is necessary to generate employment in the formal sector rather than in the informal sector.

Q5. Explain why regular salaried employees are generally more in urban areas than in rural areas. (CBSE Term- 2 2022)

Ans. Regular salaried employees are more in urban as they have variety of employment opportunities due to presence of more industries and as compared to the rural areas.

Higher level of literacy and skills are required in regular salaried jobs which are available in urban areas. Moreover enterprises in urban areas require workforce on a regular basis.

Q.6.What measures/steps have been taken by the government of India in generating employment or creating opportunities for employment generation in India?

Ans. The Union and State governments have played an important role in generating

employment or creating opportunities for employment generation in India. Their efforts can be broadly categorised into two — direct and indirect.

• Direct employment generation – The government employs people in various departments for administrative purposes. It also runs industries, hotels and transport companies, and hence provides employment directly to workers.

• Indirect employment generation opportunities – When the output of goods and services from government enterprises increases, the private enterprises will also raise their output and hence increase the number of employment opportunities in the country.

For example, when a government owned steel company increases its output, it will result in direct increase in employment in that government company. Simultaneously, private companies, which purchase steel from it will also increase their output and thus employment. This is the indirect generation of employment opportunities by the government in the country.

Moreover, many programmes that the governments implement, aimed at alleviating poverty, are through employment generation. They are also known as employment generation programmes. For example, Mahatma Gandhi National Rural Employment Guarantee Act 2005,
Pradhan Mantri Jan-Dhan Yojna 2014, Swarna Jayanti Gram Swarozgar Yojna (SGSY),
Pradhan Mantri Gramodaya Yojna, Valmiki Ambedkar Awas Yojna etc. All these programmes aimed at providing not only employment but also services in areas such as primary health, primary education, rural drinking water, nutrition, assistance for people to buy income and employment generating assets, construction of houses and sanitation, assistance for constructing houses, etc.

Q 7: Why are less women found in regular salaried employment? .

Answer: There are many reasons for low representation of women in regular salaried
employment.

i) Division of work: Deep rooted social beliefs are the main reason which segregate women's work as homemakers who are not supposed to venture out of their homes. Even though women are educated they prefer work at fewer wage.

ii) Low female literacy: Female literacy level is still below the male literacy level which means a less number of women are properly qualified and skilled to get a regular salaried job.

iii) Patriarchal System of Society: On the other hand, a male is expected to earn a livelihood so that he can support his family and thus a boy is mentally conditioned since his childhood to do something. A regular salaried job usually ensures a better social recognition and hence most of the unemployed first try to land a regular salaried job.

Q8. Concept of Labour force and workforce .

Labour force includes all those who are working and those not working but is seeking work. In other words it includes employed and unemployed workers.

The labour force includes all persons in the age group between 15 to 60 years who are employed or available to work.

Workforce includes all those who are employed at a particular point of time. In other words this refers to those persons who are working.

It includes all persons who are engaged in economy activities so,

Labour force = Workforce + Unemployed persons

Workforce = No. of persons working

Q8. What are the measures that can be taken to eradicate the unemployment problem.

Measures that can be taken to eradicate the problem of unemployment are

(i) By controlling population ii) Creating alternative source of employment for agricultural workers / farmers iii) Development of villages and small scale industries iv)By introducing social reforms and bringing modernisation v) Employment oriented education and planning vi) Developing institutional credit facilities vi) Increase in investment and capital formation

ENVIRONMENTAND SUSTAINABLE ECONOMIC DEVELOPMENT

ENVIRONMENT — DEFINITION:-' It includes all the biotic and abiotic factors that influence each Other'. While all living elements — the birds, animals and plants, forests, fisheries etc.— are biotic elements, abiotic elements include air, water, land etc. Rocks and sunlight are all examples of abiotic elements of the environment.

Function (Importance/ Significance) of environment:- 1.Environment offers resource for production:- resources here include both renewable and non-renewable resources. Renewable resources are those which can be used without the possibility of the resource becoming depleted or exhausted. That is, a continuous supply of the resource remains available. 2.Enhances quality of life 3. Environment sustains life by providing genetic and bio diversity 4.Environment assimilates waste:- This implies that the resource extraction is not above the rate of regeneration of the resource and the wastes generated are within the assimilating capacity of the environment.

Problems related to Environment: - 1.Problem of pollution 2.Problem of excessive exploitation of natural resources. **1. Problem of pollution:-** The intensive and extensive extraction of both renewable and non-renewable resources has exhausted some of these vital resources and we are compelled to spend huge amounts on technology and research to explore new resources. Added to these are the health costs of degraded environmental quality — decline in air and water quality (seventy per cent of water in India is polluted)have resulted in increased incidence of respiratory and water-borne diseases. Hence the expenditure on health is also rising. To make matters worse, global environmental issues such as global warming and ozone depletion also contribute to increased financial commitments for the government. Thus, it is clear that the opportunity costs of negative environmental impacts are high**.** (i) Air pollution (ii) Water pollution (iii) Noise pollution

2.Excessive exploitation of natural resources:- **Deforestation :- "**Deforestation refers to the removal or destruction of the forest cover of an area". **Causes of Deforestation** :-(i) It is caused by growing demand for wood other forest products by the industries (ii)Increasing pressure of population (iii) Industrialization leads to urbanization and urbanization and urbanization induces deforestation (iv) Construction of dams is another factor for deforestation.

Degradation of land: - "Degradation of land means loss of fertility of land". Degradation of land is caused by the following factors. (i)Soil erosion (ii) Water logging (iii) Deforestation (iv) Excessive use of fertilizers.

