



KENDRIYA VIDYALAYA SANGATHAN
JAIPUR REGION

LAST MINUTE REVISION
STUDY MATERIAL

ECONOMICS
CLASS XII

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PART – A (MACRO ECONOMICS)

UNIT - 1 (NATIONAL INCOME ACCOUNTING) (10 MARKS)

Macro Economics:- Branch of economics study as a whole. Ex. National Income, AD & AS, Budget.

- **Some basic concept of Macro Economics:-**

Final Goods	Intermediate goods
Out of the boundary line of production	within the boundary line of production
Value not to be added	Value to be Added
Included in National Income	Not included in National Income
Wheat used by house hold	Wheat used by flour mill

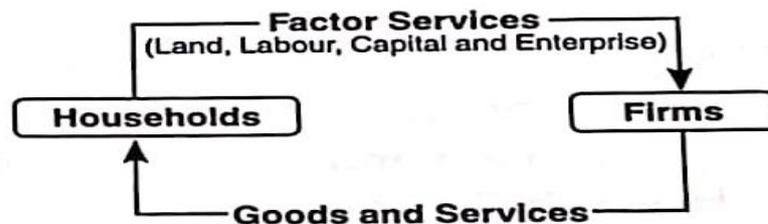
Consumption Goods or Consumer Goods:- are those goods which are used for satisfaction of human wants. Ex. Goods used by Households.

Capital Goods:- Capital goods are fixed assets of the producers. Ex. Plant and machinery.

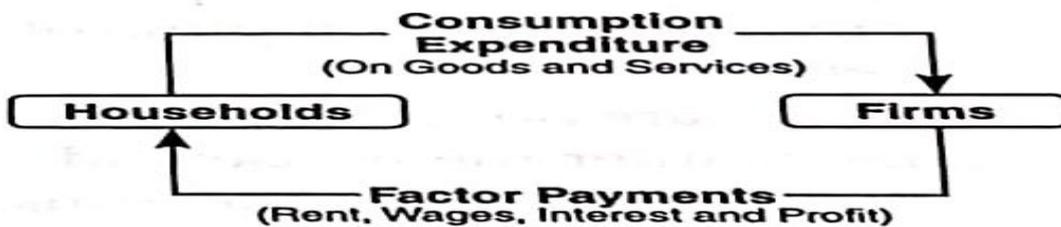
Stock	Flow
(i) It is measured at a point of time.	(i) It is measured during a period of time.
(ii) It is not time dimensional.	(ii) It is time dimensional. Ex. Per month or per year.
(iii) Stock impacts the flow.	(iii) Flow impacts the stock.
(iv) Ex. Money Supply, Capital, Wealth, Population, Saving	(iv) Ex. Income, Capital formation (Investment), Population growth, Savings

Gross Investment:- Net Investment + Depreciation (Consumption of fixed capital)

Real Flow:- Real flows refer to the flow of **goods and services** between house hold and Producer (Firm).



Money Flow:- Money flows refer to the flow of **money** between house hold and Producer (Firm).



Circular flow of income refers to the unending flow between house hold and Producer (Firm).

Expansion and Contraction of Circular Flow: Injections and Leakages

Injection: - Injection refers to the addition of money in to circular flow of Income. Ex. Investment,

Leakages: - Leakage refers to the withdrawal of money from the circular flow of Income. Ex. Savings,

National Income and Related Aggregates

- **CONCEPT OF NATIONAL INCOME**

National income (NNP_{FC}):- value of final goods and services which are produced by normal residents of a country during the period of an accounting year.

Domestic income (NDP_{FC}): value of final goods and services which are produced within the domestic territory in an accounting year.

Transfer Income: - It is the income which is received without giving any factor service. donation or charity, etc. ,

Factor Incomes: - Factor incomes are the payments made by the producing units (firms) to the households for the use of their factor services.

Normal Resident: - A normal resident is said to be one

- (i) who ordinarily resides in the country concerned, and
- (ii) whose centre of economic interest lies in that country.

Domestic territory: it includes political and geographical area and embassies of that country in rest of world.

- **AGGREGATES RELATED TO NATIONAL INCOME**

(1) **Gross Domestic Product at Market Price [GDP_{MP}]**

(2) **Net Domestic Product at Market Price [NDP_{MP}]**

- (3) Gross National Product at Market Price [GNP_{MP}]
- (4) Net National Product at Market Price [NNP_{MP}]
- (5) Gross Domestic Product at Factor Cost [GDP_{FC}]
- (6) Net Domestic Product at Factor Cost [NDP_{FC}] Or Net Domestic Income
- (7) Gross National Product at Factor Cost [GNP_{FC}]
- (8) Net National Product at Factor Cost [NNP_{FC}]

BIG	ACTION	SMALL
GROSS	(-) CFC(DEPRECIATION)	NET
NATIONAL	(-) NFIA	DOMESTIC
MARKET PRICE	(-) NET INDIRECT TAX	FACTOR COST

Nominal: - it is measured at current prices.

Real: - It is measured at constant prices or base year price

$$\text{Real GDP or GDP at Consant Prices} = \frac{\text{GDP at Current Prices}}{\text{Price Index}} \times 100$$

GDP Deflator: - It refers to the ratio between GDP at current prices and GDP at constant prices.

$$\text{GDP Deflator} = \frac{\text{GDP at Current Prices}}{\text{GDP at Constant Prices}} \times 100$$

- **Methods of Calculating National Income**

Value Added Method/Product method/Output Method: - it measures national income in terms of value addition by each producing enterprise in the economy during an accounting year.

Gross value added at mp = GDP at mp = value added

Value Added = Value of output – Intermediate consumption

Value of Output = Sales + change in Stock [$\Delta \text{ Stock} = \text{Closing Stock} - \text{Opening Stock}$]

$NNP_{fc} = \text{value added} - \text{depreciation}(cfc) + \text{NFIA} - \text{Net Indirect Tax (NIT)}$

Income Method: - According to this method, national income is estimated in terms of factor payments during an accounting year.

$NNP_{FC} = \text{Compensation of Employees} + \text{Operating Surplus} + \text{Mixed Income} + \text{NFIA}$

Compensation of Employees = Wages and Salaries in Cash + Payments in Kind + Employers' Contribution to Social Security + Pension on Retirement

Operating Surplus = Rent + Interest + Profit

(Profit = Dividends + Corporate / Cprporation Profit Tax + Undistributed Profit)

Mixed Income:- It refers to the incomes of self-employed persons.

Expenditure Method:- According to this method, National income is estimated in terms of expenditure on final goods and services produced in the economy during an accounting year.

$$GDP_{mp} = C + G + I + (X - M)$$

(1) **Private Final Consumption Expenditure (C)**

(2) **Government Final Consumption Expenditure (G) :-**

(3) **Gross Domestic Capital Formation(I) = Gross Domestic fixed Capital Formation + change in stock**

(4) **Net Exports (X - M)**

GDP and welfare

Ans. Often GDP is considered as an index of welfare of the people. Increase in GDP means increase in welfare but there are few limitations of it.

1- Distribution of GDP: if distribution of GDP is more **unequal** economic welfare will be **less** and vice versa.

2- Composition of GDP: if war goods and harmful products constitute a large share of GDP than high GDP will not show the welfare.

3- Non-Monetary Exchanges: Non monetary exchanges are quit found in rural areas but they are not included in GDP. Similarly some activities like services of housewife ,kitchen gardening leisure time activities are also not included in GDP but they increase the welfare of society.

4- Externalities: Externalities refer to **benefits or harms** of an activity caused by a firm or an individual, for which they are not paid or penalized. For example pollution(negative) and Public Garden(positive) . GDP does not consider such externalities.

UNIT – 2 (MONEY AND BANKING) (6 MARKS)

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

Money supply refers to total volume of money held by public at a particular point of time in an economy. It is a stock concept.

Measures of money supply are as follows –

$$M_1 = C + DD + OD$$

C- Currency and coins with public

DD-Demand deposits of commercial banks

OD- Other deposits with RBI

Kinds of money-

Full bodied money- Money whose face value is equal to commodity value.

Credit money- Money whose face value is more than commodity value.

Fiat money- Money issued by government like coins and currency notes.

Central Bank

Central bank is an apex body that controls, operates, regulates and directs the entire banking and monetary structure of the country.

FUNCTIONS OF CENTRAL BANK:

i) **Currency authority or bank of issue:** Central bank is a sole authority to issue currency in the country.

