DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
(2019-2020)

Class : XII
ECONOMICS

Under the Guidance of

Mr. Sandeep Kumar
Secretary (Education)

Mr. Binay Bhushan
Director (Education)

Dr. Saroj Bala Sain
Addl. DE (School & Exam.)

Coordinators
Ms. Savita Drall
DDE (Exam)

Ms. Mukta Soni
Addl. DDE (Exam)

Dr. Raj Kumar
OSD (Exam)

Mr. Krishan Kumar
OSD (Exam)
Production Team

Anil Kumar Sharma
PREFACE

It gives me immense pleasure to present the Support Material for various subjects. The material prepared for students of classes IX to XII has been conceived and developed by a team comprising of the Subject Experts, Members of the Academic Core Unit and teachers of the Directorate of Education.

The subject wise Support Material is developed for the betterment and enhancement of the academic performance of the students. It will give them an insight into the subject leading to complete understanding. It is hoped that the teachers and students will make optimum use of this material. This will help us achieve academic excellence.

I commend the efforts of the team who have worked with complete dedication to develop this matter well within time. This is another endeavor of the Directorate to give complete support to the learners all over Delhi.

(SANDEEP KUMAR)
SECRETARY
Dear Students,

Directorate of Education is committed to providing qualitative and best education to all its students. The Directorate is continuously engaged in the endeavor to make available the best study material for uplifting the standard of its students and schools.

Every year, the expert faculty of Directorate reviews and updates Support Material. The expert faculty of different subjects incorporates the changes in the material as per the latest amendments made by CBSE to make its students familiar with new approaches and methods so that students do well in the examination.

The book in your hand is the outcome of continuous and consistent efforts of senior teachers of the Directorate. They have prepared and developed this material especially for you. A huge amount of money and time has been spent on it in order to make you updated for annual examination.

Last, but not the least, this is the perfect time for you to build the foundation of your future. I have full faith in you and the capabilities of your teachers. Please make the fullest and best use of this Support Material.
Dr. (Mrs.) Saroj Bala Sain  
Addl. Director of Education  
(School / Exam / EVGB/EBI/VOCl)

I am very much pleased to forward the Support Material for classes IX to XII. Every year, the Support Material of most of the subjects is updated/revised as per the most recent changes made by CBSE. The team of subject experts, officers of Exam Branch, members of Core Academic Unit and teachers from various schools of Directorate has made it possible to make available unsurpassed material to students.

Consistence use of Support Material by the students and teachers will make the year long journey seamless and enjoyable. The main purpose to provide the Support Material for the students of government schools of Directorate is not only to help them to avoid purchasing of expensive material available in the market but also to keep them updated and well prepared for exam. The Support Material has always been a ready to use material, which is matchless and most appropriate.

I would like to congratulate all the Team Members for their tireless, unremitting and valuable contributions and wish all the best to teachers and students.

(Dr. Saroj Bala Sain)  
Addl.DE (School/Exam)
DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
(2019-2020)

ECONOMICS
Class : XII
(English Medium)

NOT FOR SALE

PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS
# LIST OF MEMBERS WHO PREPARED SUPPORT MATERIAL FOR ECONOMICS

## CLASS XII

### GROUP LEADER

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subedar Yadav</td>
<td>Vice Principal</td>
<td>GBSSS-B(AH) Block-Shalimar bagh Delhi-88</td>
</tr>
</tbody>
</table>

### Team Members

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Shailendra Rai</td>
<td>Lect. (Eco)</td>
<td>RPVV Surajmal Vihar Delhi-92</td>
</tr>
<tr>
<td>Mr. Saket Kumar</td>
<td>Lect. (Eco)</td>
<td>RPVV, Sector-11, Rohini-110085</td>
</tr>
<tr>
<td>Dr. Satyendra P.P. Tripathi (EM)</td>
<td>Lect. (Economics)</td>
<td>GBSSS Dhakka, Delhi-110009</td>
</tr>
<tr>
<td>Mrs. Saira Begam (UM)</td>
<td>Vice Principal</td>
<td>Mushlim Sr. Sec. School</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fatehpuri, Delhi-110006</td>
</tr>
</tbody>
</table>
PART A: INTRODUCTORY MACROECONOMICS

Unit 1: National Income and Related Aggregates  28 Periods
- Some basic concepts: Consumption goods, capital goods, final goods, intermediate goods; stocks and flows; gross investment and depreciation.
- Circular flow of income; 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 and Net Domestic Product (GDP and NDP) - at market price, at factor cost; Real and Nominal GDP. GDP and Welfare

Unit 2: Money and Banking  15 Periods
- Money - meaning and supply of money - currency held by the public and net demand deposits held by commercial banks.
- Commercial Banks & Money creation by the commercial banking system.
- Central money 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, CRR, SLR, REPO Rate and Reverse REPO Rate, Open Market Operations, Margin requirement.

Unit 3: Determination of Income and Employment  27 Periods
- 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** 18 Periods

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

Unit 5: **Balance of Payments** 15 Periods

- Balance of payments account - meaning and components; balance of payments deficit - meaning.
- Foreign exchange rate - meaning of fixed and flexible rates and managed floating. Determination of exchange rate in a free market.

**Prescribed Books:**

1. Indian Economic Development, Class XI, NCERT
2. Introductory Micro Economics, Class XII, NCERT
3. Macro Economics, Class XII, NCERT
4. Supplementary Reading Material in Economics, Class XII, CBSE

*Note: The above publications are also available in Hindi Medium.*
PART B : India’s Economic Development

Unit 6 : Development Experience (1947-1950) and Economic reforms since 1991:-

- A brief introduction of the state of Indian economy on the one of independence common goals of five year plans. Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy etc) industry (industrial licensing etc) and foreign trade.

- Economic Reforms Since 1991
  Feature and appraisals of liberalization, globalisation and privatisation (LPG Policy) concept of demonetization and GST.

Unit 7 : Current Challenges Facing Indian Economy

- Poverty - Absolute and relative : Main programmes for poverty alleviation -A critical assessment

- Rural Development - Key issue - credit and marketing-role of co-operation Agricultural diversification after native farming-organic farming.

- Human Capital Formation- How people become resource. Role of human capital in economic sector in India.

- Employment : Formal and informal growing problems and policies.

- Infrastructure : Meaning and types Case studies Energy & Health :

- Sustainable Economic Development : Meaning effects of Economic development including global warming.

Unit-8 Development Experience of India

- A comparison with neighbours India and Pakistan
  India and China
- Issues: Growth, Population, Sectoral development and other Human development Indicators
## SUGGESTED QUESTION PAPER DESIGN
### Economics (Code No. 030)
#### Class-XII (2018-19)
##### March 2019 (Examination)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Typology of Questions</th>
<th>Very Short Answer 1 Mark</th>
<th>Short Answer 3 Marks</th>
<th>Short Answer 4 Marks</th>
<th>Long Answer 6 Marks</th>
<th>Total Marks</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Remembering (Knowledge Based Simple recall questions, to know specific facts, terms, concepts, principles, or theories; identify, define, or recite, information)</td>
<td>2</td>
<td>–</td>
<td>2</td>
<td>2</td>
<td>22</td>
<td>27%</td>
</tr>
<tr>
<td>2.</td>
<td>Understanding (Comprehension to be familiar with meaning and to understand conceptually, interpret, compare, contrast, explain, paraphrase, or interpret information)</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>19</td>
<td>24%</td>
</tr>
<tr>
<td>3.</td>
<td>Application (Use abstract information in concrete situation, to apply knowledge to new situations; Use given content to interpret a situation provide an example, or solve a problem)</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>15</td>
<td>19%</td>
</tr>
<tr>
<td>4.</td>
<td>High Order Thinking Skills (Analysis &amp; Synthesis - Classify compare, contrast, or differentiate between different pieces of information; Organize and/or integrate unique pieces of information from a variety of sources)</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>14</td>
<td>17%</td>
</tr>
<tr>
<td>5.</td>
<td>Evaluation : Appraise, judge and/or justify the values or worth of a decision or outcome, or to predict outcomes based on values)</td>
<td>1</td>
<td>1</td>
<td>–</td>
<td>1</td>
<td>10</td>
<td>13%</td>
</tr>
</tbody>
</table>

**Total**

|                  | 8×1=8 | 4×3=12 | 6x4=24 | 6x6=36 | 80(24) | 100% |

**Note:** There will be Internal Choice in questions of 3 marks, 4 marks and 6 marks in both sections (A and B). Total 3 internal choices in section A and total 3 internal choices in section B.
Guidelines for Project Work in Economics (Class XII)

- Students are supposed to pick any ONE of the two suggested projects.
- Teachers should help the students to select the topic after detailed discussions and deliberations. Teacher should play the role of a facilitator and should supervise and monitor the project work of the student. The teacher must periodically discuss and review the progress of the project.
- The teacher must play a vital role of a guide in the research work for the relevant data, material and information regarding the project work. Also, the students must be guided to quote the source (in the Bibliography/ References section) of the information to ensure authenticity.
- The teacher must ensure that the students actually learn the concepts related to the project as he/ she would be required to face questions related to the project in viva-voce stage of the final presentation of the project.
- The teacher may arrange a presentation in the classroom of each and every student so that students may learn from each others’ project work.
- The teacher must ensure that the students learn various aspects of the concept related the the topic of the project work.
- The teacher must ensure that the students learn various aspects of the concept related to the topic of the project work.

1. Project (Option One) : What's Going Around Us

   The purpose of this project is to

   - Enable the student to understand the scope and repercussions of various Economic events and happenings taking place around the country and the world. (e.g. The Dynamics of the Goods & Services Tax and likely impacts on the Indian Economy or the Economics behind the Demonetisation of 500 and 1000 Rupee Notes and the Short Run and Long Run impact on the Indian Economy of the impact of BREXIT from the European Union etc.)
   - Provide an opportunity to the learner to develop economic reasoning and acquire analytical skills to observe and understand the economic events.
   - Make students aware about the different economic developments taking place in the country and across the world.
   - Develop the understanding that there can be more than one view on any economic issue and to develop the skill to argue logically with reasoning.
   - Compare the efficacy of economic policies and their respective implementations in real world situations and analyse the impact of Economic Policies on the lives of common people.
   - Provide an opportunity to the learner to explore various economic issues both from his/her day to day life and also issues which are of broader perspective.

Scope of the project: Student may work upon the following lines:

- Introduction
- Details of the topic
- Pros and Cons of the economic event/ happening
- Major criticism related to the topic (if any)
- Students’ own views/perception/ opinion and learning from the work
- Any other valid idea as per the perceived notion of the student who is actually working and presenting the project-work.
# CONTENTS

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Units</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Part A</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>National Income and Related Aggregates</td>
<td>3</td>
</tr>
<tr>
<td>2.</td>
<td>Money and Banking</td>
<td>29</td>
</tr>
<tr>
<td>3.</td>
<td>Determination of Income &amp; Employment</td>
<td>35</td>
</tr>
<tr>
<td>4.</td>
<td>Government Budget and the Economy</td>
<td>55</td>
</tr>
<tr>
<td>5.</td>
<td>Balance of Payment</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td><strong>Part B</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Indian Economy of the Eve of Independence</td>
<td>72</td>
</tr>
<tr>
<td>2.</td>
<td>Indian Economy (1950-1990)</td>
<td>85</td>
</tr>
<tr>
<td>4.</td>
<td>Poverty</td>
<td>116</td>
</tr>
<tr>
<td>5.</td>
<td>Rural Development</td>
<td>125</td>
</tr>
<tr>
<td>6.</td>
<td>Human Capital Formation in India</td>
<td>136</td>
</tr>
<tr>
<td>7.</td>
<td>Employment : Growth informatisation and other issues</td>
<td>152</td>
</tr>
<tr>
<td>8.</td>
<td>Infrastructure</td>
<td>164</td>
</tr>
<tr>
<td>9.</td>
<td>Sustainable Economic Development</td>
<td>180</td>
</tr>
<tr>
<td>10.</td>
<td>Development Experience of India</td>
<td>196</td>
</tr>
<tr>
<td></td>
<td><strong>Appendix</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Blue Print</td>
<td>210</td>
</tr>
<tr>
<td>2.</td>
<td>Sample Paper Question (2019-20)</td>
<td>211</td>
</tr>
<tr>
<td>3.</td>
<td>Practice Question Paper</td>
<td>223</td>
</tr>
<tr>
<td>4.</td>
<td>Question &amp; Solutions of Previous Year 2018</td>
<td>230</td>
</tr>
</tbody>
</table>
Part-A

INTRODUCTORY MACROECONOMICS
UNIT-I
CHAPTER-1

NATIONAL INCOME AND RELATED AGGREGATES

Points to Remember

- **Consumption Goods**: Those final goods which are used by the consumers to satisfy human wants directly. All goods and services purchased by consumers are consumer goods.