Cause of environmental degradation:- 1.Population explosion 2.Poverty 3.Increasing urbanization 4.Rapid industrialization 5.Increasing use of insecticides, pesticides and chemical fertilizers 6.Disregard to the civic norms 7.Multiplicity of transport vehicles 8. Improper crop rotation 9.Poverty of the agriculture-dependent people.

State of environment in India:- India supports approximately 17 per cent of the world's human and 20 per cent of livestock population on a mere 2.5 per cent of the world's geographical area. The high density of population and livestock and country as a result of which the country loses 0.8 million tonnes of nitrogen, 1.8 million tonnes of phosphorus and 26.3 million tones of potassium every year. Our challenging issues are : (i) Land degradation (ii)Loss of biodiversity (iii) Air pollution an urban areas (iv) Management of fresh water and (v) Management of solid waste .

Principal factors contributing to land degradation in India :- (i) Loss of vegetation due to deforestation (ii) Multiple cropping along with subsistence farming by small and marginal holders (iii)Excessive use of chemical fertilizers, insecticides and pesticides (iv) Low water-table (v) Soil erosion occurring due to floods, strong winds and other factor .

HOW TO SAVE ENVIRONMENT? :- 1.Social awareness 2.Population control 3.Afforestation campaign 4.Enforcement of environment conservation Act 5.Water management 6.Management of solid waste 7.Control over industrial and agricultural pollution 8.Improvement in housing **.**

Government measures for environment protection:- 1.The environment protection Act.19862.The Forests (protection) Act 1980 3. Pollution control boards 4. Clean development mechanism 5.National Green Tribunal Act, 2010.

Global warming:- "Global warming refers to the phenomenon of sustained increase in global temperature due to environmental pollution and deforestation." **Causes of Global warming:-** (i) Burning of coal and petroleum products are sources of carbon dioxide (ii) Deforestation (increases the amount of carbon dioxide) Release of methane gas from animal waste .

SUSTAINABLE DEVELOPMENT:- "Sustainable development is that process of economic development which aims at raising the quality of life of both present and future generations, without harming natural resources and environment". The concept of sustainable development was emphasised by the United Nations Conference on Environment and Development (UNCED), which defined it as: 'Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs'.

The Brundtland Commission emphasises on protecting the future generation. This is in line with the argument of the environmentalists who emphasise that we have a moral obligation to hand over the planet earth in good order to the future generation; that is, the present generation should bequeath a better environment to the future generation.

The present generation can promote development that enhances the natural and built environment in ways that are compatible with (i) conservation of natural assets (ii) preservation of the regenerative capacity of the world's natural ecological system (iii) avoiding the imposition of added costs or risks on future generations. **Features of sustainable development** :- 1.Increase in per capita income and welfare over time 2.Rational use of natural resources 3.Check on pollution 4.Ability of future generations to fulfill their need.

STRATEGIES FOR SUSTAINABLE DEVELOPMENT:- 1.**Use of Non-conventional Sources of Energy**: India, as you know, is hugely dependent on thermal and hydro power plants to meet its power needs. Both of these have adverse environmental impacts. Wind power and solar rays are good examples of conventional but cleaner and greener energy sources but are not yet been explored on a large scale due to lack of technological devices. **2. LPG, Gobar Gas in Rural Areas:** Households in rural areas generally use wood, dung cake or other biomass as fuel. This practice has several adverse implications like deforestation, reduction in green cover, wastage of cattle dung and air pollution. To rectify the situation, subsidised LPG is being provided. In addition, gobar gas plants are being provided through easy loans and subsidy. As far as liquefied petroleum gas (LPG) is concerned, it is a clean fuel — it reduces household pollution to a large extent. Also, energy wastage is minimised. **3. CNG in Urban Areas:-** In Delhi, the use of Compressed Natural Gas (CNG) as fuel in public transport system has significantly lowered air pollution and the air has become cleaner in the last few years. **4. Solar Power through Photovoltaic Cells:** India is naturally endowed with a large quantity of solar energy in the form of sunlight. Plants use solar energy to perform photosynthesis. Now, with the

help of photovoltaic cells, solar energy can be converted into electricity**. 5. Mini-hydel Plants:** In mountainous regions, streams can be found almost everywhere. A large percentage of such streams are perennial. Mini-hydel plants use the energy of such streams to move small turbines**.** 6.Input efficient technology 7.Integrated rural development 8.Use of environment friendly sources of energy 9.Manage the wastes 10.Shift to organic farming 11.Public means of transport 12.Awareness to conserve natural assets for inter-generational equity.

ASSERTION & REASON

Alternatives:

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

Q1.ASSERTION (A): The environment fails to perform its vital function of life sustenance and this results in an environmental crisis.
REASON (R): Many resources have become extinct and the wastes generated are beyond the absorptive capacity of environment.
Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

Q2.ASSERTION (A): The environment has an important function of supplying resources, both renewable and non-renewable resources.
REASON (R): The environment is able to perform its functions as long as the demand on these functions is within its carrying capacity.
Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

Q3.ASSERTION (A): Sustainable development is the development that meets the need of present generation without compromising the ability of the future generations to meet their own needs.

REASON (R): Conservation and promotion of natural resources.

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

Q4.ASSERTION (A): Environmental degradation owes a great deal to supply demand reversal of resources over time.

REASONING (R): Global warming is wake up call to save environment.

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

Q5. ASSERTION (A): Deforestation is rising at such a rapid scale that it has totally disturbed the ecological balance of the country.

REASON (R): Deforestation is one of the major reason for soil erosion.