Advantages of sole authority of note issue:

- a) Uniformity in note circulation
- b) Better supervision and control
- c) It is easy to control credit
- d) Ensures public faith

ii) **Banker to the Government:** *As a banker* it carries out all banking business of the Government and maintains current account of the government. Accepts receipts and makes payments for the government. It also gives loans and advances to the government.

As an agent it has responsibility of managing the public debt.

As a financial advisor it advises government on economic financial and monetary matters.

iii) **Banker’s bank and supervisor:** Acts as a banker to other banks in the country—

- a) *Custodian of cash reserves:-* Commercial banks must keep a certain proportion of cash reserves with the central bank (CRR) .
- b) *Lender of last resort:* - When commercial banks fail to need their financial requirements from other sources, they approach Central Bank which gives loans and advances.
- c) *Clearing house:* - Since the Central Bank holds the cash reserves of commercial banks it is easier and more convenient to act as clearing house of commercial banks.
- d) As a supervisor it regulates and controls the commercial banks.

iv) **Controller of money supply and credit:** - Central Bank or RBI plays an important role during the times of economic fluctuations. It influences the money supply through quantitative (volume of credit) and qualitative direction of (credit) instruments.

Credit creation- Suppose there is an initial deposit of Rs. 1000 and L.R.R. is 20% i.e., the banks have to keep Rs. 200 and lend Rs. 800/-. All the transactions are routed through banks. The borrower withdraws his Rs. 800/- for making payments which are routed through banks in the form of deposits account. The Bank receives Rs. 800/- as deposit and keeps 20% of Rs.800/- i.e., Rs.160/- and lends Rs.640/- . Again the borrower uses this for payment which flows back into the banks there by Increasing the flow of deposits.

	Deposits (in Rs.)	Loans (in Rs.)	LRR(CLR+SLR) 20%
Initial Deposit	1000	800	200
Round I	800	640	160
Round II	640	-	-
-	-	-	-
Total	5000	4000	1000

Credit Multiplier = 1/LRR, As LRR increase Credit multiplier decrease

Credit Creation = Total deposit – Initial deposit
 $5000 - 1000 = 4000$

UNIT – 3 (DETERMINATION OF INCOME AND EMPLOYMENT) (12 MARKS)

Aggregate Demand- It refers to planned expenditure on final goods and services in economy in an accounting

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

1-Private Consumption Expenditure (C)

2-Investment expenditure (I)

3-Government expenditure (G)

4- Net Export (X-M)

Consumption Expenditure-

Consumption function- it refers to functional relationship between consumption and national income.

$C = f(Y)$, $C = a + bY$ Where C=Consumption a= autonomous consumption Y=National Income and f=Functional Relationship

Note-There is direct relation between Consumption and Income.

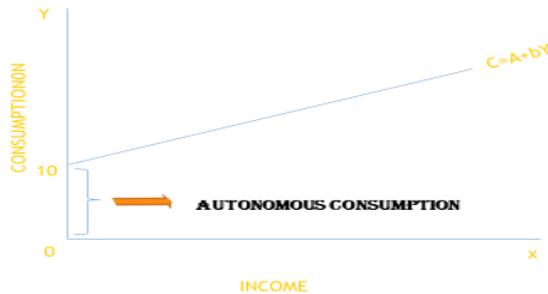
Consumption schedule

It is table showing consumption and Income.

Y (Income)	C (Consumption)	
0	10	
20	20	Breakeven point (Y=C)
40	30	
60	40	
80	50	
100	60	

DIAGRAM SHOWING CONSUMPTION CURVE

It is graphical presentation of consumption schedule which shows different levels of consumption at different levels of income.



Important Point

Consumption never becomes zero.it remains always positive because we have to consume something even at zero level of income.

Break-even point-

It refers to the point at which consumption is equal to the national income. At this point saving is zero (0).

PROPENSITY TO CONSUME

There are two aspects of propensity to consume

- 1-Average propensity to consume (APC)
- 2-Marginal propensity to consume (MPC)

APC-it is the ratio of consumption and income . $APC = C/Y$

MPC-it is the ratio of change in consumption and change in income .

$MPC = \text{Change in Consumption} / \text{Change in income}$ $MPC = \Delta C / \Delta Y$

Investment

<u>Autonomous Investment</u>	<u>Induced Investment</u>
1-not affected by change in level of income	1-affected by change in level of income
2-not induced by the level of profit	2-induced by the level of profit
3-generally done by the government	3-generally done by the private sector
<p>DIAGRAM SHOWING AUTONOMOUS INVESTMENT CURVE</p> <p>It is graphical presentation of investment at different levels of income.</p>	<p>DIAGRAM SHOWING INUCED INVESTMENT CURVE</p> <p>It is graphical presentation of different levels of investment at different levels of income.</p>

Ex-ante saving –It means what savers planned to save in an accounting year.

Ex-post saving –It means what savers actually saved in an accounting year.

Ex-ante investment-It means what investors planned to invest in an accounting year.

Ex-post investment- It means what investors actually invested in an accounting year.

Aggregate Supply-

It refers to the total value of final goods and services that all the producers are willing to supply in an economy in a given period of time. (Aggregate Supply and National income are the same thing.)

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

1-Private Consumption Expenditure (C) 2-Savings

Savings:- It refers to that portion of income which is not spent on the purchase of goods and services at the given level of income.

Saving function- it refers to functional relationship between saving and national income.

$$S = f(Y) \quad S = -a + (1-b)Y$$

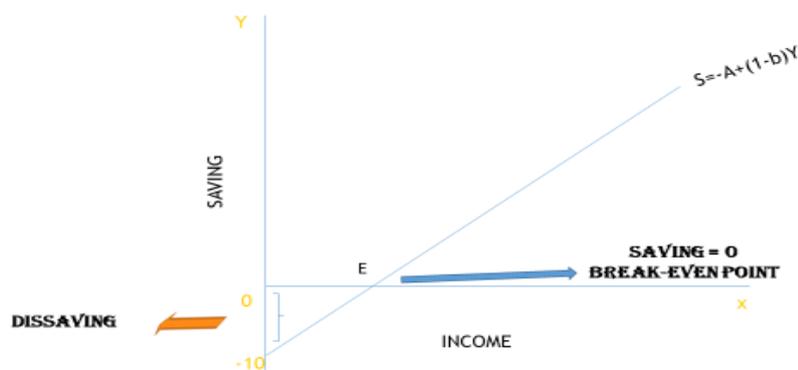
Note-There is direct relation between Saving and Income.

Saving schedule

Y (Income)	C (Consumption)
0	-10
20	0 Breakeven point (Y=C)
40	10
60	20
80	30
100	40

DIAGRAM SHOWING SAVING CURVE

It is graphical presentation of saving schedule which shows different levels of saving at different levels of income.



PROPENSITY TO SAVE

THERE ARE TWO ASPECTS OF PROPENSITY TO SAVE

1-Average propensity to save (APS)

2-Marginal propensity to save (MPS)

$$APC = S/Y$$

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

$$APC + APS = 1$$

$$MPC + MPS = 1$$

There are two approaches for the determination of equilibrium level of income and output

1) AD=AS Approach 2) S=I Approach

I - Aggregate Demand and Aggregate Supply Approach (AD=AS Approach)

According to this approach the equilibrium level of the economy is determined when aggregate demand is equal to the aggregate supply. AD=AS

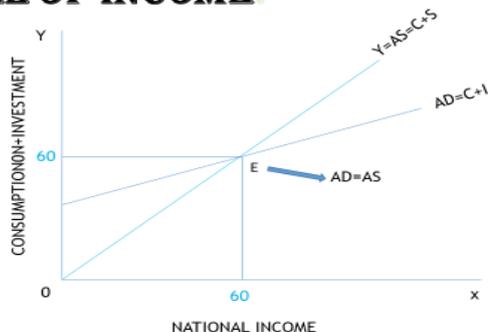
It can be explained with the help of the schedule and diagram.

Schedule showing determination of equilibrium level of income.

Y	C	S	I	AD = C+I	AS = Y=C+S
0	10	-10	20	30	0
20	20	0	20	40	20
40	30	10	20	50	40
60	40	20	20	60	60
80	50	30	20	70	80
100	60	40	20	80	100

Diagram showing determination of equilibrium level of income

DIAGRAM SHOWING EQUILIBRIUM LEVEL OF INCOME



The above table shows the equilibrium level of income at Rs 60 because at this level of income $AD(60) = AS(60)$

II-Saving -Investment Approach

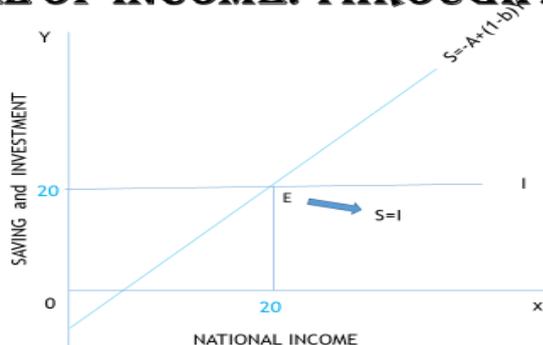
(S=I) Approach

According to this approach the equilibrium level of the economy is determined at the level when planned saving (s) is equal to the planned investment (I).