- **Capital Goods**: Those final goods which are used for investment by the producers in production of goods and services. These goods are of durable nature.

- **Final Goods**: Those goods which are purchased either for final consumption by consumers (consumers goods) or for investment by producers (capital goods). These are not for resale or for further processing.

- **Intermediate Goods**: Those goods and services which are purchased for as a raw material for further production or for resale in the same year. These goods do not fulfill needs of mankind directly. Services used by the producers are intermediate goods. e.g. Service of Lawyers, Mechanics, Charted Accountants, Raw Material etc.

- **Investment**: Value of addition made to the physical stock of capital during a period of time (financial year) is called investment. It is also called capital formation.

- **Depreciation**: means fall in value of fixed capital goods due to normal wear and tear, expected obsolescence and efflux of time. It is also known as consumption of fixed capital. Depreciation
can be calculated by dividing the value of fixed capital by its expected life in years.

- **Gross Investment**: Total addition made to physical stock of capital during a period of time. It includes depreciation. It is also known as Gross Capital formation.

- **Net Investment**: Net addition made to the real stock of capital during a period of time. It excludes depreciation. Net Investment = Gross investment – Depreciation.

- **Stock**: Variables whose magnitude is measured at a particular point of time are called stock variables. E.g., Wealth, assets, money, Inventory etc. A stock variable is nothing but an accumulated sum of flows.

- **Flow**: Variables whose magnitude is measured over a period of time are called flow variable. Eg. National income, change in stock etc.

- **Circular flow of income**: It refers to continuous flow of goods and services and money income between firms and households in two sector economy. It is circular in nature. It has neither any end nor any beginning point. Real flow shows the flow of produced goods and services and factor services between firms and households. Money flow shows the flow of consumption/investment expenditure and factor payments between firms and households.

- **Leakage**: It is the amount of money which is withdrawn from circular flow of income. For e.g. Taxes, Savings and Imports.

- **Injection**: It is the amount of money which is added to the circular flow of income. For e.g., Govt. Exp., Investment and Exports.

- **Economic Territory**: Economic (or domestic) Territory is the geographical territory administrated by a Government within which persons, goods and capital circulate freely.
Scope of Economic Territory:

(a) Political frontiers including territorial waters and airspace.
(b) Embassies, consulates, military bases etc. located abroad.
(c) Ships and aircraft operated by the residents between two or more countries.
(d) Fishing vessels, oil and natural gas rigs operated by residents in the international waters.

Normal Resident of a Country: is a person or an institution who normally resides in a country and whose centre of economic interest lies in that country.

Factor Income: Income earned by the factors of production (Labour, Land, Capital and Entrepreneurship) for rendering factor services in the production process. e.g., Rent, Interest, wages and profit.

Transfer payments: refers to income received without rendering any productive service in return. They are one sided payments made without getting anything in return e.g., old age pension, taxes, scholarships etc.

Capital gain: An increase in the value of capital assets or financial assets over the time that gives it a higher worth than the purchase price. The gain is not realized until the asset is sold.

Compensation of employees: Payment to labour factor (employees and workers) in cash or kind for providing factor services during the production of goods and services. It includes salary, wages, bonus, pension, contribution by employer in social security schemes etc.

Operating Surplus: During the operation of production money left after the payment of compensation of Employees is called operating surplus. It is the sum of Rent, Interest and Profit.

Subsidies: A subsidy is an amount of money given directly to firms by the government to encourage production and consumption. It reduce the market price.
- **Value of Output**: Market value of all goods and services produced by an enterprise during an accounting year. Value of Output = Sales + Change in Stock.

- **Value added**: It is the difference between value of output of a firm and value of intermediate goods bought from the other firms during a particular period of time. Value added = value of output - Intermediate consumption.

- **Domestic Income (NDP<sub>FC</sub>)**: It is the factor income accruing to owners of factors of production for supplying factor services with in domestic territory during an accounting year.

  \[ \text{NDP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{Depreciation} - \text{NIT}. \]

- **Gross Domestic Product at Market Price (GDP<sub>MP</sub>):** is the market value of all the final goods and services produced by all producing units located in the domestic territory of a Country during an Accounting year.

- **Net Domestic Product at Market Price (NDP<sub>MP</sub>):** \( \text{NDP}_{\text{MP}} = \text{GDP}_{\text{MP}} - \text{Depreciation} \) (Consumption of fixed capital)

### NATIONAL AGGREGATES

- **Gross National Product at Market Price (GNP<sub>MP</sub>):** is the market value of all the final goods and services produced by normal residents (in the domestic territory and abroad) of a country during an accounting year. \( \text{GDP}_{\text{MP}} + \text{NFIA} = \text{GNP}_{\text{MP}} \)

- **National Income (NNP<sub>FC</sub>):** It is the sum total of all factors incomes earned by normal residents of a country in the form of wages. Rent, Interest and profit during an accounting year in domestic economic territory as well as abroad.

  \[ \text{NNP}_{\text{FC}} = \text{NDP}_{\text{FC}} + \text{NFIA} = \text{National Income}. \]

**Some Important Relations**

- Gross = Net + Depreciation (consumption of fixed capital)
- National = Domestic + NFIFA (Net factor income from abroad)
- Market Price = Factor Cost + NIT (Net Indirect Tax)
Net Indirect Tax (NIT) = Indirect Tax – Subsidies

Net Factor Income from Abroad (NFIFA) = It is difference between factor income received/earned by normal residents of a country and factor income paid to nonresidents of the country.

**Components of NFIA**

1. Net Compensation of Employees
2. Net Income from Property and entrepreneurship
3. Net Retained earning of resident companies from abroad

**Methods of estimation of National Income**

**Value Added Method (Product Method)**:

Gross Value Added at Market Price (GVA<sub>MP</sub>)

= Sales + change in stock – Intermediate Consumption.

= GDP<sub>MP</sub> = Σ GVA<sub>MP</sub> of all sectors

OR

= Value of output – Intermediate consumption

NVA<sub>FC</sub> = GVA<sub>MP</sub> – Depreciation – NIT

National Income = NNP<sub>FC</sub> = GDP<sub>MP</sub> – Depreciation + NFIFA – NIT

**Steps to be followed**:

1. Write Sales value (Add sales of all sectors if given sector wise)
2. Add : Change in stock (Closing stock – opening stock if given separately).
3. Subtract : Intermediate consumption
   Capital goods are not intermediate good.
   You have reached GDP<sub>MP</sub>
   National Income (NNP<sub>FC</sub>) = GDP<sub>MP</sub> – Depreciation + NFIA – NIT
- **Income Method (Factor Income distribution method):**
  Domestic Income (NDP<sub>FC</sub>) = Compensation of Employees + Operating Surplus + Mixed Income

  National Income (NNP<sub>FC</sub>) = NDP<sub>FC</sub> + NFIA

  **Steps to be followed:**
  1. Write compensation of Employees (if not given add salary, wages, bonus, contribution by employer in social security schemes).
  2. Add : Operating Surplus (If not Given add interest, Rent & Royalty and Profit).
  3. Add : Mixed Income of self employed. You have reached NDP<sub>FC</sub>

  National Income (NNP<sub>FC</sub>) = NDP<sub>FC</sub> + NFIA

- **Expenditure Method :**

  GDP<sub>MP</sub> = C + G + I + (X – M)

  **Steps to be followed:**
  1. Write Private Final Consumption Expenditure
  2. Add : Government Final Consumption Expenditure
  3. Add : Gross Domestic Capital Formation
  4. Add : Net Exports (Export – Imports)

     You have reached at GDP<sub>MP</sub>

  National Income (NNP<sub>FC</sub>) = GDP<sub>MP</sub> – Depreciation + NFIA – NIT

- **Problem of Double Counting :** Counting the value of a commodity more than once while estimating national income is called double counting. It leads to overestimation of national income. So, it is called problem of double counting.

  It can be avoided by using
  a) Value added method
  b) Final output method
Components of Final Expenditure

1. Final Consumption Expenditure
   i) Private Final Consumption Expenditure (C)
   ii) Government Final Consumption Expenditure (G)

2. Gross Domestic Capital Formation (I)
   (i) Gross Domestic Fixed Capital Formation
   (ii) Change in Stock or Inventory Investment
   (a) Gross business Fixed Investment
   (b) Gross Residential Construction Investment
   (c) Gross public Investment

3. Net Export (X-M)
   i) Export (X)
   i) Import (M)

Components of Domestic Income

1. Compensation of Employees
   a. Wages and salaries (Cash or kinds)

2. Operating surplus
   b. Employers Contribution to Social security Schemes
   Rent & Royalty
   Interest
   Profit
   Corporate Tax
   Dividend
   Undistributed corporate profit retained earnings of private corporate sector

3. Mixed Income of self-Employed person
\[ \text{GDP and Welfare} \] In general Real GDP and Welfare are directly related with each other. A higher GDP implies that more production of goods and services. It means more availability of goods and services. But more goods and services may not necessarily indicate that the people were better off during the year. In other words, a higher GDP may not necessarily mean higher welfare of the people.

\[ \text{Real GDP} \] When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at base year’s prices or constant price, is called real GDP or GDP at constant prices. It changes only by change in physical output not by change in price level. It is called a true indicator of economic development.

\[ \text{Nominal GDP} \] When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at current year’s prices or current prices, is called Nominal GDP or GDP at current prices. It is influenced by change in both physical output and price level. It is not considered a true indicator of economic development.

\[ \text{Conversion of Nominal GDP into Real GDP} \]

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

Price index plays the role of deflator deflating current price estimates into constant price estimates. In this way it may be called GDP deflator.

\[ \text{Welfare} \] mean material well being of the people. It depends on many economic factors like national income, consumption level quantity of goods etc and non-economic factor like environmental pollution, law and order etc. the welfare which depends on economic factors is called economic welfare and the welfare which depends on non-economic factor is called non-economic welfare. The sum total of economic and non-economic welfare is called social welfare. The limitations in taking GDP as welfare measure are as follows:

1. \[ \text{Externalities} \] 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, environmental pollution caused by industrial plants is a negative externality and building a flyover is a positive externality.

2. Composition of GDP: GDP does not exhibit the structure of the product. If the increase in GDP is mainly due to increased production of war equipment's and ammunitions, then such an increase cannot improve welfare in economy.

3. Distribution of GDP: When GDP is unevenly distributed, increase in GDP does not increase welfare.

4. Non-monetary exchanges: Many activities in an economy are not evaluated in monetary terms, they are not included in GDP, due to non-availability of data. However, such activities influence the economic welfare of people of the economy.

Finally, it can be concluded that GDP may not be taken as a satisfactory measure of economic welfare due to above mentioned limitations, yet it does reflect some index of economic welfare.

<table>
<thead>
<tr>
<th>PRECAUTIONS IN MAKING ESTIMATES OF NATIONAL INCOME</th>
</tr>
</thead>
</table>

1. **Value added (Production) method:**
   - (a) Avoid double counting
   - (b) Do not include sale of second hand goods.
   - (c) Self-consumed output must be included.

2. **Income Method**
   - (a) Avoid transfer income
   - (b) Avoid capital gain
   - (c) Include income from self-consumed output
   - (d) Include free services provided by the owners of the production units.

3. **Final expenditure Method**
   - (a) Avoid intermediate expenditure
(b) Do not include expenditure on second hand goods and financial assets.

(c) Include expenditure on self use of own produced final products.

(d) Avoid transfer expenditure.
Exam. Oriented Questions with Answer

VERY SHORT ANSWER QUESTION
(1 MARK)

Q. 1. What are the two types of circular flows?
Ans. The two types of circular flows are: (i) Real flow (ii) Money flow

Q. 2. Define stock variables.
Ans. Stock variables refer to the variables, which are measured at a particular point of time.

Q. 3. Define consumption goods?
Ans. Consumption goods refer to those goods which satisfy the wants of the consumer directly.

Ans. Current transfer refers to transfers made out of the current income of the payer and added to the current income of the recipient.

Q. 5. Define capital formation.
Ans. Capital formation refers to addition to the capital stock of an economy.

Ans. Mixed income refers to the income generated by own account worker and unincorporated enterprises.

Q. 7. Why do export form a part of domestic income?
Ans. Exports are produced within the domestic territory, therefore it form a part of domestic income.

Q. 8. What is real gross domestic product.
Ans. When gross domestic product of a given year is estimated on the basis of price of the base year, it is called real GDP.
Q. 9. When is value of output equal to value added?

Ans. Value of output is equal to value added if there are zero intermediate costs.

Q. 10. Define national income.

Ans. National income refers to net money value of all the final goods and services produced by the normal residents of a country during a period of one year. It is the factor income earned by named rest dents of a cam during financial year.