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

MCQ & OTHER 01 Marks Question

1. Which of the following is not used as a strayegy for the sustainable development? **(CBSE 2020)**
   (a) Use of bio-gas
   (b) Use of solar power
   (c) Use of thermal power
   (d) Use of hydel power
   Ans. (c)Use of thermal power
2. Central Pollution Control Board has identified __________________ categories of large and medium industries as polluting industries. **(CBSE 2020)**

   (a) 15 (b) 17
   (c) 19 (d) 13

   Ans. (b) 17

3. Environmental includes:
   (a) Biotic factors (b) Abiotic factors
   (c). Both (a) and (b) (d) None of the above
   Ans. (c). Both (a) and (b)

4. Which of the following statement is correct?
   (A) Global warming is entirely a natural phenomenon
   (B) Global warming is simply an another term used for green house effect
   (C) Global warming is the rise in average temperature at the earth's surface
   (D) Global warming is caused by ozone depletion
   Ans. **(c) Global warming is the rise in average temperature at the earth's surface**

5. In 1997, a UN conference on climate change was held in :
   (a) Japan (b) India

(c). Germany (d) China

Ans. **Japan**

6. Which are the catch phases in the following UNCED definition of Sustainable Development:

   "Development that meet the need of the present generation without compromising the ability of the future generation to meet their own needs."

   (a) Need
   (b) Future generation
   (c) Need and present generation
   (d) Need and future generation

   Ans. (d) Need and future generation

7. Brundtland Commission in 1987 defined sustainable development as:

   (A) A type to development which put the interests of developing countries ahead of the interests of the rich nations
   (B) Development which meets the needs of present generation without compromising the ability of future generation to meet their own needs
   (C) Development that protects the future generation even at the expense of present generation
   (D) None of the above

   Ans (b) **Development which meets the needs of present generation without compromising the ability of future generation to meet their own needs**

8. The ability of the environment to absorb degradation is:

   (a) Carrying capacity
   (b) Absorptive capacity
   (c) (a) and (b)
   (d) None of the above

   Ans. (b) **Absorptive capacity**

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

Q1. State and discuss any two environmental concerns faced by India in the present times (CBSE 2020)

Ans. Two environmental concerns faced by India in the present times :

1. Problem of pollution:- The intensive and extensive extraction of both renewable and non-renewable resources has exhausted some of these vital resources and we are compelled to spend huge amounts on technology and research to explore new resources. Added to these are the health costs of degraded environmental quality — decline in air and water quality (seventy per cent of water in India is polluted)have resulted in increased incidence of respiratory and water-borne diseases. Hence the expenditure on health is also rising. To make matters worse, global environmental issues such as globalwarming and ozone depletion also contribute to increased financial commitments for the government. Thus, it is clear that the opportunity costs of negative environmental impacts are high**.** (i) Air pollution (ii) Water pollution (iii) Noise pollution

2.Excessive exploitation of natural resources:- **Deforestation :- "**Deforestation refers to the removal or destruction of the forest cover of an area". **Causes of Deforestation** :-(i) It is caused by growing demand for wood other forest products by the industries (ii)Increasing pressure of population (iii) Industrialization leads to urbanization and urbanization and urbanization induces deforestation (iv) Construction of dams is another factor for deforestation.

Q2. What is meant by sustainable development? Discuss briefly any two strategies of sustainable development.(CBSE 2020) .

Ans. SUSTAINABLE DEVELOPMENT:- "Sustainable development is that process of economic development which aims at raising the quality of life of both present and future generations, without harming natural resources and environment". The concept of sustainable development was emphasised by the United Nations Conference on Environment and Development (UNCED), which defined it as: 'Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs'.

STRATEGIES FOR SUSTAINABLE DEVELOPMENT:- 1.**Use of Non-conventional Sources of Energy**: India, as you know, is hugely dependent on thermal and hydro power plants to meet its power needs. Both of these have adverse environmental impacts.

2. LPG, Gobar Gas in Rural Areas: Households in rural areas generally use wood, dung cake or other biomass as fuel. This practice has several adverse implications like deforestation, reduction in green cover, wastage of cattle dung and air pollution. To rectify the situation, subsidised LPG is being provided. In addition, gobar gas plants are being provided through easy loans and subsidy. As far as liquefied petroleum gas (LPG) is concerned, it is a clean fuel — it reduces household pollution to a large extent. Also, energy wastage is minimised.

3. CNG in Urban Areas:- In Delhi, the use of Compressed Natural Gas (CNG) as fuel in public transport system has significantly lowered air pollution and the air has become cleaner in the last few years.

4. Solar Power through Photovoltaic Cells: India is naturally endowed with a large quantity of solar energy in the form of sunlight. Plants use solar energy to perform photosynthesis. Now, with the help of photovoltaic cells, solar energy can be converted into electricity**.**

5. Mini-hydel Plants: In mountainous regions, streams can be found almost everywhere. A large percentage of such streams are perennial. Mini-hydel plants use the energy of such streams to move small turbines**.(Any Two Strategies)**

Q3. Define the following : (CBSE 2020)

(a) Carrying capacity of environment.

(b) Bio-composting

(c) Sustainable development

(d) Absorptive capacity of the environment.

Ans (a) Carrying capacity of environment: This implies that the resource extraction is not above the rate of regeneration of the resource and the wastes generated are within the assimilating capacity of the environment.

When this is not so, the environment fails to perform its third and vital function of life sustenance and this results in an environmental crisis.