It can be explained with the help of the schedule and diagram.

Y	C	S	I	AD =C+I	AS=Y=C+S
0	10	-10	20	30	0
20	20	0	20	40	20
40	30	10	20	50	40
60	40	20	20	60	60
80	50	30	20	70	80
100	60	40	20	80	100

DIAGRAM SHOWING EQUILIBRIUM LEVEL OF INCOME THROUGH S = I



The above table and diagram shows the equilibrium level of income at Rs 60 because at this level SAVING (20) is equals to INVESTMENT(20) .

Meaning of Investment Multiplier

Investment multiplier is a ratio between change in income and change in investment.

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

Relation between MPC and Multiplier $K = \frac{1}{1-MPC}$ and $K = \frac{1}{MPS}$

There is direct or positive relation between MPC and investment multiplier.

It means if MPC increases than K will also increase and if MPC decreases than K will also decreases

If the value of MPC is minimum i.e. 0 than K will also minimum i.e. 1

If the value of MPC is max. i.e. 1 than K will also max. i.e. ∞

Working of Multiplier

Investment multiplier works on the fact that the expenditure of one person is income of another person.

The working of multiplier can be explained with the help of one numerical example.

Here we assume that initially investment is increased by Rs. 100 crore and MPC is 0.5

Following table will explain the working of K

Working of investment multiplier

ROUND	CHANGE IN INVESTMENT ΔI	CHANGE IN INCOME ΔY	CHANGE IN CONSUMPTION ΔC
I	100	100	50
II		50	25

III		25	12.5
...
TOTAL		200	100

Working of investment multiplier

The table shows that as additional investment increases by Rs. 100 crore there will be change in income by Rs. 100 Crore in first round, MPC is 0.5 therefore consumption will increase by $100 \times 0.5 = 50$ crore, the remaining amount will be saved.

This increased consumption (50 crore) will increase the income by 50 crore in the second round

This process of income generation will go on and the consumption and income will increase in every round till total income increase by Rs. 200 crore as MPC is 0.5

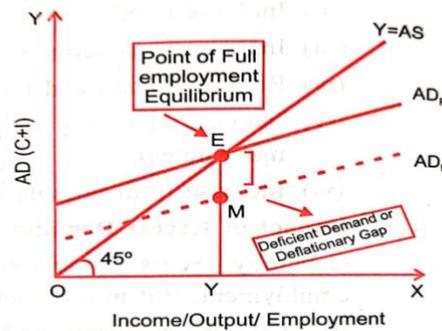
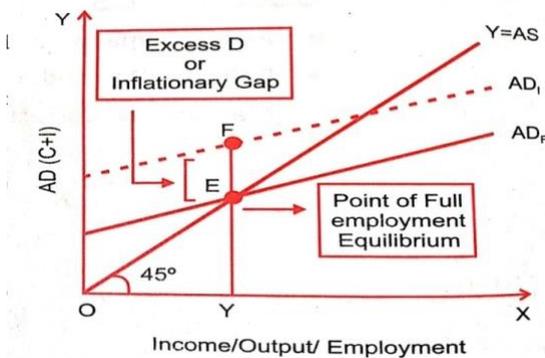
Full Employment:- Refers to a situation in which all those people, who are willing and able to work at the existing wage rate, get work without any undue difficulty.

Involuntary Unemployment:- Refers to a situation in which all those people, who are willing and able to work at the existing wage rate, do not get work.

EXCESS DEMAND AND DEFICIENT DEMAND

EXCESS DEMAND : It refers to the situation when aggregate demand (AD) is in excess of Aggregate supply(AS) corresponding to full employment level in the economy.

- It creates the situation of inflationary Gap
- Inflationary Gap refers to the difference between Actual AD and required AD at full employment level.



Impact of Excess Demand:

- (i) No change in output
- (ii) General price level continuously rise(Wage price spiral).

Deficient Demand:- It refers to the situation when aggregate demand (AD) is less than Aggregate supply corresponding to full employment level in the economy.

- It creates the situation of Deflationary Gap. Deflationary Gap refers to the difference between required AD at full employment and Real AD.

Impact of deficient Demand:

- (i) Increase in employment, output and income.
- (ii) General price level is low(low level equilibrium trap).

Measures to Correct or Control Excess Demand and Deficient Demand

Monetary Measures:-

It is a policy of central bank of a country to control money supply and credit in the economy. These tools are of two types

A. Quantitative measures: It regulate the overall level of credit in the economy

- 1. Bank Rate:** - it is a interest rate on which central bank give loan to commercial banks.
- 2. Repo rate** - it is a interest rate on which central bank give loan to commercial banks for short period.
- 3. Reverse repo rate** The rate of interest on which the central bank take loan from commercial banks for a short duration.
- 4. Cash Reserve Ratio (CRR):-** It refers to the minimum percentage of securities to be kept by commercial banks with central bank.
- 5. Statutory Liquidity Ratio (SLR):** It refers to minimum percentage of securities which commercial banks required to maintain with themselves in cash form.
- 6. Open market operation:** It refers to the purchase and sale of govt. securities and bonds in the open market by the central bank.

Policy	Excess Demand/ Inflationary Gap	Deficient Demand /Deflationary Gap
Monetary policy /Measures		
Bank Rate	Increase ↑	Decrease ↓
Repo Rate	Increase ↑	Decrease ↓
Reverse Repo Rate	Increase ↑	Decrease ↓

CRR	Increase ↑	Decrease ↓
SLR	Increase ↑	Decrease ↓
Open market operation	RBI purchase Govt. Securities	RBI sell Govt. Securities
Fiscal Measures/ Policy		
Public expenditure	Decrease ↓	Increase ↑
Tax	Decrease ↓	Increase ↑

* if any monetary measures of above table increase, than loan availability of commercial banks will decrease, money supply will decrease and AD reduce. And Vice Versa.

* if any fiscal measures of above table increase, than income will decrease and AD will decrease. And vice versa.

B. Qualitative Measures: The aim of these measures is controlling specific type of credit. These are also known as selective or directive measures of credit control.

1. **Minimum margin requirement:** Margin is the difference between market value of the security and the amount of loan offered.

During **excess demand it is increased**, than now bank will give less loan. During deficient demand it is decreased, now bank will give more loans. In such way the money supply will increase and AD may increase.

UNIT – 4 (GOVERNMENT BUDGET) (6 MARKS)

Budget:- Govt. Budget is the financial statement of estimated receipts and expenditure of the government for next financial year.

Objective of Budget:-

1. **Redistribution of Income and Wealth:** -. Gov. tries to reduce inequalities by imposing taxes on rich people and spending more on the welfare of the poor.

2. **Reallocation of Resources:** - Govt. uses budgetary policy to allocate resources in the manner such that there is a balance between the goals of profit maximization and social welfare. Gov. can influence allocation of resources through:-

(i) **Tax concession or subsidies:** To encourage investment Gov. can give tax concession subsidies to the producer like to solar energy and impose heavy tax on production of liquor, tobacco.

(ii) **Directly producing goods and services:** if private sector does not take interest, gov can directly undertake the production. Like govt. school

3. **Economic Stability:-** Government Budget is a tool to prevent economy from the inflation or deflation and to maintain economic stability.

4. **Managing Public Enterprises:-** There are large number of public sector undertakings in the economy. These are established for social welfare of the public.