---

**SHORT ANSWER TYPE QUESTION**

**(3-4 MARKS)**

Q. 1. Calculate gross value added of factor cost:

(i) Units of output sold (units) 1000
(ii) Price per unit of output (Rs.) 30
(iii) Depreciation (Rs.) 1000
(iv) Intermediate cost (Rs.) 12000
(v) Closing Stock (Rs.) 3000
(vi) Opening Stock (Rs.) 2000
(vii) Excise duty (Rs.) 2500
(viii) Sales Tax (Rs.) 3500

Ans. 

\[ GVA_{FC} = (i \times ii) + (v - vi) - (iv) - (vii + viii) \]

\[ = (1000 \times 30) + [3000 - 2000] - 12000 - [2500 + 3500] \]

\[ = \text{Rs. } 13000 \]
Q. 2. Calculate Net Value added at factor cost:
(i) Consumption of Fixed Capital (Rs.) 600
(ii) Import Duty (Rs.) 400
(iii) Output sold (units) 2000
(iv) Price per unit of output (Rs.) 10
(v) Net change in stock (Rs.) (−)50
(vi) Intermediate cost (Rs.) 10000
(vii) Subsidy (Rs.) 500

Ans. $NVA_{FC} = (iii \times iv) + v - vi - ii + vii - i$
$= (2000 \times 10) + (−50) - 10000 - 400 + 500 - 600$
$= Rs. 9450.$

Q. 3. Find Net Value added at market price:
(i) Output sold (units) 800
(ii) Price per unit of output (Rs.) 20
(iii) Excise duty (Rs.) 1600
(iv) Import duty (Rs.) 400
(v) Net Change in Stock (Rs.) (−)500
(vi) Depreciation (Rs.) 1000
(vii) Intermediate Cost (Rs.) 8000

Ans. $NVA_{mp} = (i \times ii) + v - vii - vi$
$= (800 \times 20) + (−500) - 8000 - 1000 = Rs. 6500.$

Q. 4. Assuming real income to be Rs. 200 Crore and price index to be 135, Calculate nominal income.

Ans. $Real Income = \frac{Nominal Income}{Price Index} \times 100$

$Nominal Income = \frac{200 \times 135}{100} = Rs. 270 \text{ Cr.}$
Q. 5. Given nominal income to be Rs. 375 Crore and price index 125 calculate real income.

\[
\text{Real Income} = \frac{\text{Nominal Income}}{\text{Price Index}} \times 100
\]

\[
= \frac{375 \times 100}{125}
\]

Real Income = Rs. 300 Crore.

Q. 6. If the real gross product is Rs. 200 and the nominal gross product is Rs. 210, calculate the price index (base = 100)

\[
\text{Price Index} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100 = \frac{210}{200} \times 100
\]

Price Index = 105

Q. 7. Giving reasons classify the following into intermediate products and final products:

(i) Computer purchased by a school.

(ii) Cold drinks purchased by a school canteen.

Q. 8. Giving reasons, explain the treatment assigned to the following while estimating national income.

(i) Family members working free on the farm owned by the family.

(ii) Payment of interest on borrowings by general government.

Q. 7. Giving reasons classify the following into intermediate products and final products:

(i) Computer purchased by a school.

(ii) Cold drinks purchased by a school canteen.

Q. 8. Giving reasons, explain the treatment assigned to the following while estimating national income.

(i) Family members working free on the farm owned by the family.

(ii) Payment of interest on borrowings by general government.

Q. 7. Giving reasons classify the following into intermediate products and final products:

(i) Computer purchased by a school.

(ii) Cold drinks purchased by a school canteen.

Q. 8. Giving reasons, explain the treatment assigned to the following while estimating national income.

(i) Family members working free on the farm owned by the family.

(ii) Payment of interest on borrowings by general government.
Q. 9. Giving reasons, explain the treatment assigned to the following while estimating national income.
   (i) Payment of pocket money by parents.
   (ii) Interest free loan given by employer to employee.

Ans. (i) Not included, as it is transfer payment from parents to children.
   (ii) Included, as it is treated in national income because it is part of compensation of employees in kinds.

Q. 10. Explain the basis of classifying goods into intermediate and final goods. Give suitable examples.

Ans. Goods which are purchased by a production unit from other production units and meant for resale or for using up completely during the same year are called intermediate goods. For example: raw material.

Goods which are purchased for consumption and investment are called final goods.

For Example: Purchase of machinery for installation in factory.

Q. 11. Giving reasons classify the following into intermediate and final goods. (i) Machine purchased by a dealer of machine. (ii) A car purchased by a household.

Ans. (i) It is an intermediate good because it is meant for resale in the market.
   (ii) It is a final good because it is meant for final consumption.

Q. 12. How will you treat the following in estimating national income of India? Give reasons for your answer.

   (i) Value of bonus shares received by shareholders of a company.
   (ii) Interest received on loan given to a foreign company in India.

Ans. (i) It is not included in national income because it is the return of financial capital and not of the goods and services.
   (ii) It is included in the national income as interest is a factor income and a part of domestic income.

Ans. Government expenditure on child immunization programme raises GDP because it is government's is final consumption expenditure. It also raises welfare of the people because child immunization programme improve health and thus raise efficiency of the people.


Ans. Final sales of cars raises GDP, because final sales are final products. Cars provide convenience in transportation but at the same time it causes traffic jams, air pollution and noise pollution reducing the welfare of the people. Pollution reducing the welfare of the people. Pollution thus, has bad effects on the health of the people.

**LONG ANSWER TYPE QUESTIONS**

(6 MARKS)

Q. 1. How will you treat the following while estimating national income of India? Give reasons.

(a) Dividend received by an Indian from his investment in shares of a foreign company.

(b) Money received by a family in India from relatives working abroad.

(c) Interest received on loans given to a friend for purchasing a car.

(d) Dividend received by a foreigner from investment in shares of an Indian company.

(e) Profit earned by a branch of an Indian Bank in Canada.

(f) Scholarship given to Indian students studying in India by a foreign company.

(g) Fees paid by students to school.

(h) Profits earned by branch of a Foreign Bank in India.

(i) Interest paid by an individual on a loan taken to buy a car.

(j) Expenditure on machines for installation in a factory.
(k) Government expenditure on street lighting.

(l) Increase in prices of the shares of a company.

(m) Interest received by an Indian resident from firms abroad.

(n) Expenditure incurred by a foreign tourist in the country.

(o) Construction of a new house.

(p) Rent paid by embassy of Japan in India to an Indian resident.

(q) Imputed rent of self occupied house

(r) Interest received on debentures.

(s) Financial help received by flood victims.

(t) Furniture purchased by household.

**Ans.**

(a) It is factor income from abroad so will be included in national income.

(b) It is transfer receipts, so it is not included in national income.

(c) Not included in National Income, because it is a non-factor receipt as it is used for consumption.

(d) Not included as NF to abroad.

(e) It is a part of NFIA and will be included in national income.

(f) It is transfer receipts, so it is not included in national income.

(g) It is included in national income because it is a part of the private/final consumption expenditure of the house hold.

(h) included in national income because it is part of factor income to abroad.

(i) Not included because it is a non-factor income as loan is not used for production but for consumption.

(j) Included because it results in flow of income through productive activities.

(k) Includes, because it is final consumption expenditure by government.

(l) Not included, because it is capital gain and nothing to do with production.
(m) Included, as it is the part of NFIA.
(n) Included, as it is pradnew within the domestic tearining fixed capital form as:
(o) Included, because it is currently produced output.
(p) included as it is paid to an Indian resident out side the domestic territory of a country. It will be included in NFIA.
(q) Included, as a part of rent as it is payment to self for housing services.
(r) Included, because it is a factor earning.
(s) Not included as it is a transfer payment.
(t) Included, because it is a private final consumption expenditure.

Q. 2. How will you treat the following while estimating domestic factor income of India? Give reasons.

(i) Remittances from non-resident Indian to their families in India.
(ii) Rent paid by the embassy of France in India to a resident Indian.
(iii) Profit earned by branches of Foreign Bank in India.
(iv) Payment of salaries to its staff by embassy located in India.
(v) Interest received by an Indian resident from firms abroad.
(vi) Scholarships given by the Government of India.

Ans. (i) Not included as it is a transfer payment
(ii) Not included because French embassy in India does not fall within the domestic territory of India.
(iii) Included because it falls with in the domestic territory of India.
(iv) Not included as an embassy located in India is not fall with in the domestic territory of India.
(v) Not included in domestic income as it is does not fall with in the domestic territory of India.
(vi) Not included, as it is transfer payment.

Q. 3. Giving reasons explain how should the following be treated in estimating gross domestic product at market price?

(i) Fees to a mechanic paid by a firm.
(ii) Interest paid by an individual on a car loan taken from a bank.
(iii) Expenditure on purchasing a car for use by a firm.

Ans. (i) Fees paid to mechanic by a firm is not included because it is an intermediate cost of the firm and to avoid double earning.
(ii) Interest paid by an individual is not included because the loan is taken to meet consumption expenditure and therefore interest paid on such a loan is not a factor payment.
(iii) Expenditure on purchase a car by a firm is included because it is an investment expenditure, a final expenditure.

**NUMERICAL EXERCISE**

1. Calculate "Sales" from the following data: (Rs. in Lakh)
   - (i) Net value added at factor cost 560
   - (ii) Depreciation 60
   - (ii) Change in Stock (−)30
   - (iv) Intermediate cost 1000
   - (v) Exports 200
   - (vi) Indirect taxes 60

2. Calculate NVA\textsubscript{FC} from the following data (Rs. Crore)
   - (i) Subsidy 40
   - (ii) Sales 800
   - (iii) Depreciation 30
   - (iv) Exports 100
   - (v) Closing stock 20
(vi) Opening stock
(vii) Intermediate purchases
(viii) Purchases of machinery for own use
(ix) Import of raw material

3. From the following information about a firm in an economy, calculate \( GVA_{MP} \) of the firm. (Rs. Crore)

(i) Domestic Sales
(ii) Exports
(iii) Production for self-consumption
(iv) Purchases from firm X
(v) Purchases from firm Y
(vi) Imports of raw materials
(vii) Change in stock

4. Calculate (a) \( NNP_{FC} \) by expenditure method and (b) \( NNP_{FC} \) by value added method: (Rs. Crore)

(i) Net Domestic capital formation
(ii) Net Export
(iii) Private final consumption expenditure
(iv) Value of output
   (a) Primary sector
   (b) Secondary sector
   (c) Territory sector
(v) Value of intermediate consumption
   (a) Primary sector
   (b) Secondary sector
   (c) Territory sector
(vi) Consumption of fixed capital
(vii) Indirect Tax 100
(viii) Government final consumption expenditure 100
(ix) Subsidy 10
(x) Net factor income from abroad (-)20

5. From the following data calculate National Income by income and expenditure method: (Rs. Crore)

   (i) Government final consumption expenditure 100
   (ii) Subsidies 10
   (iii) Rent 200
   (iv) Wages and salaries 600
   (v) Indirect Taxes 60
   (vi) Private final consumption expenditure 800
   (vii) Gross domestic capital formation 120
   (viii) Social security contribution by employers 55
   (ix) Royalty 25
   (x) Net factor income paid to abroad 30
   (xi) Interest 20
   (xii) Net domestic capital formation 110
   (xiii) Profit 130
   (xiv) Net Export 70

6. Calculate 'Intermediate consumption' from the following data:

   (Rs. Lakh)

   (i) Value of output 200
   (ii) Net value added at factor cost 80
   (iii) Sales tax 15
   (iv) Subsidy 5
   (v) Depreciation 20
7. Calculate (a) $\text{GDP}_{MP}$ (b) Factor income earned from Abroad:
(Rs. Crore)

(i) $\text{GNP}_{FC}$
(ii) Profit
(iii) Export
(iv) Compensation of Employees
(v) Change in Stock
(vi) Net Indirect Tax
(vii) Net domestic capital formation
(viii) Gross domestic fixed capital formation
(ix) Net current transfers from rest of the world
(x) Factor income paid to abroad
(xi) Interest
(xii) Rent

8. Calculate (a) Domestic Income (b) Compensation of employees:
(Rs. Crore)

(i) Net factor income from abroad
(ii) Net exports
(iii) Net indirect taxes
(iv) Rent and royalty
(v) Consumption of fixed capital
(vi) Private final consumption expenditure
(vii) Corporate tax
(viii) Interest
(ix) Net domestic capital formation
(x) Dividends
(xi) Government final consumption expenditure
(xii) Undistributed profits
(xiii) Mixed income
9. Calculate Net National Product at Market Price Income

(Rs. Crore)

(i) Net current transfers to abroad 10
(ii) Private final consumption expenditure 500
(iii) Current transfers from government 30
(iv) Net factor income to abroad 20
(v) Net exports (−)20
(vi) Net indirect tax 120
(vii) National debt interest 70
(viii) Net domestic capital formation 80
(ix) Income accruing to government 60
(x) Government final consumption expenditure 100