(b) **Bio-composting :** In our quest to increase agricultural production during the last five decades or so, we almost totally neglected the use of compost and completely switched over to chemical fertilisers. The result is that large tracts of productive land have been adversely affected, water bodies including ground water system have suffered due to chemical contamination and demand for irrigation has been going up year after year.

Farmers, in large numbers all over the country, have again started using compost made from organic wastes of different types. In certain parts of the country, cattle are maintained only because they produce dung which is an important fertiliser and soil conditioner.

Earthworms can convert organic matter into compost faster than the normal composting process.

(c) Sustainable development: "Sustainable development is that process of economic development which aims at raising the quality of life of both present and future generations, without harming natural resources and environment". The concept of sustainable development was emphasised by the United Nations Conference on Environment and Development (UNCED), which defined it as: 'Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs'.

(d) **Absorptive capacity of the environment:** Absorptive capacity means the ability of the environment to absorb degradation. The result — we are today at the threshold of environmental crisis.

The past development has polluted and dried up rivers and other aquifers making water an economic good. Besides, the intensive and extensive extraction of both renewable and non-renewable vital resources and we are compelled to spend huge amounts on technology and research to explore new resources.

Q4. State any two harmful effects of using chemical fertilizers.(CBSE Term-2 2022 -2 Marks)

Ans. Two harmful effects of using chemical fertilizers are:

(i) Contamination of soil

(ii) Contamination of ground water.

Q5. Define the following a) Carrying capacity b) Absorptive capacity c) Global warming d) Ozone depletion.

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

b) Absorptive capacity means the ability of the environment to absorb degradation**.**

c) The Global warming is due to increase in the Green-house gas concentrations, like water vapour, carbon-dioxide, methane and ozone in the atmosphere.

d) It refers to destruction of ozone in the ozone layer, due to presence of chlorine from manmade chlorofluorocarbons and other forces

Q6. What are the causes of environment degradation.

Causes of Environment degradation are:-

i) Population explosion ii) Widespread poverty iii) Increasing urbanisation iv) Excess use of insecticides and pesticides v) Rapid industrialisation vi) Disregard for civic norms

Q7. Identify four factors contributing to land degradation in India.

Ans. **<u>Principal factors contributing to land degradation in India</u>** :-

(i) Loss of vegetation due to deforestation

(ii) Multiple cropping along with subsistence farming by small and marginal

(iii) (iii)Excessive use of chemical fertilizers, insecticides and pesticides

(iv) Low water- table

(v) (v) Soil erosion occurring due to floods, strong winds and other factor .

Q8. What is environment? Explain significance of environment.

Ans. **-'** It includes all the biotic and abiotic factors that influence each Other'. While all living elements — the birds, animals and plants, forests, fisheries etc.— are biotic elements, abiotic elements include air, water, land etc. Rocks and sunlight are all examples of abiotic elements of the environment.

Function (Importance/ Significance) of environment:- 1.Environment offers resource for production:- resources here include both renewable and non-renewable resources. Renewable resources are those which can be used without the possibility of the resource becoming depleted or exhausted. That is, a continuous supply of the resource remains available.

2.Enhances quality of life

3. Environment sustains life by providing genetic and bio diversity

4.Environment assimilates waste:- This implies that the resource extraction is not above the rate of regeneration of the resource and the wastes generated are within the assimilating capacity of the environment.

(UNIT-8) DEVELOPMENT EXPERIENCE OF INDIA:

INTRODUCTION

A COMPARISON WITH NEIGHBOURS

Development Strategies of India, Pakistan and China:- Similarities: 1.All the three nation have started towards their development path at the same time. 2. India and Pakistan became independent nations in 1947 and Republic of China wad established in 1949. 3.All these nations started their planning in similar ways 4.India commenced its five year plans in 1951, China started its plans in 1953 and Pakistan in 1956. 5. China introduced economic reform since 1978, India 1991 and Pakistan from the beginning of 1988,.

SAARC:- The South Asian Association for Regional Cooperation Was establish on December 08, 1985 (8 countries of south)

They are forming regional and global economic groupings such as the **SAARC**(Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) **ASEAN(** Association of Southeast Asian Nation- founded on 08/1967 – Indonesia, Singapore, Malaysia ,Philippines , Thailand- Brunei, Cambodia, Laos, Myanmar, Vietnam, Timor-leste), **G-20**, **BRICS**(Brazil, Russia, India, China, South Africa) etc.

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

Great Leap Forward (GLF 1958) campaign of China:- 1.GLF was started in 1958 with a view to propelling the pace of economic and industrial development 2. Which aimed at Country's industrialization and agriculture on a large scale 3.Chaina resorted to "**Commune System of Production**" Under which people cultivated land collectively 4.Mao (Chinese communist revolutionary) believed that both had to grow to allow to allow the other to grow Mao introduced the Great Proletarian Cultural Revolution (1966–76) under which students and professionals were sent to work and learn from the countryside. 5. It focused on widespread industrialization of the economy 6.People to set-up household industry in their backyard.

One Child policy in China:- OCP adopted by China in 1979 has been very successfully pursued . Consequently,1. Growth rate of population has reduced to nearly half, from 1.33 per cent in 1979 to 0.47 per cent in recent past 2. With a check on population growth, China focus on raising the quality of life .

DEVELOPMENT EXPERIENCE – A COMPARATIVE STUDY

(1) GDP Growth :- Growth story of China :- (i)In 2017, GDP in China was estimated to be 12.40 trillion

US Dollars (ii) China was achieved the distinction of 2nd largest economy in the world (iii) China achieved a breakthrough in GDP growth in early 1980's it was from 4% per annum to 10% per annum due to :- (a) Shift from a centrally planned economy to a market economy (b) Focus on export-related domestic production (c) Great leap forward(GLF) campaign (d) Influx of GDP (e) Availability of cheap labor force . (iv) quantum jump in FDI was achieved through :- (a)China established SEZ (special economic zones) (b) 100% FDI (c) Increase domestic investment through GLF (v) Largest exporter in the global market .