5. **Economic Growth:-** Government makes various provisions in the budget to raise overall rate of saving and investment for economic growth

Revenue Receipts (RR):-	Capital Receipts
Those monetary receipts of Govt. which neither create a liability to the govt. ,nor cause any reduction in the assets of Govt.	Those monetary receipts which either create liability for the govt. or cause reduction in the assets of the government.
Example/components: - Taxes, Fees, License and Permit, Escheat	Borrowings ,Recovery of Loans and Advances

Revenue Expenditure (RE)	Capital Expenditure(CE)
Those monetary expenditures of Govt. which neither reduce a liability to the govt. ,nor creates any assets for the govt.	Those monetary expenditures of Govt. which reduce a liability to the govt.or creates any assets for the govt.
Example/components: - salaries and wages of govt. employees, expenditure on administration defence	Expenditure on Construction of school building, hospital, road ,dam

1. **Tax:** - Tax is a compulsory payment to govt. without expectation of direct benefit to the tax payers. There are mainly two type of taxes

Direct Tax	Indirect tax
These taxes are imposed on income and wealth. it cannot be transferred	These taxes are imposed on Goods and services. it can be transferred
Its burden can not be transferred	Its burden can be transferred
Example: income tax, corporate tax, wealth tax	Excise duty, custom duty, VAT, entertainment tax

2. **Non- Tax Revenue:-** Sources other than taxes

(i) Fees, License and permit, Fines and Penalties, Escheats: It refers to claim of government on the property of a person who dies without leaving behind any legal heir or a will. Gifts and Grants, Interest from state gov.etc., profits and dividend from Public enterprises and Gov departmental enterprises like rail. Examples: - Salaries, pension, interest payment, subsidy grants to state govt. etc.

Budget Deficit = Total Expenditure - Total Receipts

Revenue Deficit:- Excess of revenue expenditure over revenue receipts during a financial year.

RD = Revenue Expenditure(RE) - Revenue Receipts(RR)

Fiscal Deficit : Excess of Total Expenditure over Total Receipts other than Borrowings

FD = TE- TR (other than borrowings) FD = Total Borrowings

Primary Deficit : - Fiscal Deficit – Interest Payments

FOREIGN EXCHANGE RATE

Meaning of Foreign Exchange: The currency of foreign countries are called Foreign Exchange

Foreign Exchange Rate: The rate at which the currency of one country is exchanged with the currency of other country. Example: \$1 = Rs. 50

Foreign Exchange Market:

Foreign Exchange Market is the market where national currencies are traded for one another

Types of Foreign Exchange Rate:

(a) **Fixed Exchange Rate :**

- Under this system the exchange rate is officially declared by the government and remain fixed.

(b) **Flexible Exchange Rate:**

It is a system in which foreign exchange rate is determined by the market forces of demand and supply of foreign exchange. It is also called Floating Exchange Rate

(c) **Managed Floating:** It is a system in which the exchange rate is determined by the demand for and supply of foreign exchange, with help of monetary authority(RBI), In case of extreme appreciation and depreciation

Sources of demand for foreign exchange

- To purchase goods and services from foreign countries
- To purchase financial assets in foreign countries
- To send gifts and grants abroad

Sources for supply of foreign exchange

- Foreigners purchasing domestic country's goods and services through exports
- Remittances by non-residents living in foreign countries
- Investment made by foreign residents in domestic countries

Difference between Devaluation and Revaluation of currency

Basis	Devaluation	Revaluation
Meaning	Devaluation is a system in which value of domestic currency is decreased by the govt. /monetary authority	Revaluation is a system in which value of domestic currency is increased by the govt. /monetary authority
Value of domestic currency	Decreased	Increased
Exchange Rate	Increased	Decreased
Example	Exchange rate was \$1 = Rs.50 ,devalued to \$1 = Rs.100	Exchange rate was \$1 = Rs.100 revalued to \$1 = Rs.50
Impact on domestic imports and exports	Imports decreased and exports increased	Imports decreased and exports increased
Purpose	To correct BOP deficits	To correct BOP surpluses

Difference between Depreciation and Appreciation of currency

Basis	Depreciation	Appreciation
Meaning	Depreciation is a system in which value of domestic currency is decreased due to market forces i.e. demand for and supply of FE	Appreciation is a system in which value of domestic currency is increased due to market forces i.e. demand for and supply of FE
Value of domestic currency	Decreased	Increased
Exchange Rate	Increased	Decreased
Example	Exchange rate was \$1 = Rs.50 ,devalued to \$1 = Rs.100	Exchange rate was \$1 = Rs.100 revalued to \$1 = Rs.50
Impact on domestic imports and exports	Imports decreased and exports increased	Imports decreased and exports increased

UNIT – 5 (BALANCE OF PAYMENTS) (6 MARKS)

The BOP of a country is a systematic record of all economic transactions of a country with the rest of the world in a given period of time.

Balance of Trade (BoT)

It refers to the difference between exports and imports of visible items or Goods. It can be negative if imports are more than exports

$$\text{BoT} = \text{Exports of Visible Item} - \text{Imports of visible items.}$$

Components of BoP

A balance of Payments account broadly comprises two accounts:

Current Account : It records transactions relating to 1. Export and Import of Visible Item (Goods),
2. Export and Import of Invisible Items (Services), 3. Unilateral Transfer

Capital Account :- it records all such transactions between resident of country and rest of the world which cause change in the asset or liability status of the residents of country or it's Govt

Components of Capital Accounts

1. Foreign Investment a). Foreign Direct Investment, b). Portfolio Investment
2. Loans and Borrowings, a). Commercial Borrowing b). External Assistance Borrowing
3. Banking Capital Transactions

Autonomous Items:	Accommodating Items:
This take place due to some economic motive such as profit maximization.	This take place for maintain the balance in BOP
It includes both current and capital accounts	It includes only capital account.
These are called above the line items	These are called below the line items

PART – B (INDIAN ECONOMIC DEVELOPMENT)

UNIT – 6 (DEVELOPMENT EXPERIENCE 1947-90 AND ECONOMIC REFORMS SINCE 1991)

(12 MARKS)

INDIAN ECONOMY ON THE EVE OF INDEPENDANCE

- Sincere attempt to estimate India's national income and per capita income was made by experts like Dada Bhai Naoroji, William Digby, Findlay Shirras, VKRV Rao and R C Desai.

1. Agriculture sector on the Eve of Independence -

Causes of stagnation of agricultural sector -

a. Permanent settlement or Zamindari system,

Under this profits of agriculture sector went to the zamindars in the form of LAGAAN (Rent) . Zamindar's interest was only to collect lagan.

b. Commercialisation of Agriculture – It means production of crops for sale in market rather than for self-consumption. Like jute , cotton. This resulted in shortage of food grains.

c. Low level of productivity – Low level of technology, irrigation facilities and negligible use of fertilizers resulted in low level of productivity.

2. Industrial Sector – Like agriculture, industrial sector of India could not develop.

(A) De-industrialization of Indian handicraft industry : Two-fold motive of British govt were -

- (i) Mere exporter of raw material – To get raw material from India at cheap rates to be used by upcoming modern industries in Britain.
- (ii) Importer of finished goods – To sell finished products of British industries in Indian market at high price.

(B) Decay of indigenous handicraft industries was due to-

- (i) Discriminatory Tariff Policy. (ii) Low priced machine made goods,
- (iii) Fall in encouragement to Indian handicraft.

3. Foreign Trade on the Eve of Independence

- (i) Monopoly control of Britain on foreign trade – Opening of Suez Canal in 1869 gives speed to foreign trade with Britain.
- (ii) Drain of Indian wealth – Due to excess exports of raw material from India to Britain, India has a huge export surplus which was used for - (a) Office setup by British Govt. in India;
(b) Meet expenses of war fought by British government; (c) To import invisible items.

4. Demographic conditions on the eve of Independence - First official Census of population of British India was made in 1881. 1921 is the year of great divide. Before 1921 India was in the first stage of demographic transition. The second stage of transition began after 1921.

- (i) **High birth and death rate-** Birth rate refers to number of children born per thousand in a year. Death rate refers to number of people dying per thousand persons in a year. Both birth rate and death rate were very high as 48 and 40 per thousand respectively.

- (ii) **High infant mortality rate** – It refers to infants dying before reaching one year of age per thousand live births in a year. It was 218/1000.
 - (iii) **Low life expectancy ratio** – It refers to the average number of years for which people are expected to live. It is based on the birth year, demographic factors, its age and gender. The life expectancy was 44 years at the eve of independence.
 - (iv) **Low literacy rate** – Total literacy was less than 16 percent. Female literacy was about 7 %.
- 5. Occupational structure on the eve of independence** - Occupational structure refers to distribution of working population across different industries and sectors.
- (i) **Pre-dominance of agricultural sector** – This sector accounted nearly 75% share of workforce. Service and manufacturing sector accounted for remaining 25%.
 - (ii) **Growing regional variation** – The states of Tamil Nadu, Andhra Pradesh, Maharashtra, Kerala, Karnataka and west Bengal witnessed a decline in dependency of workforce on agriculture sector.
- 6. Infrastructure on the eve of independence** -
- (i) **Railway** – Railways introduced in 1850. First train run between Mumbai to Thane in 1853. It enabled:
 - (a) People to travel long distance; and
 - (b) Fostered commercialization of Indian agriculture.
 - (ii) **Roads** – Built primarily for the purpose of mobilizing the army within the country and send raw material to the nearest port.
 - (iii) **Water and Air Transport** – This is developed but proved uneconomical and failed to compete with railways.
 - (iv) **Communication System** – Post and telegraph were developed to maintain law and order in country. First stamp was released in 1952 and first telegraph line was started in 1953.
- 7. Positive contribution of British rule** –
- (i) Self-sufficiency in food grain production,
 - (ii) Better means of transportation,
 - (iii) Check on famines,
 - (iv) Shift to monetary economy, and
 - (v) Effective administration set up.