10. Calculate value of output from the following data: (Rs. Crore)

(i) NVA_{FC} 100
(ii) Intermediate consumption 75
(iii) Excise duty 20
(iv) Subsidy 5
(v) Depreciation 10

11. Calculate GDP_{FC} and factor income to abroad from following data: (Rs. Crore)

(i) Compensation of employees 800
(ii) Profit 200
(iii) Dividends 50
(iv) Gross National Product at Market price 1400
(v) Rent 150
(vi) Interest 100
(vii) Gross Domestic fixed capital formation 200
(viii) Net domestic capital formation: 200
(ix) Change in stock: 50
(x) Factor income from abroad: 60
(xi) Net indirect taxes: 120

**SOLUTIONS OF NUMERICAL EXERCISE**

1. **Sales**
   \[ = (i) - (iii) + (iv) + (ii) + (vi) \]
   \[ = 560 - (-30) + 1000 + 60 + 60 \]
   \[ = Rs. 1710 \text{ Lakh} \]

2. **NVA_{FC}**
   \[ = \text{Sales} + \Delta S - IC - \text{NIT} - \text{Depr.} \]
   \[ = (ii) + (v - vi) - (vii) + (i) - (iii) \]
   \[ = 800 + (-30) - 500 + 40 - 30 \]
   \[ = Rs. 280 \text{ lakh.} \]

3. **GVA_{MP}**
   \[ = \text{Sales} + \text{Change in stock} - IC \]
   \[ = [(i) + (ii) + (iii)] + (vii) - [(iv) + (v) + (vi)] \]
   \[ = (300 + 100 + 50) + 60 - [110 + 70 + 30] \]
   \[ = Rs. 300 \text{ crore.} \]

4. **NNP_{FC}** (Expenditure Method)
   \[ = (i) + (ii) + (iii) + (viii) - (vii) + (ix) - (vi) + (x) \]
   \[ = 250 + 50 + 900 + 100 - 100 + 10 - 80 + (-20) \]
   \[ = Rs. 1110 \text{ Cr.} \]

**NNP_{FC}** (Value added method)

\[ = (iv) - (v) - (vi) - (vii) + (ix) + (x) \]
\[ = (900 + 800 + 400) - (400 + 300 + 100) - 80 - 100 + 10 + (-20) \]
\[ = Rs. 1110 \text{ Cr.} \]
5. National Income $N_{NPFC}$ (Income Method)

\[
= (iv) + (viii) + (iii) + (ix) + (x) + (xii) - (x)
\]
\[
= 600 + 55 + 200 + 25 + 20 + 130 + (-30)
\]
\[
= Rs. 1000 Cr.
\]

National Income (Exp. Method)

\[
= (vi) + (i) + (vii) + (xv) - (vii - xiii) - (v - ii) - (x)
\]
\[
= 800 + 100 + 120 + 70 - 10 - 50 - 30
\]
\[
= Rs. 1000 Cr.
\]

6. Intermediate consumption

\[
= \text{Value of output} - NVA_{FC} - NIT - \text{Depreciation}
\]
\[
= 200 - 80 - (15 - 5) - 20
\]
\[
= 200 - 80 - 10 - 20
\]
\[
= Rs. 90 Lakh.
\]

7. (a) $NDP_{FC} = (iv) + (ii) + (xi) + (xii)$

\[
= 1500 + 500 + 400 + 300
\]
\[
= 2700
\]

$GDP_{MP} = NDP_{FC} + \text{depreciation} + \text{NIT}$

\[
= 2700 + [(viii + v) - vii] + (vi) \quad \therefore \text{dep.} = \text{GDCF} - \text{NDCF}
\]
\[
= 2700 + [(700 + 500) - 650] + 250
\]

$GDP_{MP} = Rs. 3050 Cr.$

(b) Factor Income from abroad (FIFA)

$GNP_{FC} = GDP_{MP} - \text{NIT} + \text{NFIA}$

\[
2800 = 3050 + 250 + \text{NFIA}
\]
\[
2800 = 2800 + (\text{FIFA} - \text{FITA})
\]
\[
0 = \text{FIFA} - 120.
\]

FIFA = Rs. 120 Cr.
8. (a) Domestic Income = (ii) + (vi) + (ix) + (xi) – (iii)
   = 10 + 400 + 50 + 100 – 50
   = Rs. 510 Cr.

(b) Compensation of employees
   = Domestic Income – (iv) – (viii) – (vii) – (x) – (xii) – (xiii)
   = Rs. 400 Cr.

9. $\text{NNP}_\text{MP} = (\text{ii}) + (\text{viii}) + (\text{vii}) + (\text{v}) – (\text{iv})$
   = 500 + 100 + 80 + (–20) – (20)
   = Rs. 640 Cr.

10. Value of output
    
    $\text{NVA}_{\text{FC}} = \text{VO} – \text{IC} – \text{NIT} – \text{Depreciation}$
    $\text{VO} = \text{NVA}_{\text{FC}} + \text{IC} + \text{NIT} + \text{Depreciation}$
    = 100 + 75 + (20 – 5) + 10
    $\text{VO} = \text{Rs. 200 Cr.}$

11. (a) $\text{GDP}_{\text{FC}} = (\text{i}) + (\text{ii}) + (\text{v}) + (\text{vi}) + [(\text{vii} + \text{ix}) – \text{viii}]$
    = 800 + 200 + 150 + 100 + [(200 + 50) – 200]
    $\text{GDP}_{\text{FC}} = \text{Rs. 1300 Cr.}$ \[\therefore \text{Dep} = \text{GDCF} – \text{NDCF}\]

(b) Factor income to abroad

$\text{GNP}_\text{MP} = \text{GDP}_{\text{FC}} + \text{NIT} + \text{NFIA}$
1400 = 1300 + 120 + FIFA − FITA
1400 = 1300 + 120 + 60 − FITA

1400 − 1480 = − FITA

Rs. 80 Cr. = FITA
Points to Remember

- **Money**: Money may be defined as anything which is generally acceptable as a medium of exchange and also acts as common measures of value, store of value and standard of deferred payment.

- **Supply of Money**: Total stock of money (currency notes, coins and demand deposit of banks) in circulation are held by the public at a given point of time.

- **Measures of Money Supply = Currency held by Public + Demand Deposit of a Bank**
  
  \[ M = C + DD + OD \]

- **Commercial Bank**: Commercial Bank is a financial institution who accepts deposits from the general public and provide loans facilities for investment with the aim of earning profit.

- **Demand Deposit**: Demand deposit are those deposit which can be withdrawn from the bank on demand or by writing a cheque any time.

- **Central Bank**: The central Bank is an apex institution of monetary and banking system of country. It makes monetary policy of the country in public interest. It manages, supervises and facilitates the banking system of the country.

![Diagram of Bank, Central Bank, and Commercial Bank](image)
MONEY CREATION OR CREDIT CREATION BY COMMERCIAL BANKS

Commercial Bank's demand deposits are a part of money supply. Commercial banks lend money to the borrowers by opening demand deposit account in their names. The borrowers are free to use this money by writing cheques. According to definition demand deposits are a part of money supply. Therefore, by creating additional demand deposits bank create money. Money creation depends upon two factor: Primary deposits and Legal Reserve Ratio (LRR). Deposit Multiplier = 1/LRR Total Deposit creation = Initial deposit × 1/LRR.

- **Functions of Central Banks**
  1. Bank of Issue
  2. Banker of the Government
  4. Controller of Credit.

TOOLS OF CREDIT CONTROL BY CENTRAL BANK AS RBI

- **Cash Reserve Ratio (CRR)**: This refers to the proportion of total deposit of the commercial bank which they must keep as cash Reserves with Central Bank.

- **Statutory Liquidity Ratio (SLR)**: This refers to liquid assest of the commercial banks which they must maintain (on daily basis) as a minimum percentage of their total deposits.

- **Repo Rate**: It is the rate of interest at which the Central Bank gives short-period loan to the commercial banks.

- **Reverse Repo Rate**: It is the rate of interest at which the central bank of a country borrows money from commercial banks.

- **Bank Rate**: It is the rate of interest at which the central Bank gives long-term loan to the commercial banks.
- **Open Market Operations**: Open market operations refer to the sale and purchase of securities in the open market by the central bank. By selling the securities (like, National Saving Certificates—NSCs), the central bank soaks liquidity (cash) from the economy. And, by buying the securities, the central bank releases liquidity.

- **Margin Requirement**: The margin requirement refers to the difference between the current value of the security offered for loan (called collateral) and the value of loan granted. Suppose, a person mortgages his house worth ₹ 1 crore with).
Exam. Oriented Questions with Answer

VERY SHORT ANSWER TYPE QUESTIONS
(1 MARK)

Q. 1. What are demand deposits?
Ans. Demand deposits refers to those deposits which are repayable by the banks on demand.

Q. 2. Define cash reserve ratio.
Ans. This refers to the proportion of total deposit of the commercial bank, which they must keep as cash reserves with central bank.

Q. 3. Define money supply.
Ans. Money supply refers to the total volume of money held by public at a particular point of time in an economy.

Q. 4. State the components of money supply.
Ans. (1) Currency with public (coins and notes).
(2) Demand Deposits with Commercial Banks.

Q. 5. Define Bank Rate.
Ans. Bank Rate is the rate at which the central bank of a country lends money to commercial banks to meet their long term needs.

Q. 6. What is a Central bank?
Ans. Central Bank is an apex body that controls, operates regulates and directs the entire banking and monetary structure of the country.

SHORT ANSWER TYPE QUESTIONS
(3-4 MARKS)

Q. 1. Explain the "Bankers' Bank function" of the central bank.
Ans. As the banker to the banks, the central Bank holds a part of the cash reserves of commercial banks. From these reserves it lends to commercial banks when they are in need of funds. Central bank also provides cheque clearing and remittance facilities to the commercial banks.
Q. 2. Explain the "Issue function" of the Central Bank.

Ans. The central bank is the sole authority for the issue of currency in the country. It promotes efficiency in the financial system. It leads to uniformity in the issue of currency, and it gives Central Bank control over money supply.

Q. 3. Explain the 'Government's Banks' function of a Central Bank.

Ans. A Central Bank conducts the banking account of government departments. It performs the same banking functions for the government as Commercial Bank performs for its customers. It accepts their deposits and undertakes inter-bank transfer. It also gives loans to the government. A Central Bank also provides various services as agent of the government. It manages public debt. It also gives advice to the government regarding money market, capital market, government loans and economic policy matters.

LONG QUESTION TYPE QUESTION

(6 MARKS)

Q. 1. What do you mean by credit/money creation? Explain the process of money creation by the commercial banks with the help of a numerical example.

Ans. Money creation is a process in which a Commercial Bank creates total deposits many times the initial deposits.

The capacity of Commercial Bank to create depends on two factors:

1. Amount of initial fresh deposit
2. Legal Reserve Ratio LRR

\[
\text{Money Multiplier} = \frac{1}{\text{LRR}}
\]

Money Creation = Initial Deposit \times \text{Money multiplier}.

Working: Suppose (i) Initial Deposit = Rs. 1000
(ii) LRR = 20%
As required, the bank keeps 20% i.e., Rs. 200 as cash reserve and lend the remaining Rs. 800. Those who borrow use the money for making payments. As assumed those who receive these payments put the money back into their bank accounts. This creates a fresh deposit of Rs. 800. The bank again keep 20% i.e., Rs. 160 and lend Rs. 640. In this way the money goes on multiplying leading to total money creation of Rs. 5000.

\[ \text{Money Creation} = \text{Initial Deposit} \times \frac{1}{\text{LRR}} \]

\[ = 1000 \times \frac{1}{0.2} = \text{Rs.} 5000 \]
Points to Remember

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

- **Components of Aggregate demand are:**
  1. Household consumption expenditure (C).
  2. Investment expenditure (I)
  3. Govt. consumption expenditure (G).

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

  In two sector economy \( AD = C + I \).

- **Aggregate supply (AS)** refers to total value of all final goods and services that are planned to be produced by all the producing units in the economy during a given period of time. It is also the value of total output available in an economy during a given period of time.

  \( AS = C + S \)

- Aggregate supply represents the national income of the country.

  \( AS = Y \) (National Income)

- **Consumption function** shows functional relationship between income and consumption.

  \( C = f(Y) \)
where \( C = \text{Consumption} \),
\( Y = \text{National Income} \),
\( f = \text{Functional relationship} \).

**Equation of Consumption Function**

\[
C = \overline{C} + \text{MPC} \cdot Y
\]

\( \overline{C} \) = Autonomous consumption.

\( \overline{C} \) does not change affect by change in income. Consumption expenditure at zero level of income is called autonomous consumption.