Reasons for recent past GDP growth in China has slowed down: - (a) Slowdown in the global economy (b) Growth of domestic demand of China is Slowdown (c)Corruption and economic crimes have tended to rise over time (d)Chinese government is battling with the problem of environmental degradation.

Growth story of India:- (i) In 2017, GDP of India was estimated to be 2.43 trillion US Dollars (ii) India was achieved the distinction of 5th largest economy in the world (iii)The GDP growth in India showed a substantial rise only after 1991, the year when new economic policy was launched, The basic components of NEP are :(a) A massive shift towards privatization (b) A transformation towards liberalization (c) Greater reliance on export promotion rather than import substitution (d) Greater reliance on FDI rather than domestic investment (iv) The period 1991-2017, GDP growth rate of India increased to around 7% per annum. **Reasons for recent past GDP growth in India has slowed down: -** (a)High rate of inflation (b)Corruption and economic crimes have tended to rise over time Policy (c) paralysis of the government, owing to political instability (d) Drought of FDI, owing to poor credit rating of Indian economy.

Pakistan: That Pakistan adopted various economic policies and these many Similarities with India. Pakistan also follows the mixed economy model with co-existence of public and private sectors.

Growth story of Pakistan:- (i) In the late 1950s and 1960s,Pakistan introduced a variety of regulated policy framework (for import substitution-based industrialisation).(ii) In the 1970s, nationalisation of capital goods industries took place. (III) Pakistan then shifted its policy orientation in the late 1970s and 1980s when the major thrust areas were denationalization and encouragement of private sector. (IV) In 1988, reforms were initiated in the country. (V) In 2017, GDP of Pakistan was estimated to be 27.1 billion US Dollars (VI) Pakistan achieved a breakthrough in GDP growth in the mid-80's it was as a consequence of economic reforms, focusing on FDI.

Reasons for economic outlook in Pakistan turned to disappointing:- (a)Pakistan has been gripped by the war of terror (b) Corruption and political instability are the other factors **.**

Conclusion:- (i) China has outpaced both India and Pakistan with regard to GDP (ii) India has performed better than Pakistan (iii) The relative success of China is credited to political stability in China.

(2) DEMOGRAPHIC INDICATORS:- If we look at the global population, out of every six persons living in this world, one is an Indian and another a Chinese. We shall compare some demographic indicators of India, China and Pakistan.

Table shows (NCERT e-Book 2022-23) :-

Select Demographic Indicators, 2017-18

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

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

<u>(i) Size of population</u> :- (a) the population growth as being the highest in Pakistan, followed by India and China. (b)India and China together are a habitat for 38% of the world's population (c) China with nearly 1393 million people (in 2017-18) is a habitat for nearly 20% of world population (d) India with nearly 1352 million people (in 2017-18) is a habitat for nearly 18% of world population(e) Scholars point out the one-child norm introduced in China in the late 1970s as the major reason for low population growth.

(ii) Growth rate of population: -Annual growth rate of population in 2017-18 India 1.03, Pakistan 2.05 and China 0.46 %, population size in India may soon exceed in China. (**iii) Density of population: -** It is estimated to be 148 persons per square kilometer in China, 275 persons per square kilometer in Pakistan, 455 persons per square kilometer in India. (**iv) Sex Ratio:-** It is estimated to be 924 per thousand in India, 949 per thousand in China and 943 per thousand in Pakistan. **(v) Urbanisation** :- In India, 34 % of population is urbanized compared with 37 % in Pakistan and 59% in China.

<u>(3)SECTORAL DISTRIBUTION OF OUTPUT (GROSS DOMESTIC PRODUCT AND SECTORS)</u>:-

Observations of the sectoral distribution of output and employment in these nations:-

<u>Table shows (NCERT e- Book 2022-23)</u>

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

Sector	Contribution to GVA			Distribution of Workforce		
	India	China	Pakistan	India	China	Pakistan
Agriculture	16	7	24	43	26	41
Industry	30	41	19	25	28	24
Services	54	52	57	32	46	35
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: *Human Development Report 2019 : Key Indicators of Asia and Pacific 2019.*

1. In both India and Pakistan, the contribution of agriculture to GVA (GDP) was 16 and 24 per cent, respectively, but the proportion of workforce that works in this sector is more in India. In Pakistan, about 41 per cent of people work in agriculture, whereas, in India, it is 43 per cent.
2. The sectoral share of output and employment also shows that in all three economies, the

   industry and service sectors have less proportion of workforce but contribute more in terms of output.
3. In China, manufacturing and service sectors contribute the highest to GVA (GDP) at 41 and 52 per cent, respectively whereas in India and Pakistan, it is the service sector which contributes the highest by more than 50 per cent of GDP.

4. The contribution of industries to GVA (GDP) is at 30 per cent in India and 19 per cent in Pakistan.

(4) INDICATORS OF HUMAN DEVELOPMENT: - Important indicators of human development are as : (a)Life expectancy -higher the better (b)Adult literacy rate - higher the better (c)Percentage of population below poverty line – lower the better (d)Infant mortality rate - lower the better (e)Maternal mortality rate - lower the better (f) Percentage of population having access to improved sanitation - higher the better (g) Percentage of population having access to improved water sources - higher the better(h) Per capita GDP - higher the better. Based on indicators, a composite index is constructed, called Human Development Index – Higher value of HDI points to a higher rank and higher level of growth and development for a country.