INDIAN ECONOMY (1950-1990)

Indian Planning Commission - The Planning Commission of India was established on 15th March 1950. Chairman of planning commission was/is Prime Minister.

The Planning Commission of India has now been dissolved in 2015 and replaced with National Institution for Transforming India (NITI) Aayog.

Objectives / Common Goals of Planning in India –

- (i) **Growth** – GDP is the indicator of growth. Primary, Secondary and Tertiary sector contribute in GDP is known as structural composition.
 - * A larger stock of productive capital;
 - * A larger size of supporting services like infrastructure;
 - (ii) **Modernisation** – To adopt new technology with change in social outlook i.e. women also have same rights as men.
 - * Adoption of New Technology
 - * Change in Social Outlook
 - (iii) **Self-reliance** – Non-dependency on foreign for factors of production and new technology as well as self reliance in food grain production.
 - * Overcoming from the external assistance;
 - * Development through domestic resources;
 - * To reduce foreign dependency
 - * To avoid foreign interference.
 - (iv) **Economic equity** – Every Indian should have meet basic needs like Food, shelter, Housing, education, health and sanitation. Improve standard of living of weaker section of society and reducing regional inequalities.
 - * Every Indian should be able to meet his or her basic need.
 - * Ensure reduction in inequality in income and wealth.
- Equity aims to raise standard of living of all people and promote social justice.

AGRICULTURE FEATURES, PROBLEMS AND POLICIES LAND REFORMS

Land Reforms - Land reforms refer to change in the ownership of holdings.

Land Reform Measures (Institutional reforms) -

1. **Abolition of Intermediaries** – Intermediaries, popularly known as Zamindars have been abolished. Ownership rights have been referred to the actual tillers. This has been done with a view to stopping exploitation by the zamindars.
2. **Regulation of rent** – Now rents have been fixed by the government which is not generally exceeds to 1/3 of the crop value.
3. **Cooperative Farming** – This was encouraged to enhance bargaining power of small farmers. Together they can buy inputs at lower rates and can sell their products at a high price.
4. **Land Ceiling** - fixation of maximum size of land which would be owned by an individual. So that concentration of land ownership in a few hands can be reduced.
5. **Consolidation of Land Holdings (Chakbandi)** – Under this policy, a farmer is given one consolidated land holding equal in area to all his split land holdings.

Green Revolution (New Agricultural Strategy) - Increase in agriculture production and productivity by

using modern technology and inputs like HYV seeds, pesticides and insecticides etc.

Dr. Norman E Borlaug – Inventor of Green revolution Dr. M. S. Swaminathan - Inventor of Green revolution (In India)

Achievements of Green Revolution –

1. **Rise in Production and Productivity**
2. **Increase in Income / Marketable Surplus** – It refers to that part of agricultural produce which is sold in the market by the farmers after meeting their own consumption requirements..
3. **Buffer Stock of Food Grains**

Shortcomings of Green revolution –

1. **Increase in disparities between small and big farmers**
2. **Risk of pest attack of HYV crops**
3. **Limited crops** – There has been no similar rise in production of pulses and commercial crops like jute, cotton, tea etc.
4. **Regional imbalances**

Subsidies - To assure availability of fertilizers to the farmers at reasonable price. India has been providing two types of subsidies – (a) subsidy in agricultural inputs, (b) subsidy on food supplies to PDS.

Arguments in favour -

1. Agriculture is a risky business.
2. Farmers are poor and can't afford new technology and seeds.
3. Eliminating subsidy will increase income inequality.

Arguments in against –

1. Main benefit is taken by big farmers.
2. It does not benefit the target group and creating a huge burden on government
3. More benefit given to the industries, who, produced inputs.

INDUSTRIAL POLICY RESOLUTION, 1956

On 30th April, 1956, a second Industrial Policy Resolution was adopted in India. IPR-1956 has the **following objectives**: * Classification of industries into public and private sectors, * Stress on the role of cottage and small scale industries, * Reduction in regional disparities

CLASSIFICATION OF INDUSTRIES

According to IPR-1956, the industries were reclassified in to three categories.

1. Public sector industries
2. Joint sector industries
3. Private sector industries.

OUTCOMES OF IPR-1956

- * Scope of the public sector in India got widened* Provision of compulsory licensing was enacted.
- * The policy paved the way of development of public sector in India.

INDUSTRIAL LICENSING- was necessary for –

- * To set up new industries; * To expansion of existing one
- * No new industry was allowed to setup unless a license is obtained.
- * Easy to obtained license for industrial setup in backward regions. By giving certain concession like tax benefits, water and electricity at low tariff etc.

SMALL SCALE SECTOR IN INDIA

In 1955, the Village and Small Scale Industries Committee (Karvey Committee) was establish.

Features of small Scale Industries

1. Ownership is in single hand;
2. Labour intensive
3. Flexibility;
4. Utilisation of locally available resource.

Role of Small Sector in Indian Economy

1. Provide Economic equality;
 2. Need less technology;
 3. Increase employment;
 4. Protection from bad effects of urbanisation and industrialization;
- * Various types of concession given to the SSIs such as lower excise duty, bank loan at a lower rate, tax benefits, water and electricity supply at a lower rate etc.

CRITICAL APPRAISAL OF INDUSTRIAL DEVELOPMENT (1950-90)

POSITIVE /GOOD EFFECT / GAINS

1. **Economic Growth** – Contribution of industrial sector in GDP increases from 11.8% in 1950-51 to 24.6% in 1990-91 and 6% annual growth rate of industrial sector.
2. **Diversification** – Indian industries are now included a wide range of consumer as well as engineering goods.
3. **Promotion of small scale industries** – to achieve growth with social justice and equity in addition to employment generation.

NEGATIVE / BAD EFFECTS / LOSS

1. **Monopoly of Public Sector** –
2. **Inward Looking Trade Strategy** – This policy stopped industries to develop a strong export sector.
3. **Lack of Competition** – Due to excessive protection to the domestic industries and restrictions on imports.
4. **Licensing Policy** – It was misused by some industrial houses to get license not for production but for to prevent competitors from starting new firms.

INWARD LOOKING TRADE STRATEGY / (IMPORT SUBSTITUTION STRATEGY)

This policy is also called Import Substitution Policy.

Import Substitution - It refers to a policy of substitution of imports by domestic production. **Export Promotion** – It is a strategy to earn foreign exchange by promoting domestic exports.

Need for Import Substitution –

1. Scarcity of foreign exchange,
2. Un-favourable balance of Trade,
3. Need for industrial development,
4. To protect domestic goods

Objectives of ILTS - The three definite objectives of this policy was:

1. Savings of Foreign Exchange Reserve;
2. Increase in self-sufficiency.
3. Utilisation of Foreign Exchange Reserves in importing developmental goods.

Protection from imports through Tariffs and Quotas –

Tariffs – It refers to taxes imposed on imported goods to make them more expensive and discourage their use.

Quotas – It refers to fixing maximum limit (quantity) on the imports of a commodity by a domestic producer.

NEW ECONOMIC POLICY

New Economic Policy (NEP) refers to set of economic policies to accelerate the pace of growth and development. It was started in 1991 in India. The components of NEP, LPG at the place of LPQ:-

- * Liberalisation in place of Licensing
- * Privatisation in place of Permit
- * Globalisation in place of Quota

Need/ Causes for Economic Reforms

1. Mounting fiscal deficit
2. Adverse balance of payment
3. Poor performances of PSU's
4. Rise in price level
5. Fall in foreign exchange reserves
6. Gulf Crises

LIBERALISATION

Liberalisation means removing all unnecessary controls and restrictions like permits, licenses, protectionist duties, etc., imposed by the government.