- **Consumption function (propensity to consume)** is of two types:
  - (a) Average propensity to consume (APC)
  - (b) Marginal propensity to consume (MPC)

- **Average propensity to consume (APC)**: It refers to the ratio of consumption expenditure to the corresponding level of income.

\[
\text{APC} = \frac{\text{Consumption (C)}}{\text{Income (Y)}} = \frac{C}{Y}
\]

Break even point \( C = Y \)

**Important Points about APC**

1. **APC is more than 1**: as long as consumption is more than national income. It means before the break-even point, \( \text{APC} > 1 \).
2. **APC = 1**: at the break-even point, consumption is equal to national income.
3. **APC is less than 1**: beyond the break-even point. Consumption is less than national income.
4. **APC falls with increase in income.**
5. **APC can never be zero**: because even at zero level of national income, there is autonomous consumption.

- **Marginal Propensity to Consume (MPC)**: Marginal propensity to consume refers to the ratio of change in consumption expenditure to change in income.
\[ \text{MPC} = \frac{\text{Change in Consumption}}{\text{Change in Income}} = \frac{\Delta C}{\Delta Y} \]

Important Points about MPC

- **Value of MPC varies between 0 and 1**: But if the entire additional income is consumed, then \( \Delta C = \Delta Y \), making \( \text{MPC} = 1 \). However, if entire additional income is saved then \( \Delta C = 0 \), making \( \text{MPC} = 0 \).

- **Saving function**: refers to the functional relationship between saving and national income.
  
  \[ S = f(Y) \]

  **Equation of Saving function**
  
  \[ S = \overline{C} + \text{MPS}.Y \]

  where \( S \) = saving
  
  \( Y \) = National Income
  
  \( f \) = Functional relationship.

- **Saving function (Propensity to Save)** is of two types
  
  (i) **Average Propensity to Save (APS)**
  
  (ii) **Marginal Propensity to Save (MPS)**

- **Average Propensity to Save (APS)**: Average propensity to save refers to the ratio of savings to the corresponding level of income.
  
  \[ \text{APS} = \frac{\text{Savings}}{\text{Income}} = \frac{S}{Y} \]

- **Important Point about APS**
  
  1. **APS can never be 1 or more than 1**: As saving can never be equal to or more than income.
  
  2. **APS can be zero**: At break even point \( C = Y \), hence \( S = 0 \).
  
  3. **APS can be negative**: At income levels which are lower than the break-even point, APS can be negative when consumption exceeds income.

  4. APS rises with increases in income.
- **Marginal Propensity to Save (MPS)**: Marginal propensity to save refers to the ratio of change in saving to change in total income. It can't be negative.

  \[
  \text{MPS} = \frac{\text{Change in Savings}}{\text{Change in Income}} = \frac{\Delta S}{\Delta Y}
  \]

- **MPS varies between 0 and 1**, but
  (i) if the entire additional income is saved. In such a case, \( \Delta S = \Delta Y \), then MPS = 1.
  (ii) If the entire additional income is consumed. In such a case, \( \Delta S = 0 \), then MPS = 0.

- **Relationship between APC and APS**
  The sum of APC and APS is equal to one. It can be proved as under we know:

  \[ Y = C + S \]

  Dividing both sides by \( Y \), we get

  \[
  \frac{Y}{Y} = \frac{C}{Y} + \frac{S}{Y}
  \]

  \[
  1 = \text{APC} + \text{APS}
  \]

  \[
  \begin{align*}
  \text{APC} &= \frac{C}{Y} \\
  \text{APS} &= \frac{S}{Y}
  \end{align*}
  \]

  \[
  \text{APC} + \text{APS} = 1.
  \]

  because income is either used for consumption or for saving.

- **Relationship between MPC and MPS**
  The sum of MPC and MPS is equal to one. It can be proved as under:

  We know

  \[
  \Delta Y = \Delta C + \Delta S
  \]

  Dividing both sides by \( \Delta Y \), we get
\[
\frac{\Delta Y}{\Delta Y} = \frac{\Delta C}{\Delta Y} + \frac{\Delta S}{\Delta Y}
\]

\[1 = MPC + MPS \quad \left[\therefore \frac{\Delta C}{\Delta Y} = MPC, \frac{\Delta S}{\Delta Y} = MPS\right]\]

MPC + MPS = 1 because total increment in income is either used for consumption or for saving.

- Capital Formation / Investment refers to increase the stock of capital goods during a financial year.
- The investment expenditure is classified under two heads:
  - (i) Induced investment
  - (ii) Autonomous investment.
- **Induced Investment**: Induced investment refers to the investment which depends on the profit expectations and is directly influenced by income level (only for reference).
- **Autonomous Investment**: Autonomous investment refers to the investment which is not affected by changes in the level of income and is not induced solely by profit motive. It is income inelastic.
- **Ex-Ante Savings**: Ex-ante saving refers to amount of savings which all the household intended to save at different levels of income in the economy at the beginning of period. It is also known as planned savings.
- **Ex-Ante Investment**: Ex-ante investments refers to amount of investment which all the firms plan to invest at different levels of income in the economy at the beginning of the period. It is also known as planned investment.
- **Ex-Post Saving**: Ex-post savings refer to the actual or realised savings in an economy during a financial year at end of the period.
- **Ex-Post Investment**: Ex-post investment refers to the actual or realised investment in an economy during a financial year at the end of the period.
Equilibrium level of income is determined only at the point where AD = AS or S = I. But it cannot always be at full employment level also. It can be at less than full employment level or over full employment level.

**Full employment** is a situation when all those who are able and willing to work at prevailing wage rate, get the opportunity to work.

**Voluntary unemployment** is a situation where person is able to work but not willing to work at prevailing wage rate.

**Involuntary unemployment** is a situation where worker is able and willing to work at prevailing wage rate but does not get work.

**Investment multiplier (K)** is the ratio of change in income (ΔY) due to change in investment ΔI.

\[ K = \frac{\Delta Y}{\Delta I} \quad \text{or} \quad K = \frac{1}{1 - \text{MPC}} \quad \text{or} \quad K = \frac{1}{\text{MPS}} \]

Value of Investment multiplier lies b/w 1 to infinity.

**Excess demand** refers to a situation when aggregate demand exceeds aggregate supply corresponding to full employment.

**Inflationary gap** is the gap by which actual aggregate demand exceeds the level of aggregate demand required to establish full employment. It measures the amount of excess of aggregate demand.

**Deficient Demand**: When AD falls short of AS at full employment it is called deficient demand.

**Deflationary gap** is the gap by which actual aggregate demand is less than the level of aggregate demand required to establish full employment. It measures the amount of deficiency of aggregate demand.

**Ex-ante Consumptions**: Ex-ante refers to the planned consumption at certain level of national income in an economy.

**Induced consumptions**: This refers to that level of consumptions which directly depends on the level of income.
Measures to correct excess demand or deficient demand

Excess Demand

- Fiscal measures
  (a) Increase in tax
  (b) Decrease in govt. spending
  (c) Increase in public debt/borrowing

- Monitoring measures
  (a) Increase in Bank rate/
  Repo rate
  (b) Increase in CRR
  (c) Increase in SLR
  (d) Sale of govt. securities
     through open market operation

Deficient Demand

- Fiscal measures
  (Opposite of excess Demand measures)

- Monetary Measures
  (opposite of excess demand measures)

---

EXAM ORIENTED QUESTIONS WITH ANSWERS

<table>
<thead>
<tr>
<th>VERY SHORT ANSWER QUESTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1 MARK)</td>
</tr>
</tbody>
</table>

**Q. 1.** What is 'aggregate supply' in macroeconomics?

**Ans.** Aggregate supply is the value of total quantity of final goods and services planned to be produced in an economy during a period.

**Q. 2.** Define Marginal propensity to consume.

**Ans.** MPC is the ratio of change in consumption expenditure to 'change in income'.

**Q. 3.** Give meaning of full employment.

**Ans.** Full employment is a situation in which all those who are able and willing to work at the prevailing wage rate get the job.
Q. 4. Define Cash Reserve Ratio (CRR).

Ans. CRr can be defined as the ratio (or fraction) of bank deposits that a commercial bank is required to keep with the central bank.

Q. 5. Define Repo Rate.

Ans. Repo rate is the rate of interest charged by central bank on short term loans given to commercial banks.

Q. 6. Value of MPC can never exceed. Why?

Ans. Because increase in consumption can never exceed increase in income.

**SHORT ANSWER TYPE QUESTIONS**

(3-4 MARKS)

Q. 1. In an economy the MPC is 0.75. Investment expenditure in the economy increase by Rs. 75 Crore. Calculate total increase in national income.

Ans. 

\[ K = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.75} \]

\[ K = \frac{\Delta Y}{\Delta I} \]

\[ 4 = \frac{\Delta Y}{75} \]

\[ \Delta Y = 4 \times 75 = 300 \text{ Crore.} \]

Q. 2. An economy is in equilibrium. Its consumption function is \( C = 300 + 0.8Y \) and investment is Rs. 700 find national income.

Ans. 

\[ C = 300 + 0.8Y \]

\[ Y = C + I \]

\[ Y = 300 + 0.8Y + 700 \]

\[ 0.2Y = 1000 \]

\[ Y = 5000 \]

National Income = Rs. 5000
Q. 3. Giving reasons' state whether the following statements are true or false.

1. When MPC is zero, the value of investment multiplier will also be zero.
2. Value of APS can never be less than zero.
3. When MPC > MPS, the value of investment multiplier will be greater than 5.
4. The value of MPS can never be negative.
5. When investment multiplier is 1, then value of MPC is zero.
6. The value of APS can never be greater than 1.

Ans. 1. False because when MPC = 0
Value of investment multiplier is one $K = 1/(1 – MPC)$.
2. False because APS is negative when there are dissavings
3. True, if MPC is greater than 0.8 and false if MPC > 0.5 but not greater than 0.8. Hence, the statement is falls under given terms & conditions.
4. True, since $MPS = ΔS/ΔY$ and with increase in Income Savings can not decrease.
5. True, because $K = 1/1 – MPC = 1/1 – 0 = 1$.
6. True, because savings can't be greater than Income.

Q. 4. Explain the distinction between voluntary and involuntary employment.

Ans. Voluntary unemployment is a situation where person is able to work but not willing to work at prevailing wage rate. Involuntary unemployment is a situation where worker is able and willing to work at prevailing wage rate but does not get work.

Q. 5. Explain the relationship between investment multiplier and MPC?

Ans. $K = 1/(1 – MPC)$, it shows direct relationship between MPC and the value of multiplier. Higher the proportion of increased income spend on consumption, higher will be value of investment multiplier.
Q. 6. Saving curve of an economy makes a negative intercept of Rs. 30 Crores and 20% of the increased income is saved. Give saving and consumption function.

**Ans.** \( \bar{C} = \text{Rs. 30 Crore} \)

MPS = 0.2

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

\[ = -30 + 0.2Y \]

MPC = \( 1 - 0.2 = 0.8 \)

Hence, Consumption Function is-

\[ C = \bar{C} + bY \]

\[ C = 30 + 0.8Y \]

**LONG ANSWER TYPE QUESTION**

(6 MARKS)

Q. 1. Explain the role of the following in correcting deficient demand in an economy.

1. Open Market Operation
2. Bank Rate

**Ans.**

1. Open market operation refer to the sale and purchase of securities by the Central Bank. In case of deficient demand when AD falling short of AS at full employment, the Central Bank buys securities in the open market and makes payment to the sellers. The money flow out of the Central Bank and reaches the Commercial Bank as deposits. This raises the lending capacity of the banks, people can borrow more. This will raise AD.

2. Incase of deficient demand Central Bank decrease the bank rate which the Central Bank charges on the loan given to commercial bank. This forces the Commercial Banks to reduce lending rate. Since borrowing become cheaper and people borrow more. This will raise AD.
Q. 2. Explain the role of the following in correcting 'Excess Demand in an Economy'.

1. Bank Rate  
2. Open Market Operation

Ans.  
1. To correct excess demand Central Bank can rise the bank rate. This forces Commercial Bank to increase lending rates. This reduces demand for borrowing by the public for investment and consumption. Aggregate demand falls.

2. When there is excess demand. Central Bank sells securities. This leads to flow of money out of the Commercial Banks to the Central Bank. This reduces deposits with the banks leading to decline in their lending capacity. Borrowing declines. AD declines.

Q. 3. Explain the role of following in correcting the deflationary gap in an economy.

1. Govt. Expenditure  
2. Cash Reserve Ratio

Ans.  
1. In a situation of deflationary gap or deficient demand the govt. should raise its expenditure i.e., there will be more economic activities in the economy like, building of roads, bridges, canal etc. This will raise the level of employment. It will in turn increase the income and the purchasing power of community. Thus aggregate demand will rise.