Table shows (NCERT e-Book 2022-23)

Some Selected Indicators of Human Development, 2017-2019

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

Note: * *for the year 2011; for the years 2015.*
Sources: *Human Development Report 2019 and 2020 and World Development Indicators (www.worldbank.org); Key indicators for Asia and the Pacific 2019. Asian Development Bank (ADB).*

China is moving ahead of India and Pakistan. This is true for many indicators —

1. income indicator such as GDP per capita, or proportion of population below poverty line or health Indicators such as mortality rates, access to sanitation, literacy, life expectancy or malnourishment.
2. Pakistan is ahead of India in reducing proportion of people below the poverty line and also its performance in sanitation.
3. Maternal mortality: In China, for one lakh births, only 29 women die whereas in India and Pakistan, about 133 and 140 women die respectively.
4. The proportion of people below the international poverty rate of $ 3.20 a day, India has the largest share of poor among the three countries.
5. Surprisingly all the three countries report providing improved drinking water sources for most of its population.
6. Higher HDI ranking of China has performed better than India and Pakistan .HDI rank 2019-20 in China was 87 ranks, India was – 130rank and Pakistan was 154 ranks in the world.

DEVELOPMENT STRATEGIES — AN APPRAISAL

COMMON SUCCESS STORY OF INDIA AND PAKISTAN:- (i) Both India and Pakistan have succeeded in more than doubling their per capita incomes (ii)Food production has successfully kept pace with the rise in population (iii)Food self- sufficiency has been accompanied with improved nutritional status (iv) A well-developed modern sector (v) Absolute poverty has been reduced.

COMMON FAILURES STORY OF INDIA AND PAKISTAN:- (i) The relatively inward-looking economic policies (ii) The mind-set of the politicians and bureaucrats has not shown a progressive change (iii) Fiscal management is grossly disappointing (iv) Large proportion of tax revenue is spent to meet defense expenditures (v)Deficient urban service (water, electricity and transport) (vi) A wide lag between the formulation of policies on the one hand and their implementation.

Areas where India has an edge over Pakistan:- (i) In the area of skilled manpower ,research and development institutions, India is better placed than Pakistan (ii) Human capital formation (iii) India has shown a remarkable breakthrough in the export of software (iv) India also has a better record of investment in education (v) Owing to rapid decline in population growth rate (fertility rate)(vi) Issues of health facilities in general India better than Pakistan .

Areas where Pakistan has an edge over India: - (i) Pakistan has achieved better results with regards to migration of workforce from agriculture to industry (ii) Pakistan growth strategy has a better than Pakistan (iii)External trade has expanded much faster in Pakistan than India (iv) Pakistan has achieved better results as regards access to improved water resources.

Comparison Between Indian Economy and Pakistan's Economy: - (i) Both the countries have mixed economy (ii) Economic reforms were interdicted in 1988 in Pakistan and India introduced reforms since 1991 (iii) India is ahead of Pakistan in the areas of telecommunication, information, technology, human capital formation (iv) Pakistan is ahead of India in the areas of urbanization and sanitation facilities.

CHINA'S EDGE OVER INDIA:- We know that reforms were initiated in China in 1978.

(i)The Chinese reform process began more comprehensively during the 80s (ii)Global exposure of the economy has far more wider in China than in India , Thus :- (a) china was liberal in allowing FDI in retail (b) China allowed forging investors 100% equity investment (c)Establishing SEZ (iv) China has emerged as the 2nd largest economy in the world (v) Chinese agriculture is a commune system (collective cultivation) of farming .

CONCLUSION:- India, China and Pakistan Till the late 1970s, all of them were maintaining the same level of low development.

India : (i) India, with democratic institutions, performed moderately, but a majority of its people still depend on agriculture. (ii) Infrastructure is lacking in many parts of the country.

(iii) It is yet to raise the level of living of more than one-fourth of its population that lives below the poverty line.

Pakistan:- Scholars are of the opinion that political instability, over-dependence on remittances and foreign aid along with volatile performance of agriculture sector are the reasons for the slowdown of the Pakistan economy.

China:- (i) China has used the market mechanism to 'create additional social and economic opportunities'.

(ii) By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas. (iii) Public intervention in providing social infrastructure even prior to reforms has brought about positive results in human development indicators in China.

ASSERTION & REASON

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

Q1. ASSERTION (A): Great Leap Forward (GLF) campaign initiated in China brought a new era of industrialisation and agricultural development.
REASON (R): Students and professionals were sent to countryside under the Great Leap Forward (GLF) campaign.
Ans: (c) Assertion (A) is true but Reason (R) is false.

Q2. ASSERTION (A): GLF campaign initiated in 1958 aimed at industrializing the country on a massive scale.
REASON (R): Under the commune system, people collectively cultivated lands.
Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
Q3. ASSERTION (A): India adopted a mixed economy model of growth.
REASON (R): People's Republic of China as a growth model was established in 1949.
Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
Q4. ASSERTION (A): China's rapid industrial growth can be traced back to its reforms introduced in 1978.
REASON (R): Private Sector firms and township and village enterprises (enterprises which were owned and opened and operated by local collectives) were allowed to produce goods.
Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
Q5. ASSERTION (A): India is moving ahead of both China and Pakistan.

REASON (R): India introduce economic reforms like GLF campaign of China , to industrialize the country on a massive scale.
Ans: (d) Assertion (A) and Reason (R) is false.