Economic reforms under Liberalisation

A. Industrial Sector Reforms

1. Abolition of Industrial Licensing
2. Contraction of Public Sector
3. Freedom to Import Capital Goods
4. Expansion of Production Capacity.

B. Financial Sector Reforms

1. Role of RBI changed from Regulator to Facilitator
2. Establishment of Private Sector Bank
3. Foreign Investment

C. Tax Reforms

1. Reduction in Direct Taxes
2. Reform in Indirect taxes
3. Simplification of Tax Paying Procedure
4. Goods and Service Tax.

D. External Sector Reforms

1. Devaluation of Rupee
2. Determination of Foreign Exchange Rate by Market Forces.

E. Trade and Investment Policy reforms

1. Reducing Quantitative Restriction on Imports and Exports
2. Reduction of Tariff Rates
3. Removal of Licensing Procedure for Imports
4. Removal of Export Duties.

PRIVATISATION

Transfer of ownership from government to private sector of organisations which are presently run and controlled by government. And invite the private sector into production process with active role.

Measures of Privatisation

1. Disinvestment.

Arguments in favour of Privatisation

1. Reduction in Budgetary Deficit
2. Improvement in economic and technical efficiency
3. Increase in accountability
4. Increase in industrial growth
5. Increase in foreign investment
6. Encouragement to new Inventions.

Arguments Against Privatisation

1. Concentration of economic power
2. Industrial sickness
3. No safety for the weaker sections
4. Corruption.

Maharatnas – IOCL, SAIL

Navratnas – HAL, MTNL

Miniratnas – BSNL, AAI, IRCTC

GLOBALISATION

It means Integrating the economy of the country with the world economy.

Policy Measures adopted Under Globalisation

1. Rise in equity limit participation of foreign investment
2. Devaluation of Rupee
3. Removal of controls on foreign trade
4. Reduction of Tariffs and removal of quota system.

Effects of Globalisation

- (A) Favourable Effects
1. Increasing share of exports in world trade
 3. Application of high technology

2. Favourable effect on Export-Import Ratio
4. Stable and strong exchange rate.

(B) Adverse Effects

1. Decrease in Revenue of Indian Industries
2. Increasing Regional disparities
3. Transfer of Profit of MNC's to ROW

Outsourcing-it refers to a system of hiring business services from outside world.it includes call Centers (BPO), transcription, clinical advice, teaching/coaching etc. India is an important destination of outsourcing due to 1-Availability of cheap and skilled labour, 2-revolutionary growth in IT sector.

NEW ECONOMIC POLICY-ANALYSIS

Merits of LPG Policies

1. Increase in Industrial Production
2. A Check on Fiscal deficit and Inflation
3. A Sustainable Increase in For-Ex Reserve
4. Recognition of India as an Emerging Economic Power
5. A Shift from Monopoly Market to Competitive Market
6. Rise in GDP growth and integration with the world economy.

Demerits of LPG Policies

1. Neglect of Agriculture
2. Urban Concentration of Growth Process
3. Economic Colonialism
4. Spread of Consumerism
5. Lopsided Growth Process
6. Cultural Erosion.

UNIT- 7 (CURRENT CHALLENGES FACING INDIAN ECONOMY) (22 MARKS)

POVERTY

It refers to the state in which an individual is unable to fulfill even the basic necessities of life.

Poverty line is defined by the monetary value of the minimum calorie intake that are estimated at 2400 calories for a rural person and 2100 calories for a person in the urban area.

Dadabhai Naoroji was the first person who discussed the poverty line in pre-independent India. The cost of living is associated with him.

Chronic poor-It includes people who are always poor and those who are usually poor.

Churning poor - Who regularly move in and out of poverty.

Occasionally poor- Who are rich most of the time but poor sometimes.

Head count ratio

When the number of poor is estimated as the proportion of people below the poverty line, it is known as "Head count ratio."

Relative Poverty	Absolute Poverty
1.It refers to poverty of people relative to other people, regions or nations.	1.It refers to total number of people living below the poverty line.
2. When we say India is relatively poor, then it is in comparison with other countries-the comparison is that of per capita income of different countries.	2.It has relevance for less developed countries.
3.Calculated with help of Lorenz Curve and Gini Coefficient.	3. Calculated with the help of poverty line.

Causes of poverty

Social, economic and political inequality, Social exclusion, Unemployment, Indebtedness, Unequal distribution of wealth, Population explosion, Low rate of agriculture growth

How to remove poverty-

1. **Reducing inequalities of income:** -if the high growth rate is accompanied with increased inequalities of income, then fruits of economic development will accrue only to rich section, whereas the poor will grow in numbers. Thus inequalities must be reduced if development is to benefit the poor.

2. **Population control:** -High growth rate of population especially among the poor is one of the causes. So (in order to remove poverty, it is very essential that population growth rate be checked) poverty can be removed to a greater extent, if we intensify family planning campaign & reduce the increasing population among the poor.

3. **More employment opportunities:** -poverty can be eliminated by providing more employment opportunities. So that people are able to meet their basic needs.

4.**Land reforms:** -by the imposition of ceilings on land holdings & their effective implementation a good amount of land can be acquired to be distributed among the landless laborer. On obtaining land, the landless laborers will be able to employ themselves & will produce subsistence for them.

Poverty alleviation in India-Three dimensional approach

Growth oriented	Direct poverty alleviation programmes	Minimum need programme
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Rapid increase in GDP and per capita income.	Targeted programmes for poor section.	Provide basic amenities.
Green revolution , industrial development.	MGNREGA, Swarna Jayanti Shahri Rojgar Yojana ,Food for Work	Public distribution scheme, Midday meal, Education for all, PM-Aavas Yojna , PM Ujjawala Yojana, Education for all etc

Critical evaluation of poverty alleviation programmes-

The absolute number of poor in the country has gone down and some states have less proportion of poor than even the national average. The policy towards poverty alleviation has evolved in a progressive manner but hunger, illiteracy and lack of basic amenities continue to be common failure.

The poverty alleviation programmes have been unsatisfactory because of

- 1.Lack of resources
- 2.Unequal distribution of assets and the benefits have not reach to the poor.
3. Improper implementation of the programs by government and Bank officials.
- 4.The resources are in efficiently used and wasted .
- 5.There has been non-participation of local level institutions and local people in programme implementation .
6. Lack of infrastructure facilities like schools roads, power and training institutions .

HUMAN CAPITAL FORMATION

Human Capital refers to the skill, ability, education and knowledge possessed by an individual or a society.

Human Capital Formation: Addition in Human Capital by Education, Training and Health Care.

PHYSICAL CAPITAL	HUMAN CAPITAL
Tangible and can be sold in the market	Intangible, cannot be sold. Only services
It is more mobile between countries	It is less mobile between countries
Can be separated from the owner	It is built in the body and mind of owner. Cannot be separated.
It depreciates with the passage of time	Depreciation can be reduced by investing in education

Sources of Human Capital-

Expenditure on Education:- An educated man contributes more to production process. His efficiency and productivity are high and contributes towards the development of Science and Technology.

Educated and skilled workers can easily adopt modern technology. They may become entrepreneurs.

Expenditure on Health:- Health is a state of complete physical, mental and social well-being and not merely the absence of disease .

- A healthy person will be regular to his works. He will not take much leave from work.
- Efficiency and productivity in work will be more if a person is healthy.
- An unhealthy person is a burden to the society.
- Preventive medicines such as vaccination will keep the society healthy.
- Health awareness and supply of safe drinking water (social medicine) will enhance the health condition of the society.

Expenditure On The Job Training:- Organisations should provide on the job training to their employees in order to keep them updated.

- The firm itself can give training to its employees.
- The workers can be send outside also for training.

IMPORTANCE OF ON THE JOB TRAINING-

- It will help workers to come in contact with the new developments in technology.
- It sharpens the skill of workers and improves their efficiency and productivity.
- It motivates the employees and develops a good work culture.

MIGRATION:- People migrate in search of jobs and other economic opportunities. There is large scale migration from rural to urban areas to earn high income. They make additions to the Human Capital of the migrated land.

INFORMATION:- Information about labour market and educational institutions is necessary to take decisions regarding investment in human capital and also for the better utilisation of available human capital.

Contribution of human capital formation to economic growth:-

- **Increase in GDP:** An educated and healthy man Earns more income, contributes more to production process and faster economic development.
- **Effective use of physical capital:** Educated, skilled and heathy people use the physical capital in an effective manner and raise the productivity of capital.
- **Inventions:** innovations and technological improvement take place in a country which has good quality human resources.