2. During deficient demand, Central Bank reduces the CRR. The result of reducing CRR will be seen in the surplus cash reserves with the banks which can be offered for credit. This will have expansionary effect on the credit position of the banks leading to increase in their lending capacity. As a result borrowing will increase and AD will rise.

Q. 4. Explain the role of margin requirements for correcting the deflationary gap.

Ans. Deflationary gap refers to a situation when at full employment level of income AD falls short of AS. It is also called deficient demand.
Margin requirements refers to the margin on the security provided by the borrower. In case of deflationary gap, Central Bank lowers the margin. As a result the borrowing capacity of the borrowers increase. This will raise AD.

Q. 5. In an economy 75% of the increase in income is spent on consumption. Investment increased by Rs. 1000 Crore. Calculate.
   1. Total increase in income
   2. Total increase in consumption expected.

Ans. MPC = 75% = 75/100 = 3/4.
MPC = 1 – 3/4 = 1/4 K = 4

1. \( \Delta Y = \Delta I \times K \)
   \( DY = 1000 \times 4 \)
   = 4000 Crores

2. MPC = \( \frac{\Delta C}{\Delta Y} \)
   0.75 = \( \frac{\Delta C}{4000} \)
   0.75 \times 400 = \Delta C

   \Delta C = 3000 Crores

Q. 6. In an economy equilibrium level of income of Rs. 1200 Crores. The ratio of MPC to MPS is 3 : 1. Calculate the additional investment needed to reach a new equilibrium level of income of Rs. 2000 crores.

Ans. MPC = \( \frac{3}{4} \) = 0.75

\( K = \frac{1}{(1 – MPC)} = \frac{1}{(1 – 0.75)} = 4 \)
\( \Delta Y = 2000 – 1200 = 800 \) Crores
\( K = \Delta Y / \Delta I \)
\( 4 = 800 / \Delta I \)
\( \Delta I = 200 \) Crores
Q. 7. Differentiate between Repo Rate & Bank Rate.

Ans. Repo Rate is concerned with short-term lending by the Central Bank to commercial banks and is governed by the short term interest rate. While Bank rate is applicable to long term lending by the central bank to commercial banks and is governed by the long-term interest rate.

Q. 7. Explain the steps taken in derivation of the saving curve from the given consumption curve. Use diagram.

Ans. Consumption and saving are the two components of income. i.e., \( Y = C + S \). At all income levels total of consumption and savings is equal to income. This means consumption and income are complementary to one another. If consumption function is known then saving curve can easily be made.

**Steps**

1. Draw a line at 45° from the origin.

2. This will intersect consumption curve CC at point B. Consumption \((C) = \text{Income (Y)}\) at Point B.

3. Draw a perpendicular from Pt. B on X-axis. Foot of the perpendicular meets x-axis at point A. Savings is zero at Point A.

4. Now take a point \( S \), on the negative on y-axis such that \( OS \), equal \( OC \), So \( S_1 \) is the initial point of saving.

5. In the last, draw a line from \( S_1 \) to A, and extend it upto \( S \). Thus \( SS_1 \) is the required saving curve.
Q. 9. Explain the steps taken in derivation of the consumption curve from the given saving curve. Use diagram.

Ans. For the saving curve $S_1S$, consumption curve can be drawn.

Steps

1. First of all, draw a line at $45^\circ$ from the origin.
2. Take a point $C$ on the $y$-axis positive intercept such that $OS_1 = OC$. Thus $C$ is the initial point of the consumption curve.
3. Point $B$ on the $x$-axis represents zero saving. Draw a perpendicular from $B$ point which intersect as line at $E$. At Point $E$, consumption $(C) = \text{Income (Y)}$.
4. In the last, draw a line connecting $C$ and point $E$. Thus $Cc$ is the required consumption curve.

![Diagram of consumption and saving curves]

**VERY SHORT AND SHORT ANSWER TYPE QUESTIONS (1 MARK AND 3 MARKS)**

1. State whether the following statement are true or false. Give reason for your answer.

   (a) When investment multiplier is 1, the value of MPC is zero.

   (b) The value of average propensity to save can never be greater than 1.
2. Giving reasons, state whether the following statements are true or false:
   (i) When marginal propensity to consumer is zero, the value of investment multiplier will also be zero.
   (ii) Value of average propensity to save can never be less than zero.

3. Find national income from the following: autonomous consumption = Rs. 100, marginal propensity to consume = 0.80, investment = Rs. 50.

4. Calculate APS and MPS from the following table:

   Income (Rs. 000) :  0   100   200   300   400
   Consumption (Rs. 000) :  40  120  200  280  360
   Expenditure

5. Complete the table

<table>
<thead>
<tr>
<th>Income (Rs.)</th>
<th>MPC (Rs.)</th>
<th>Saving (Rs.)</th>
<th>APS (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>–</td>
<td>–90</td>
<td>–</td>
</tr>
<tr>
<td>100</td>
<td>0.6</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>200</td>
<td>0.6</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>300</td>
<td>0.6</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

LONG ANSWER TYPE QUESTIONS
(6 MARKS)

1. Why must aggregate demand be equal to aggregate supply at the equilibrium level of income and output? Explain with the help of a diagram?

2. Explain the equilibrium level of income with the help of saving and investment curves. If planned saving exceed planned investment, what changes will bring about the equality between them?

3. Explain the working of multiplier with the help of a numerical example.
4. When planned investment is more than planned savings, what will be its impact on income and employment. Explain with the help of diagram.

5. Distinguish between excess demand and deficient demand.

6. In an economy $S = -50 + 0.5Y$ is the saving function (where $S$ - saving and $Y =$ national income) and investment expenditure is 700. Calculate:
   (i) Equilibrium level of national income
   (ii) Consumption expenditure at equilibrium level of national income.

7. In an economy consumption function $(C) = 75 + 0.9y$ and investment expenditure of Rs. 400 crore. Calculate:
   (i) Equilibrium level of income
   (ii) Saving at equilibrium level of national income.

8. Given below is the consumption function in an economy.
   \[ C = 100 + 0.5Y \]
   With the help of a numerical example show that in this economy, as income increases APC will decrease.

9. Draw a straight line saving curve from the given consumption curve, explaining the steps of derivation. Show a point on the consumption curve at which APC is equal to 1.

10. Briefly explain the concept of under employment equilibrium with the help of diagram. How increase in investment helps in achieving, full employment equilibrium?

11. What is 'deficient demand' in marcoeconomics? Explain the role of open market operations in correcting it.

12. Explain the step taken in derivation of the saving curve from the given consumption curve use. Use diagram.
13. If MPC in the economy is 0.8. Complete the following table:

<table>
<thead>
<tr>
<th>Income (Rs.) (Y)</th>
<th>Consumption (Rs.) (C)</th>
<th>Saving (Rs.) (S)</th>
<th>Investment (Rs.) (I)</th>
<th>AD (C+I)</th>
<th>AS (C+S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>-60</td>
<td>40</td>
<td>40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td></td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200</td>
<td></td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>300</td>
<td></td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>400</td>
<td></td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>500</td>
<td></td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>600</td>
<td></td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>700</td>
<td></td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. In an economy total autonomous spending \( \bar{A} \left( \bar{C} + \bar{I} \right) \) is Rs. 50 and MPS is 0.2. Equilibrium level of income is Rs. 4000 crore, find planned AD and also explain that economy is in equilibrium?

15. At a result of increase in investment by Rs. 100 Crore, national income rises by Rs. 500 crore. Find out marginal propensity to consume and value of investment multiplier.

16. We know that value of investment multiplier directly depends upon MPC. More MPC means more value of investment multiplier. It leads to more generation of national income Why does under developed economy is less even though there is more MPC? Explain.

**ANSWER OF 3 MARKS QUESTIONS**

3. \[ K = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.8} = \frac{1}{0.2} = 5 \]

\[ \Delta Y = K \Delta I = 5 \times 50 = \text{Rs. 250 Crore} \]
4. 

<table>
<thead>
<tr>
<th>Income (Rs. 1000)</th>
<th>Consumption Expenditure (Rs. 1000)</th>
<th>MPC (DC/DY)</th>
<th>APS (S/Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>40</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>100</td>
<td>120</td>
<td>0.8</td>
<td>–0.2</td>
</tr>
<tr>
<td>200</td>
<td>200</td>
<td>0.8</td>
<td>0</td>
</tr>
<tr>
<td>300</td>
<td>280</td>
<td>0.8</td>
<td>0.067</td>
</tr>
<tr>
<td>400</td>
<td>360</td>
<td>0.8</td>
<td>0.1</td>
</tr>
</tbody>
</table>

5. 

<table>
<thead>
<tr>
<th>Income</th>
<th>MPC</th>
<th>Savings</th>
<th>APS</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>–</td>
<td>–90</td>
<td>–</td>
</tr>
<tr>
<td>100</td>
<td>0.6</td>
<td>–50</td>
<td>–0.5</td>
</tr>
<tr>
<td>200</td>
<td>0.6</td>
<td>–10</td>
<td>–0.05</td>
</tr>
<tr>
<td>300</td>
<td>0.6</td>
<td>30</td>
<td>0.1</td>
</tr>
</tbody>
</table>

6 MARKS QUESTIONS

6. Given \( S = -50 + .5Y \) \( 00 \) \( I = > 00 \)

(i) At equilibrium

\[ S = L \]

\[ So - 50 + .5Y = > 00 \]

\[ .5Y = > 50 \]

\[ Y = \frac{> 50}{.5} = 1500 \]

(ii) \( Y = C + S \)

\[ C = Y - S \]

\[ = 1500 - > 00 \text{ (as } I = S \}

\[ = 800 \]
7. Here \( C = 75 + .9Y \quad 00 \quad I = 400 \)

So \( S = 75 + .1Y \)

(i) at equilibrium

\( I = S \)

\(-75 + .1Y = 400\)

\( .Y = 475 \)

\( Y = \frac{475}{.1} = 4750. \quad Y = 4750 \)

(ii) at equilibrium

\( S = 1 \)

So saving = 400

13.

<table>
<thead>
<tr>
<th>Income ((Y))</th>
<th>Consumption ((C))</th>
<th>Saving ((S))</th>
<th>Investment ((I))</th>
<th>AD ((C+I))</th>
<th>AS ((C+S))</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>60</td>
<td>-60</td>
<td>40</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>100</td>
<td>140</td>
<td>-40</td>
<td>40</td>
<td>180</td>
<td>100</td>
</tr>
<tr>
<td>200</td>
<td>220</td>
<td>-20</td>
<td>40</td>
<td>260</td>
<td>200</td>
</tr>
<tr>
<td>300</td>
<td>300</td>
<td>0</td>
<td>40</td>
<td>340</td>
<td>300</td>
</tr>
<tr>
<td>400</td>
<td>380</td>
<td>20</td>
<td>40</td>
<td>420</td>
<td>400</td>
</tr>
<tr>
<td>500</td>
<td>460</td>
<td>40</td>
<td>40</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>600</td>
<td>540</td>
<td>60</td>
<td>40</td>
<td>580</td>
<td>600</td>
</tr>
<tr>
<td>700</td>
<td>620</td>
<td>80</td>
<td>40</td>
<td>660</td>
<td>700</td>
</tr>
</tbody>
</table>

14. Given \( MPS = 0.2 \)

\[ MP_C = 0.8 \quad C = \bar{C} + 0.8Y \]

\[ AD = C + 1 \quad \text{Given} \]

\[ = \bar{C} + 0.8Y + \bar{I} \quad \bar{C} + \bar{I} = \bar{A} = 50 \]

\[ = \bar{A} + 0.8Y \]

\[ AD = 50 + 0.8Y \]
AD = 50 + 0.8 \times 4000
= 3250

In Equilibrium

AS = AD
Y = AD
4000 \neq 3250

Economy will not be in equilibrium because AD is not equal to AS.

15. \quad K = \frac{\Delta Y}{\Delta l} = \frac{500}{100} = 5
K = 5

\quad K = \frac{1}{1 - MPC}

5 = \frac{1}{1 - MPC}
5 - 5 \text{ MPC} = 1
5 = 1 + 5 \text{ MPC}
5 - 1 = 5 \text{ MPC}
4 = 5 \text{ MPC}

\quad \text{MPC} = \frac{4}{5} = 0.8

\quad \text{MPC} = 0.8.
Points to Remember

- **Budget** is a financial statement showing the expected receipt and expenditure of Govt. for the coming fiscal or financial year.

- **Main objectives of budget** are:
  1. Realignment of resources.
  2. Redistribution of income and wealth.

- There are two components of budget:
  1. Revenue budget
  2. Capital budget

- **Revenue Budget** consists of revenue receipt and revenue expenditure of the government.

- **Capital budget** consists of capital receipts and capital expenditure of the government.
- **Direct Tax**: When Government imposes a tax on a person and paid by the same person is called direct tax. Its burden cannot be shifted to others. For example: Income Tax, Property Tax.