MCQ

Question 1: Arrange the following events in chronological order and choose the correct answer from the given alternatives: **(CBSE 2020)**

(i) Establishment of People's Republic of China

(ii) Creation of Pakistan

(iii) First Five-Year Plan of India

(iv) (iv) First Five-Year Plan of China ***Alternatives :***

(A) (i), (iv), (ii), iii)

(B) (iii), (ii), (i), iv)

(C) (ii), (i), (iii),(iv)

(D) (iv), (iii), (ii), (i)

Answer: (C) (ii), (i), (iii),(iv)

Q2. The main aim of 'Great Leap Forward' was to ensure rapid increase in (primary/secondary/tertiary) sector in China. **(CBSE 2020)**

Ans. **Secondary**

Q3- Mao initiated the 'Great Leap Forward' in the year------------ **(CBSE 2020)**

(A) 1951 (B) 1955 (C) 1958 (D) 1962

Ans. **(C) 1958**

Q4. India is not a member of which of the following regional / global economic group: **(CBSE 2020)**

(a) European Union
(b) BRICS
(c) G-20
(d) SAARC

Ans. (a) European Union

Q5. GLF with respect to the People's Republic of China is referred to as __________ (CBSE 2020)

(a) Giant Leap Forward
(b) Great Lead Forum
(c) Great Leap Forward

(d) Giant Lead Forum

Ans. (c) Great Leap Forward

Q6. Introduction of economic reforms in China took place in the year _______________ **(CBSE 2020)**

(a) 1978
(b) 1980
(c) 1988
(d) 1991

Ans. (a) 1978

Q7. The main aim of Great Leap Forward in China was to ensure rapid increase of _____________. **(CBSE 2020)**

(a) Agriculture
(b) Industries
(c) Services
(d) Export

Ans. (b) Industries

Q8. Which of the following countries adopted One Child Policy as a measure to control population? **(CBSE 2020)**

(a) India
(b) China
(c) Pakistan
(d) Russia

Ans. (b) China

Q9. Which of the following countries has the highest population growth rate? (A) India (B) China (C) Pakistan (D) All of these: Ans. **(C) Pakistan**

Q10. in which year, China announced its first five-year plan?

(a) 1950 (b) 1951
(C) 1953 (d) 954

Ans. **(C) 1953**

11) India introduced economic reforms in

(a) 1990 (b) 1991
(c) 1992 (d) 1995

Ans. **(b) 1991**

Q12. Chinas great leap forward was in the year . (a) 1953 (b) 1955
(c) 1958 (d) 199

Ans **(c) 1958**.

Q13. Commune system is the feature of

(a) India (b) China

(c) Pakistan (d) All the above

Ans. (b) **China**

Q14. Reforms in ……………… were introduced in 1978.

(a) China (b) Pakistan,

(c) India) (d) None of these

Ans. (a) **China**

Q15. Great Proletarian Cultural Revolution was introduced under the leadership of _________________.

(a) Mao Zedong
(b) J.L. Nehru
(c) M.K. Gandhi
(d) M.A. Jinnah

Ans. (a) Mao Zedong

Q16.The system in which people collectively cultivated land in China is known as. (CBSE 2020)

Answer: Commune System

Q17. Maternal mortality rate is high in ________________ **(CBSE 2020)**

Ans. Pakistan

Q18.State whether the following statement is true or false: **(CBSE 2020)**

'As per the HDI, 2018India was ranked at 180^{th} position'

Ans. False

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

Q1. Compare and analyse the given data of India and China, with valid reasons. **(CBSE 2020)**

Country	**Annual Growth Rate of population(2015)**	**Gender Ratio (Per thousand males)**
India	1.2 %	929
China	0.5%	941

Ans. Comparison and observations:

(i) Annual Growth rate of population is much lower in China (0.5%) than India (1.2%) . It possible only successful implementation of One child policy introduced in China in 1979.

(ii) Gender ratio is more skewed in India 929 per 1000 males than China 941 per 1000 males (No. of Females per Thousand Males) . This reflect a strong preference for a male child in the Indian society, it is sign of higher social backwardness in India than China.

Q2. "India, China and Pakistan have travelled more than seven decades of development path with varied result." Explain the given statement with valid argument. **(CBSE 2020)**

Ans. India, China and Pakistan have travelled more than seven decades of development path simultaneously, but the result is substantially different. China has edge both India and Pakistan, both are lagging far be India, China and Pakistan have travelled more than seven decades of development path with varied hind. The principal reasons are as under.

Great Leap Forward (GLF 1958) campaign of China:- 1.GLF was started in 1958 with a view to propelling the pace of economic and industrial development 2. Which aimed at Country's industrialization and agriculture on a large scale 3.Chaina resorted to "**Commune System of Production**"Under which people cultivated land collectively 4.Mao (Chinese communist revolutionary) believed that both had to grow to allow to allow the other to grow Mao introduced the Great Proletarian Cultural Revolution (1966–76) under which students and professionals were sent to work and learn from the countryside. 5. It focused on widespread industrialization of the economy 6.People to set-up household industry in their backyard.

2.One Child policy in China:- OCP adopted by China in 1979 has been very successfully pursued . Consequently,1. Growth rate of population has reduced to nearly half, from 1.33 per cent in 1979 to 0.47 per cent in recent past 2. With a check on population growth, China focus on raising the quality of life .

3. **Growth story of China** :- (i)In 2017, GDP in China was estimated to be 12.40 trillion.