- **Increases life expectancy:** Formation of human capital raises life expectancy of the people. Health facilities and availability of nutritive food enable people to live a healthy and long life. This in turn, adds to the quality of life.
- **Improves Quality of life:** Educated and healthy people lead a good quality life.

India must develop in to a Knowledge Economy – World Bank

The knowledge economy refers to development of skilled and educated manpower in order to take the country to progress. Best Example is Japan.

Problems faced by human capital formation:-

1. Population growth
2. Brain drain
3. Low Academic Standard
4. Lack of on the job training in primary sector
5. Poor man power planning

STEPS TO OVERCOME THE PROBLEMS FACED BY HUMAN CAPITAL FORMATION

1. Stop Brain Drain
2. Develop technical education
3. Free Education
4. Invest in health
5. Affordable higher education
6. Proper work culture
7. Education and training to farmers.

HUMAN CAPITAL	HUMAN DEVELOPMENT
It is a narrow concept	It is a broader concept
It considers education and health as means to increase labour productivity	It considers education and health as factors needed for the wellbeing of human beings
It considers education and health as means to increase labour productivity	It considers education and health as factors needed for the wellbeing of human beings

Rural Development

To improve the living standard of people living in rural areas by providing proper health, education, transportation electricity, water and sanitation facilities.(Social and Economic growth of rural areas)

Key Issues in Rural Development

1. Development of human resources
2. Land reforms
3. Development of basic infrastructure
4. Poverty Alleviation

Rural Credit or Agriculture credit –It is required for farming.

- (i) **Short-Term Credit**-6 to 12 months for buying seeds, tools, manure, fertilizers, etc.
- (ii) **Medium-Term Credit**-1 to 5 years for digging wells, buying machinery, etc.
- (iii) **Long-Term Credit**-5 to 20 years for the purchase of land, costly equipment, tube wells, etc.

Sources of Agricultural Credit

(A) Non-Institutional Sources

Money lender, Sahukars, Commission agents, Zamindars, Relatives and Friends etc.

(B) Institutional Sources –

1. Government
2. Co-operative credit societies
3. Commercial banks
4. Regional Rural Banks and Land development bank

5. National Bank for Agriculture and Rural Development (NABARD)

NABARD was set up in **July 12, 1982** as an apex body to coordinate the activities of all institutions involved in the rural financing system. Its main functions are:-

- (a) To act as an apex agency for the institutions which advance credit in the rural areas.
- (b) To serve as apex funding agency for the institutions providing credit in rural areas.
- (c) To provide assistance to the non-farm sectors also.

Micro-credit of Self-help group (SHG)

It has emerged as the major micro finance programme in the country in recent years.

- i. Their target groups comprise of small and marginal farmers, agricultural and non-agricultural labourers artisans etc.
- ii. SHGs promote small proportions by a minimum contribution from each member.
- iii. From the pooled money, credit is given to the needy members at reasonable interest rates.
- iv. SHGs have also helped in the empowerment of women.

Critically evaluation of rural banking system:-

Rapid expansion of the banking system had a positive effect on rural farm and non-farm output, income and employment.

Following problems are being faced in the rural banking:-

- (i) Insufficiency of volume of rural credit.
- (ii) Inadequate coverage of institutional sources.
- (iii) Less attention to poor or marginal farmers.
- (iv) Growing overdues.

To improve the situation:-

- (i) Banks need to change their approach from just being lenders to building up relationship banking with the borrowers.
- (ii) Farmers should also be encouraged to inculcate the habit of thrift and efficient utilisation of financial resources.

Agricultural Marketing

“Agriculture Marketing is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.”

Defects of Agricultural Marketing in India

1. Lack of transportation
2. Lack of institutional finance
3. Lack of grading
4. Inadequate and unscientific storage system
5. Lack of market information

Government Measures to improve the system of Agricultural Marketing

1. Establishment of regulated markets. Like Apni mandi (Punjab) and Pythu Bazar (AP)
2. Warehousing facilities.
3. Subsidised Transportation facilities
4. Minimum support price (MSP)

Agricultural Diversification

Diversification of agricultural activities mean to grow multiple crops and extension of activities subsidiary to agriculture. It has two aspects-

1-Diversification of Crop production –shift from single cropping to multi cropping system.

2- Diversification of production activities-shift from crop farming to other production activities. Ex.

Animal Husbandry: - Livestock farming system (Cattle, goats)

Operation flood (white revolution) :- To increase production of milk. Ex. Amul (Gujarat)

Fisheries: - Inland and marine fishing.

Blue Revolution:- To increase production of fishes.

Horticulture:- Growing of vegetable, Fruits, & Medicinal Plants.

Golden Revolution:- From 1991 to 2003 India become world leader in production of Mangoes, Bananas, coconuts and Spices.

Need of Diversification

1. To reduce the risk of agriculture
2. To meet challenges of poverty and other odd situations
3. To reduce the burden of population on agriculture

Diversification of Agriculture Activities in India

1. Animal husbandry/Livestock farming-(poultry (42 %), cattle(25%) and goats/sheep (20 %)
2. Fisheries (Kerala, Maharashtra, Gujarat and Tamilnadu)
3. Horticulture (farming of Fruits, Vegetable and flowers)

EMPLOYMENT

Unemployment: - Unemployment refers to a situation when people are willing to work at the existing wage rate, not getting work.

Worker: - A worker is an individual who is engaged in some production activity.

Self-employed Workers: These are those workers who are engaged in their own business or own profession.

Hired Workers: These are those workers who work for others; they render and get wages/ salaries.

Casual Workers: These are the daily wagers. They are not hired by their employers on regular basis.

Regular Workers: These are on permanent pay-roll of their employers and get all social security benefits including pension, gratuity and provident fund.

Labour supply refers to the amount of labour that the workers are willing to offer corresponding to a particular wage rate. As may be able to work 10 hours a day, but willing to work only for 6 hours a day at a particular wage.

Labour force refers to the number of workers actually working or willing to work. It is not related to wage rate.

Workforce = Labour force - Number of persons not working but are willing to work

Number of Persons Unemployed = Labour force - Workforce.

$$\text{Participation Rate} = \frac{\text{Total Work Force}}{\text{Total Population}} \times 100$$

Reason of low rate of participation in India:-

- 1.High Dependency Ratio in the country.
- 2.Low Level of Productivity in Rural Areas.
- 3.High Rate of Participation for Women in Rural Areas

Jobless growth is a situation when the level of output in the economy tends to rise owing to innovative technology without any rise in the level of employment. Jobless growth leads to chronic unemployment, even when there is a rise in GDP

Casualisation:- Casualisation of workforce refers to a situation when the percentage of casually-hired workers in the total workforce tends to rise over time.

Formal / Organised Sector: It refers to organised sector and includes all government departments, public enterprises and private establishments which hire 10 or more workers. Those working in the organised sector are called 'formal workers'.

Informal / Unorganised Sector: It refers to unorganised sector and includes all such private enterprises which hire less than 10 workers, besides farming and self-employment ventures. Those working in the unorganised sector are called 'informal workers'.

Formal Workers	Informal Workers
(i) Work in organised sector of the economy.	(i) Work in unorganised sector of the economy.
(ii) Are entitled to social security benefits (like provident fund, gratuity, pension, etc.)	(ii) Are not entitled to social security benefits.
(iii) Can form trade unions	(iii) Cannot form trade unions.
(iv) Are protected by various labour laws against uncertainties of the market.	(iv) Remain unprotected by labour laws, and are therefore, highly vulnerable to uncertainties of the market.

Rural Unemployment: - Rural unemployment is dominated by disguised and seasonal unemployment.

- (1) **Disguised Unemployment:** It occurs when the number of workers engaged in a job is much more than actually required to complete it.
- (2) **Seasonal Unemployment:** It occurs in agriculture During off-season, often the farm workers are out of job. They have no work to do.
- (3) **Open Unemployment:** Open unemployment occurs when a worker is willing to work, and has the necessary ability to work, yet he does not get work.
- (4) **Structural Unemployment:** Structural unemployment occurs due to structural changes in the Economy like change in technology and change in demand.