- **Indirect Tax**: When Government imposes a tax on a person but partially or wholly paid by other person is called indirect tax. Its burden can be shifted to others. For example: Sales Tax, Excise duty VAT, GST.

- **Revenue Receipts**:
  1. Neither creates liabilities for government.
  2. Nor causes any reduction in assets.
  3. Recurring in nature.

- **Capital Receipts**:
  1. Either creates liabilities of the government.
  2. or reduces assets of the government.
  3. Non-recurring in nature.

```
BUDGET EXPENDITURE

Revenue Expenditure
  e.g. Interest Payment, subsidies,
    Defence Services, Salaries etc.

Capital Expenditure
  e.g. Construction of school building
        * Repayment of loans
        Purchasing of shares,
        land and Machines etc.
```

- **Revenue Expenditure**:
  1. Neither creates assets
  2. Nor reduces liabilities
  3. Recurring Nature

- **Capital Expenditure**:
  1. Either creates assets
  2. or reduces liabilities.
  3. Non-recurring Nature

- Revenue deficit is the excess of total revenue expenditure over total revenue receipts of the government.

- **Revenue Deficit**: Total revenue expenditure > Total revenue receipts

- **Implications of Revenue Deficit are**:
  1. It leads to repayment burden in future without investment.
  2. It shows wasteful expenditures of Govt. on administration.
  3. It increase the burden of taxes.
- **Fiscal Deficit**: Total expenditures – Total Receipts excluding borrowing.
- **Fiscal Deficit**: Fiscal deficit is the excess of the government total expenditure over total receipts excluding borrowing.
- **Implications of Fiscal Deficits are**:
  1. It leads to inflationary pressure.
  2. A country has to face debt trap.
  3. It reduces future growth and development.
- **Primary Deficit**: By deducting Interest payment from fiscal deficit we get primary deficit.
- **Primary Deficit**: Fiscal deficit – Interest payments.
Exam. Oriented Questions with Answer

VERY SHORT ANSWER QUESTION
(1 MARK)

Q. 1. Why is recovery of loans treated as a capital receipt?
Ans. Because it reduces assets of the government.

Q. 2. Why are borrowing a capital receipt?
Ans. Because they create a liability for the government.

Q. 3. Give two examples of revenue receipts?
Ans. (i) Tax receipts (ii) Income from Public enterprises

Ans. Government Budget is an annual statement of estimated receipts and expenditure during a fiscal year.

Q. 5. Define revenue Budget.
Ans. Revenue Budget is the statement of estimated revenue receipts and estimated revenue expenditure during a year.

Ans. It refers to the selling of shares of PSU held by the government.

Q. 7. What is capital budget.
Ans. Capital Budget shows estimated capital receipts and capital expenditure during a fiscal year.

Q. 8. What is direct tax? Give an example.
Ans. A direct tax is one final burden of which falls on that very person who is liable to pay it to the government. Example : Income tax.

Ans. An Indirect tax is that tax which is initially imposed on and paid by one individual, but the burden of which is passed over to some other person who ultimately bears it.
Example : (i) Sales tax (ii) VAT.
**QUESTIONS WITH ANSWERS**

**3-4 MARKS**

**Q. 1.** Explain the 'redistribution of income' objective of a government budget.

**OR**

Explain how the government budget can help in a fair distribution of income in the economy.

**Ans.** Budgetary policies are useful medium to reduce inequalities of income or the fair distribution of income. Government can use tax policy and public expenditure as a tool. Government can reduce the disposable income and wealth of Rich by imposing heavy tax and can spend more on providing free services to the poor. It raises the disposable income and welfare of the poor.

**Q. 2.** Explain the "Reallocation of resources" objective of a government budget.

**Ans.** Through its Budgetary policy the government directs the allocation of resources in a manner such that there is a balance between the goal of profit maximisation and social welfare. Government can provide subsidy and reduction in tax rate to motivate investment into areas where private sector initiative is not coming.

**Q. 3.** Distinguish between revenue receipts and capital receipts with the help of example:

**Ans.**

<table>
<thead>
<tr>
<th>Revenue Receipts</th>
<th>Capital Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. These receipt do not create any liability for government.</td>
<td>1. These receipt create liability for the Govt.</td>
</tr>
<tr>
<td>2. These receipts do not cause any reduction in assets.</td>
<td>2. These receipts cause a reduction in assets of the Govt.</td>
</tr>
</tbody>
</table>
Q. 4. Distinguish between Revenue Expenditure and Capital Expenditure with the help of example:

**Ans.**

<table>
<thead>
<tr>
<th><strong>Revenue Expenditure</strong></th>
<th><strong>Capital Expenditure</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. These expenditure do increase govt. assets</td>
<td>1. These expenditure increase not the govt. assets.</td>
</tr>
<tr>
<td>2. These expenditure do not cause any reduction in govt. liability</td>
<td>2. These expenditure cause reduction in govt. liability.</td>
</tr>
<tr>
<td>3. Example: Transfer payment by government.</td>
<td>3. Example: Repayment of loan by government.</td>
</tr>
</tbody>
</table>

Q. 5. Distinguish between Direct and Indirect Tax:

**Ans.**

<table>
<thead>
<tr>
<th><strong>Direct Tax</strong></th>
<th><strong>Indirect Tax</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Direct tax is a tax whose to pay and incidence liability to lie on the same person.</td>
<td>1. The liability to pay and incidence liability of indirect tax do not lie on the same person.</td>
</tr>
<tr>
<td>2. Its incidence can not be to some other person.</td>
<td>2. Its incidence can be shifted to shifted some other person.</td>
</tr>
</tbody>
</table>

Q. 6. What is meant by fiscal deficit. Write its implications.

**Ans.**

Fiscal deficit is equal to excess of total expenditure over the sum of revenue receipts and capital receipts excluding borrowings i.e., Fiscal deficit means borrowing of the government.

Fiscal Deficit = Total expenditure – Total receipts net of borrowings.

Implication of Fiscal Deficit:

1. It increases the supply of money in the economy.
2. It increases financial burden for future generation.
3. It is cause of inflation.
Q. 7. What is revenue deficit? State its implications.

Ans. Revenue deficit is the excess of total revenue expenditure over total revenue receipts.

Implication: 1. It implies that government is dis-saving.

2. It implies that the government is spending more than the current income.

3. A high revenue deficit gives a warning signal to the government to either curtail its expenditure or increase its revenue.

Q. 8. Calculate (1) Revenue deficit (2) Fiscal Deficit (3) Primary Deficit by following Data:

<table>
<thead>
<tr>
<th>Items</th>
<th>(Rs. Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Receipts other than borrowings</td>
<td>95</td>
</tr>
<tr>
<td>Revenue Expenditure</td>
<td>100</td>
</tr>
<tr>
<td>Interest payment</td>
<td>10</td>
</tr>
<tr>
<td>Revenue Receipts</td>
<td>80</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>110</td>
</tr>
</tbody>
</table>

Ans. 1. Revenue deficit = Revenue expenditure – Revenue Receipts

= 100 – 80 = Rs. 20 Crore.

2. Fiscal Deficit = (Recunee Expenditure + Capital Expenditure) – Revenue Receipts – Capital receipts net of borrowings

= 100 + 110 – 80 – 95 = Rs. 35 Crore.

3. Primary deficit = Fiscal Deficit – Interest Payment

= 35 – 10 = Rs. 25 Crore.

Q. 9. Find (a) fiscal deficit (b) primary deficit.

<table>
<thead>
<tr>
<th>Items</th>
<th>in Rs. crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Revenue expenditure</td>
<td>70,000</td>
</tr>
<tr>
<td>(ii) Borrow wings</td>
<td>15,000</td>
</tr>
<tr>
<td>(iii) Revenue Receipts</td>
<td>50,000</td>
</tr>
<tr>
<td>(iv) Interest Payments</td>
<td>25% of Revenue deficit</td>
</tr>
</tbody>
</table>
**Sol.** Revenue Deficit = Revenue exp — Revenue Rec
    = 70,000 - 50,000
    = 20,000 crore

Interest Payment = 25% of Revenue deficit
    = 25x20,000
    = 500
    = 5,000 crore

(a) Fiscal Deficit = Borrowings
    = 15,000 crore

(b) Primary Deficit = Fiscal Deficit - Interest Payment
    = 15000-5000=10,000 crore
UNIT-V
CHAPTER-5

BALANCE OF PAYMENT

Points to Remember

- The balance of payment is a comprehensive and systematic record of all economic transactions between normal residents of a country and rest of the world during an accounting year.

In other words BOP is a record of inflows and outflows of foreign exchange.

ACCOUNTS OF BALANCE OF PAYMENTS

- Current Account
  - The current account records exports and imports of goods and services and unilateral transfers.

- Capital Account
  - It records all such transactions between normal residents of a country and rest of the world which cause change in assets and liabilities during an accounting year.

Components of Current Account

1. (Import and export of goods) (Visible items).
2. (Import and export of services) (Invisible items).
3. Unilateral transfers

Components of Capital Account

1. Foreign Direct investment and portfolio investment.
2. Foreign loans
3. Change in foreign exchange reserve.

- The components of current account do not cause a change in assets or Liabilities status of the residents of a country or its Government.

- The components of Capital accounts cause change in assets or Liability status of the residents and the Government of a country.
- **Balance of trade** is the net difference of import and export of all visible items between the normal residents of a country and rest of the world.

- **Autonomous items** are those items of balance of payment which are related to such transaction as are determined by the motive of profit maximisation and not to maintain equilibrium in balance of payments. These items are generally called 'Above the Line items' in balance of payment.

- **Accommodating items** refers to transactions that take place because of other activity in Balance of Payment. These transactions are meant to restore the Balance of Payment identity. These items are generally called 'Below the Line items'.

- **Deficit of BOP Account** : When total inflows of foreign exchange on account of autonomous transactions are less than total outflows on account of such transaction then there is a deficit in BoP.

- **Foreign Exchange Rate** : Foreign exchange rate refers to the rate at which one unit of currency of a country can be exchanged for the number of units of currency of another country.

  ![System of Exchange Rate Diagram]

  - **Fixed exchange rate**
  - **Managed floating exchange rate**
  - **Flexible exchange rate**

- **Fixed Exchange Rate** : In fixed exchange rate system, the rate of exchange is officially fixed or determined by Government or Monetary Authority of the country.

- **Flexible or Floating Exchange Rate** : In a system of flexible exchange rate (also known as floating exchange rates), the exchange rate is determined by the forces of market demand and market supply of foreign exchange.

- The demand of foreign exchange have inverse relation with flexible exchange rate. If flexible exchange rate rises the demand of foreign exchange falls and Vice versa.
The Sources of Demand for Foreign Exchange

(a) To purchase goods and services from the rest of world.
(b) To purchases financial assets (i.e., to invest in bonds and equity shares) in a foreign country.
(c) To invest directly in shops, factories, buildings in foreign countries.
(d) To send gifts and grants to abroad.
(e) To speculate on the value of foreign currency.
(f) To undertake foreign tours.

The supply of foreign exchange have positive relation with foreign exchange rate. If foreign exchange rate rises the supply of foreign exchange rate also rises and vice versa.

The Source of Supply of Foreign Exchange

(i) Direct purchase by foreigners in domestic market.
(ii) Direct investment by foreigners in domestic market.
(iii) Remittance by non-residents living abroad.
(iv) Flow of foreign exchange due to speculative purchases by N.R.I.
(v) Exports of goods and services.

Determination of Equilibrium Foreign Exchange Rate:
Equilibrium foreign exchange rate is the rate at which demand and supply of foreign exchange are equal. Under free market situation, it is determined by market forces i.e., demand for and supply of foreign exchange. There is inverse relation between demand for foreign exchange and exchange rate. There is direct relationship b/w supply of foreign exchange and exchange rate. Due to above reasons demand curve downward sloping and supply curve is upward sloping curve Graphically, intersection of demand curve and supply curve determine the equilibrium foreign exchange rate (i.e., or).
- **Devaluation of a Currency**: When government or monetary authority of a country officially lowers the external value of its domestic currency (in respect of all other foreign currency) is called devaluation of a currency. It takes place by government order under fixed exchange rate system.

- **Revaluation of a currency**: When government or monetary authority of a country officially raises the external value of its domestic currency (in respect of all other foreign currency) is called revaluation. It takes place by government order under fixed exchange rates system.

- **In currency depreciation** there is a fall in the value of domestic currency, in term of foreign currency due to change in demand and supply of the currency under flexible exchange rate system.

- **In currency appreciation**, there is a rise in the value of domestic currency in terms of foreign currency due to change in demand and supply of the currency under flexible exchange rate system.