4. Special Economic Zones (SEZ) in China

5. High Labour Supply in China.

Q3. Based on the given data, compare any two parameters for the economies of India and China. **(**2 Marks **CBSE Term-2 2022)**

S.No	Items	India	China
(i)	Human development index (HDI)	0.609	0.727
(ii)	HDI (Rank)	130	90
(iii)	Life Expectancy at birth (in years)	68.2	75.8
(iv)	GDP per capita (PPP $ US)	5,730	13,572

Source: HDI Report 2014

Ans. HDI (value) : (i) HDI is an important indicator of socio- economic development. Higher value of HDI shows higher level of growth and development of a nation. As per given report, HDI for India is 0.609 , which is lesser than that of China (0.727).

(ii) HDI Rank: HDI values are used to create ranking of different countries. China is placed at 90th position in the world whereas, India stands at 130th position. Higher rank indicates socio- economic development.

(iii) Life Expectancy at birth (in years): A country which provides better health and civic facilities secure a higher life expectancy for its citizens. China has higher life expectancy than India by an margin of approximately 8 year .

(any two)

Q4. India and Pakistan initiated their journey of development, nearly at the same time, yet the two economies have travelled different distances. Justify the given statement with the valid arguments. **(**3 Marks **CBSE Term-2 2022) (NCERT)**

Ans. It is true that India and Pakistan started their journey of development nearly at the same time, in a similar way. Bothe the nations adopted policies like economic planning, dominance of public sector, high public expenditure ect. In the post 1947 period.

There has been a decline in the annual growth of GDP in Pakistan over the yea, whereas India met with moderate increase in GDP. The probable reasons for slower growth in Pakistan are political instability, overdependence on remittance and foreign aid along with volatile performance of agricultural sector. However, India met with greater success owing to efficient economic planning and better implementation vis-à-vis Pakistan.

Q5. "India, China and Pakistan have travelled more than seven decades of developmental path with varied results." Explain the given statement with valid arguments**.**

Answers- (i) Till the late 1970s, all the three countries were maintaining the same level of low development.

(ii) Over the last three decades, the three countries have taken different levels of development

India has performed moderately over the years. Majority of its people still depend on agriculture. Infrastructure is lacking and more than one fourth of its population live below poverty line.

Pakistan performed low because of political instability, overdependence on remittances and foreign aid along with volatile performance of agriculture.

China has used the market system to succeed in raising the rate of growth in economy with stress on alleviation of poverty.

Q6. Explain the Great Leap Forward campaign of China as initiated in 1958.

Answer. Communist China or the People's Republic of China, as it is formally known, came into being in 1949. There is only one party, i.e., the Communist Party of China that holds the power there. All the sectors of economy including various enterprises and all land owned by individuals was brought under governmental control. A programme called 'The Great Leap Forward' was launched in 1958. Its aim was to industrialise the country on a large scale and in as short a time as possible. For this, people were eyeji encouraged to set up industries in their backyards. In villages, village Communes or cooperatives were set up. Communes mean collective cultivation of land. Around 26000 communes covered almost all the farm population in 1958. The Great Leap Forward programme faced many problems. These were:

(i) In the earlier phase, a severe drought occurred in China and it killed some 3 crore people.

(ii) Soviet Russia was a comrade to communist China, but they had border dispute. As a result, Russia withdrew its professionals who had been helping China in its industrialisation bid.

Q 7. Compare and contrast India and China's sectoral contribution towards GDP. What does it indicate**?**

Answer. Sectoral Distribution of Output and Employment:

(i) Agriculture Sector. China has more proportion of urban people than India. In China in the year 2009, with 54 per cent of its workforce engaged in agriculture, its contribution to GDP is 10 per cent. In India's contribution of agriculture to GDP is at 17 per cent.

(ii) Industry and Service Sectors. In both India and China, the industry and service sectors have less proportion of workforce but contribute more in terms of output. In China, manufacturing contributes the highest to GDP at 46 per cent whereas in India it is the service sector which contributes the highest. Thus, China's growth is mainly contributed by the manufacturing sector and India's growth by service sector.

Q8. Briefly explain the development strategies followed by china for its development Policies followed by china are**:-**

a) Great leap forward (GLF) – The campaign initiated in 1958 aimed at industrialising the country on a massive scale. People were encouraged to setup industries in their backyards. There were no restrictions which provide momentum for economic growth.

b) Commune system – In rural areas, people collectively cultivate lands, In 1958, there were 26,000 communes covering almost all the farm population

c) Great Proletarian Cultural Revolution (1966-1976) – Under this revolution, students and professionals were sent to work and learn from the countryside.

d) One child policy – One child policy norm introduced in china to control its population growth.

e) Setting up of Special economic zones and opening up of economy in 1978

Q9**.** Mention the salient demographic indicators of China, Pakistan and India**.**

Ans: . Following are the salient demographic indicators of China, Pakistan and India:

i) Population: The population of Pakistan is very small and accounts for roughly about one- tenth of China and India.

ii) Population Density: Though China is the largest nation geographically among the three, but its density is the lowest.
iii) Population Growth: Population growth is highest in Pakistan followed by India and China. One-child norm introduced in China in the late 1970s is the major reason for low population growth. But this measure led to a decline in the sex ratio.
iv) Sex Ratio: The sex ratio low and biased against females in all the three countries.
There is strong son-preference prevailing in all these countries as the reason.
Q10. Define the liberty indicator. Give some examples of liberty indicators**.**
Ans. Liberty Indicator may be defined as the measure of the extent of demographic participation in the social and political decision making.
Examples of liberty indicators: (i) Measures of the extent of the Constitutional Protection Rights given to the citizens; (ii) Extent of the Constitutional Protection of the independence of the Judiciary and Rule of Law.