Causes of Unemployment in India: -

- (1) Slow Economic Growth
- (2) Rapid Growth of Population
- (3) Agriculture-A Seasonal Occupation.
- (4) Lack of Irrigation Facilities:
- (5) Low Savings and Investment

Suggestions to Solve the Problem of Unemployment in India

- (1) Increase in Production
- (2) Increase in Productivity
- (3) High Rate of Capital Formation
- (4) Help to Self-employed Persons
- (5) Educational Reforms
- (6) Technique of Production
- (7) Cooperative Industries

Policies & Programmes for employment are:-

1. MNREGA:-
 - i) Provide guaranteed wage employment to every rural household.
 - ii) To do unskilled manual work for a minimum of 100 days in a year.
 - iii) If government do not provide job within 15 days then unemployment allowances were given.
2. PMRY
3. SJSRY
4. REGP
5. NSAP

INFRASTRUCTURE: MEANING AND TYPES:

Case Studies: Energy and Health: Problems and Policies- A critical assessment;

Infrastructure:- It refers to the support system of economic and social development of the economy.

Type of infrastructure

Economic Infrastructure :- It directly supports the economic system. Ex. Energy, transport. It will raise the process of economic growth.

Social Infrastructure: It includes infrastructure related with Health, education and housing.

It improves the quality of human resources and thus improves the efficiency of manpower. It will raise the process of human development.

Role/ Significance/ importance of Infrastructure in economic development

- (i) Infrastructure Increases Productivity,
- (ii) Infrastructure Encourages Investment
- (iii) Infrastructure Generates Linkages in Production,
- (iv) Infrastructure Enhances Size of the Market

Health sector in India

Health is not only absence of disease but also the ability to realise one's potential. It is a yardstick of one's well being. Health is the holistic process related to the overall growth and development of the nation.

Drawbacks OR Emerging Challenges in the

Health care system in India

- (a) Poor condition of Primary Health Centres
- (b) Unequal distribution of health care services. more hospitals in urban areas and less in rural areas.
- (c) Increasing privatisation of health services.
- (d) Poor sanitation Level
- (e) Poor upkeep and maintenance of govt. health centres and poor management.

Women's Health In India - Matter Of Great Concern

- (a) There is growing incidence of female foeticide in the country. Close to 3 lakh girls under the age of 15 are not only married but have already borne children at least once.
- (b) More than 50 per cent of married women Between the age group of 15 and 49 suffer from anaemia caused by iron deficiency. It has contributed to 19 per cent of maternal deaths.
- (c) More maternal mortality ratio about 167 per 1 lakh women.

Development of health Services in India:-

- (i) Decline in Death Rate
- (ii) Rise in expectancy of life
- (iii) Decline in Infant Mortality Rate
- (iv) Control over Deadly Diseases.

(v) Eradication of smallpox, guinea worms and the near eradication of polio and leprosy.

Six systems of Indian medicine system:-AYUSH

A : Ayurveda Y : Yoga and Naturopathy U : Unani S : Siddha H : Homoeopathy.

Medical tourism :- India's health services combine latest medical technologies with qualified professional and is cheaper for foreigners as compare to costs of similar health care services their own countries.

GBD (Global burden of disease): - It is an indicator used by experts to gauge the number of people dying prematurely due to a particular disease as well as the number of years spent by them in a state of disability owing to the disease. India has bears a frightening 20 per cent of the GBD.

ENVIRONMENT SUSTAINABLE ECONOMIC DEVELOPMENT

Environment – It is defined as all those conditions and their effects which influence human life. It includes biotic components, viz., plants and animals, and abiotic components, viz., trees, water, and air.

Physical environment – this is also known as non biological environment. It includes a biotic element such as land, water climate, mountain minerals and all other sources which nature provides to us as a free gift.

Biological environment – it is also called living environment. It includes biotic elements such as human, animal, bird, plants and all micro organisms.

Functions and role of environment –

- (1) It supplies resources,
- (2) It sustain life,
- (3) It assimilates waste and
- (4) It enhances quality of life.

Two basic problems related to environment Pollutions –

- (1) Air pollutions,
- (2) Water pollutions,
- (3) Noise pollution.

Excessive exploitation of natural recourse –

- (1) Deforestation,
- (2) Degradation of land.

How to save environment

- (1) Social awareness
- (2) Population control
- (3) Control over industrial and agriculture pollution
- (4) Water management
- (5) Management of solid waste

Effects of economic development on environment

- (1) Global warming:- Increase in average temperature of earth. It is due to increase green house gases. Due to it ice is melting worldwide, natural disasters and increase tropical disease
- (2) Depletion of ozone layer:- Destruction of Ozone layer due to CFC and other forces.
- (3) Environmental crises
- (4) Rise in opportunity cost of negative environment impacts
- (5) Supply – demand reversal of environment

Challenges of India's environment

- (1) Air pollution
- (2) Water pollution
- (3) Solid and hazardous waste
- (4) Deforestation
- (5) Land degradation

Sustainable development:- Development that means to satisfy the need of the present generation without compromising the ability of future generation to meet their own needs is called sustainable development.

Objectives of sustainable development-

- (1) to increase economic growth
- (2) to meet basic needs.
- (3) to improve quality of life
- (4) to maximize the net benefits of future generation.

Features of sustainable developments

- (1) Sustained rise in per capita income and economic welfare
- (2) Rational use of natural resources
- (3) Ability of future generation to fulfil their needs not to be impaired
- (4) Check on population

Strategies to achieve sustainable development

- (1) Use of natural non-conventional resources of energy,
- (2) LPG and gobargas in rural areas
- (3) CNG in urban areas
- (4) Wind power
- (5) Solar power through photovoltaic cells
- (6) bio-composting
- (7) Shift to organic farming
- (8) Manage the west

UNIT – 8 (DEVELOPMENT EXPERINCE OF INDIA- A COMPARISION WITH NEIGHBOURS) (6 MARKS)

- All the three nations have started towards their developmental path at the same time.
- While India and Pakistan became independent nations in 1947, People's Republic of China was established in 1949.
- While India announced its first Five Year Plan for 1951–56
- Pakistan announced its first five year plan, now called the Medium Term Development Plan, in 1956.
- China announced its First Five Year Plan in 1953
- All the countries relied on public sector as the core sector of the economy.

- Which is why the strategy/model of growth adopted by China is termed as 'statism' (complete ownership of resources by the state),
- while the strategy/mode/ of growth adopted by India and Pakistan is called the 'mixed economy growth model'.

Country	GDP	GDP RANK	GDP GROWTH	GDP PER CAPITA
INDIA	\$ 2.6 TRILLION	5 TH	4.2	\$ 1877
PAKISTAN	\$270 billion	42 ND	0.4	\$ 1355
CHINA	\$ 15.2 TRILLION	2 ND	61	\$ 10839

Both India and China are very large country on basis of GDP, while Pakistan is very small country in comparison India and Pakistan. Both India and China stood at top in growth rate in the world for many years

Sector	Percent share in GDP			Percent share in Employment		
	INDIA	CHINA	PAKISTAN	INDIA	CHINA	PAKISTAN
Primary	15.4	7.9	24.4	47	27.7	42.3
Secondary	23.1	40.5	19.1	22	28.8	22.6
Tertiary	61.5	51.6	56.5	31	43.5	35.1

Both India and Pakistan has more share of Primary sector in GDP in comparison China. China has highest share in secondary sector in GDP in comparison India and Pakistan. Both in Pakistan and India most of working population is engaged in primary sector. In china maximum working population is engaged in tertiary sector.

- The Great Leap Forward (GLF):- Great Leap Forward (GLF) was the campaign launched in China in 1958 to accomplish economic and industrial development at faster rate.
- The aim of this campaign was to transform agrarian economy into a modern economy through the process of industrialisation.

It focused on widespread industrialization of the economy, encouraging people to set-up household industry in their backyard. In 1958, there were 26,000 communes covering almost all the farm population.

Great Proletarian Cultural Revolution:- it was started in year 1965. under this scheme students and professionals were sent to countryside to work and learn.

Economics reforms were started in 12978 in China. Economic reforms were started in 1988 in Pakistan. Economic reforms were started in 1991 in India.

In order to attract foreign investors, **special economic zones** were set up. In China.

DEMOGRAPHIC COMPARISION

Country	Population in million	Annual growth	Population density	Sex ratio	Urbanization
India	1331	1.2	441	929	33
China	1371	0.5	146	941	56
Pakistan	188	2.1	245	947	39

- The population growth as being the highest in Pakistan, followed by India and China. The one child norm introduced in China in the 1979 as the major reason for low population growth. Due to one child policy China ha more elder people in its population.

- **HDI COMPARISION**

Item	India	China	Pakistan
HDI Value	0.640	0.752	0.562
Rank	130	86	150
Life expectancy	68.8	76.4	66.6
GDP per capita	6427 (in \$)	15039 (in \$)	5035 (in \$)
People below BPL	60.4	23.5	46.4