- **Managed floating system** is a system in which the central bank allows the exchange rate to be determined by market forces but intervenes at times to influence the rate. When central bank finds the rate is too high, it starts selling foreign exchange from its reserve to bring down it. When it finds the rate is too low, it starts buying to raise the rate.
Exam. Oriented Questions with Answers

VERY SHORT ANSWER QUESTION
(1 MARK)

Q. 1. Define foreign exchange rate.
Ans. Foreign exchange rate is the price of a foreign currency in terms of domestic currency.

Q. 2. What is foreign exchange?
Ans. Any currency other than the domestic currency.

Q. 3. What is balance of payment accounts?
Ans. It is a systematic record of all economic transactions between the residents of a country and the rest of the world in a given period (one year) of time.

Ans. Exports and Foreign Tourism.

Q. 5. State two sources of demand of foreign exchange.
Ans. Import of goods and services and to get education in abroad.

Q. 6. What does a deficit in balance of trade indicate?
Ans. Deficit in balance of trade indicates that the imports of goods are greater than the exports.

Q. 7. What is fixed exchange rate?
Ans. When rate of exchange is fixed by the government in an economy.

Q. 8. Define flexible exchange rate.
Ans. The rate of exchange in terms of other currencies are determined by market forces of demand and supply.

Ans. It is a system in which the Central Bank or government allows the exchange rate to determined by market forces but they take decisions to intervene whenever they feel it appropriate.
SHORT ANSWER TYPE QUESTIONS
3-4 MARK

Q. 1. State the components of capital account of balance of payment.
Ans. 1. Borrowing and lending to and from abroad.
2. Investment to and from abroad.
3. Change in foreign exchange reserves.

Q. 2. What are the components of current account of the BOP account?
Ans. 1. Exports and imports of goods
2. Exports and imports of services
3. Unilateral transfers

Q. 3. Explain the meaning of deficit in BOP.
Ans. When autonomous foreign exchange payments exceed autonomous foreign exchange receipts, the difference is called balance of payments deficit.

Q. 4. Distinguish between devaluation and depreciation of domestic currency.
Ans. When government or authorities reduce the price of domestic currency in terms of all foreign currencies is called devaluation. The fall in market price of domestic currency (due to demand and supply in the market) in terms of a foreign currency is called depreciation.

Q. 5. When price of a foreign currency rises its supply also rises. Explain? Why?
Ans. If exchange rate increases, this will make domestic country's goods cheaper to foreigners. The demand for our exports will rise. It implies more supply of foreign exchange.

Q. 6. Indian investors lend abroad. Answer the following questions:
(a) In which sub-account and on which side of the Balance of Payments Account such lending is recorded? Give reasons.
(b) Explain the impact of this lending on market exchange rate.
Ans. (a) Indians lending abroad is recorded in capital account of BOP account because it leads to creation of foreign exchange assets. It is recorded on the debit side because it leads to outflow of foreign exchange.

(b) Lending abroad increases demand for foreign exchange. Supply of foreign exchange remains unchanged, exchange rate may rise.

Q. 7. Distinguish between autonomous transactions and accommodating transaction of balance of payments accounts.

Ans. **Autonomous Transactions:** A balance of payment transaction which is independent of all other BOP transactions is called an autonomous transaction. It is undertaken with a view to earn profit.

**Accommodating Transactions:** A balance of payment transaction undertaken to cover deficit or surplus in autonomous transactions are called accommodating transaction. It is not undertaken with a view to earn profit.

Q.8. What do you mena by official reserve transation? How it is treatect in BoP account.

Ans. Official reserve transaction is the change in the forex reserve with RBI. It is recorded in capital account of BoP. Any decrease in reserve is recorded in credit side and increase in forex recorded in debit side of capital account of BoP. (St must be noted only change is recorded)


Ans. Balance of trade is the difference between export and import of visible items. It is a narrow concept as it is only a part of current A/c balance.

Current A/c balance is the difference between the exports and imports of visible and invisible items. It is wider concept as it includes balance of trade.
UNIT-06
DEVELOPMENT EXPERIENCES (1947-90) AND ECONOMIC REFORMS SINCE 1991

1. Indian Economy On The Eve Of Independence
2. Indian Economy (1950-90)
   (Common Goals of Five Years Plan : Development During Planning Era)

UNIT-07
CURRENT CHALLENGES FACING INDIAN ECONOMY

4. Poverty
5. Rural development
6. Human Capital Formation
7. Employment
8. Infrastructure
9. Sustainable Economic Development

UNIT-08
DEVELOPMENT EXPERIENCE OF INDIA

10. A comparison with neighbours:
    (a) India and Pakistan
    (b) India and China
UNIT-VI
CHAPTER - 1
INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

Introduction
The structure of India's present day economy is not just of current making; it has its roots steeped in history. Before British colonization, India was known as "Sone ki Chidiya" or "The Golden Bird". The sole purpose of the British colonial rule in India was to reduce the country to being a raw material supplier for Great Britain's own rapidly expanding modern industrial base. An understanding of the exploitative nature of this relationship is essential for any assessment of the kind and level of development which the Indian economy has been able to attain over the last seven decades.

Features of Indian economy
India had an independent economy before the advent of the British rule.

- agriculture was the main source of livelihood for most people
- India was particularly well known for its handicraft industries in the fields of cotton and silk textiles, metal and precious stone works etc.
- Worldwide high standards of craftsmanship were seen in all imports from India.

The economic policies pursued by the colonial government in India were concerned more with the protection and promotion of the economic interests of their home country than with the development of the Indian economy. Such policies brought about a fundamental change in the structure of the Indian economy transforming the country into supplier of raw materials and consumer of finished industrial products from Britain. On the eve of independence, Indian economy had the following features:

1. **Low level of National income and per capita income and its' growth rate:**

   There was no official body in India to prepare National Income estimate before Independence, the same was prepared by some eminent personalities in their personal capacity. Dadabhai Naoroji, called the Grand Old Man of India, was the pioneer in this field. He prepared the first estimates of National income in 1876. The first person to adopt a scientific procedure in estimating the national income was Dr. V.K.R.V. Rao in 1931. Among the notable other estimators - --- William Digby, Findlay Shirras, and R.C. Desai etc. in 1947-48, per capita income was Rs. 230. People were poor. They were not getting fair square meals a day. They had no shelter and clothing. Most of the people were unemployed. There was very slow growth of economy i.e. the average annual growth rate of national income and per capita income in India was 2.0% and 0.5% approximately.

   Our economy had been a victim of enormous exploitation. Our natural resources, iron ores, gold mines, wealth and manpower was subject to intense exploitation. Due to these atrocities, the Indian economy on the eve of independence showed poor/low economic growth.
2. **Backwardness of Agricultural Sector:** Before 1947, over 95% of the country's income came from its agricultural activity. About 85 per cent of the country's population lived mostly in villages and derived livelihood directly or indirectly from agriculture. Agricultural productivity became low due to under cultivation, forced commercialization of agriculture (neel farming, chalbagan, etc), and various systems of land settlement as zamindari, rytwari and malhalwari. Particularly, under the zamindari system which was implemented in the then Bengal Presidency comprising parts of India's present-day eastern states, the profit accruing out of the agriculture sector went to the zamindars instead of the cultivator. Due to partition the India's part of Bengal had Juit producing land and East-Pakistan had Juit Mills.

3. **Low Industrial Base Slow Industrial Growth:** Before the British period, India's well-known industry was the handicraft and textile industry. India was well-known for its industries in cotton and silk textiles as well. And in addition, Indians were excellent in metal and precious stonework as well. When the Britishers came, they were followers of de-industrialization in India. The primary motive of the colonial government behind this policy of systematically tie-industrialising was twofold.---

    (1) To reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain
    (2) To turn India into a sprawling market for the finished products of those industries so that their continued expansion could be ensured to the maximum advantage of their home country — Britain.

The decline of the indigenous handicraft industries created ---

1. Massive unemployment in India
2. New demand in the Indian consumer market,
3. Deprived of the supply of locally made goods.
4. Increase imports of cheap manufactured goods from Britain.

During the second half of the nineteenth century, modern industry began to take root in India but its progress remained very slow. Initially, this development was confined to the setting up of cotton and jute textile mills. The cotton textile mills, mainly dominated by Indians, were located in the western parts of the country, namely, Maharashtra and Gujarat, while the jute mills dominated by the foreigners were mainly concentrated in Bengal. Subsequently, the iron and steel industries began coming up in the beginning of the twentieth century. The Tata Iron and Steel Company (TISCO) was incorporated in 1907. A few other industries in the fields of
sugar, cement, paper etc. came up after the Second World War. Capital goods industry means industries which can produce machine tools which are, in turn, used for producing articles for current consumption. The growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small. Another significant drawback of the new industrial sector was the very limited area of operation of the public sector. This sector remained confined only to the railways, power generation, communications, ports and sonic other departmental undertakings. Due to the limited growth of the PSEs and the lopsided industrial structure, the growth of the modern industry was slow. In addition, there was a lack of basic and heavy industries.

4) **Foreign trade characteristic:**
   a) Net exporter of raw material likes, silk, Cotton, Wool, Sugar, Neel, Patson, unit etc and importer of finished goods.
   b) Britain had monopoly control on foreign trade.
   c) Wealth drain from India.
   d) War expenditures of Britain was a border of India. First regular cases of India started from 1881. From 1981 to 1921 India was belong to I-phase of demographic transition and II-Phase was started from 1921. 1921 was a great devide year in the demographic history when population growth rate was negative.

5) **Adverse demographic condition:**
   a) High death rate - 45 per thousand.
   b) High infant mortality rate - 218 per thousand.
   c) Mass illiteracy - 84% literate.
   d) Low life expectancy - 32 years
   e) Low standard of living - people used to spend 80% to 90% of their income on basic needs.
   f) Lack of public health facilities.

6) **Underdeveloped infrastructure:**
   Absence of good roads, electricity generation, health, education and communication. However some efforts have been made to develop basic infrastructure like roads, railways, parts, water transport, post and telegraph by the British rulers. The main motive was not to provide basic amenities to the Indian people but for their colonial interest.
7) **More Dependency on primary sector occupation structure:**
   a) Largest share of work force i.e. 72% of total work force was engaged in agriculture and allied sector.
   b) 10% work force in manufacturing 18% workforce were engaged in service sector.

- **Some positive side - effects of the British Rule in India.**
  a) To provide transport facilities, largely in terms of railways.
  b) Development of ports.
  c) Provision of post and the telegraph services.
  d) British govt. left a base of a strong and efficient administrative set up.
  e) Political and economic integration of the country.
  f) Evolution of Banking and monetary system.

- **Some negative side effects of the British Rule in India:**
  a) Decline of Indian handicraft industry.
  b) Net exporter of raw material and importer of finished goods.
  c) Britain had monopoly control on foreign trade.
  d) Forced commercialisation of agriculture.
QUESTION BANK

ONE (1) MARKS QUESTIONS :-
1) What do you mean by infant mortality rate ?
2) What is meant by commercialisation of agriculture ?
3) What was the infant mortality rate of Indian during British rule ?
4) State the life expectancy in Indian during British rule ?
5) What does the export surplus mean ?
6) The British official census in India occurred in which year ?
7) Which industries were adversely effected due to partition ?
8) Give the name of one economist who estimated India's per capita income during colonial period ?
9) At the time of independence literacy rate was ?
10) What percentage of India's working population was engaged in secondary sector during British rule ?

THREE & FOUR (3 & 4) MARKS QUESTIONS :-
1) Mention four features of India's agriculture on the eve of information.
2) How would you explain the drain of wealth during the British rule?
3) Discuss occupational structure of Indian economy at the time of Independence.
4) State three main features of Indian economy at the time of independence.
5) Mention the state of Indian Industries on the eve of independence.
6) Explain positive effects of introduction of railways by colonical Govt. in India.

SIX (6) MARKS QUESTIONS :-
1) What are the main causes of Indian's agricultural stagnation during the colonial period ?
2) Give a quantitative appraisal of Indian's demographic profile during the colonial period.
3) Critically appraisal some of the shortfalls the industrial policy pursued by the British colonial rule.
4) Were there any positive contributions made British in India? Discuss?
5) Explain about merits and demerits of British Rule in India.

ANSWERS OF ONE MARK QUESTIONS
1) Infant mortality rate means number of deaths of children below the age of one year per thousand.
2) Commercialisation of agriculture means production of crops force sale in the market rather than for self-consumption.
3) Infant mortality rate 218 per thousand.
4) Life expectancy was 32 years.
5) When export of a country is more than import.
6) 1881
7) Jute and Textile industries.
8) Prof. V.K.R.V. Rao and Dada Bhai Nauroji
9) 16%
10) 10%
Question 1: What was the focus of the economic policies pursued by the colonial government in India? What were the impacts of these policies?

Answer: The main focus of the economic policies pursued by the colonial government was to make India a mere supplier of Britain's own flourishing industrial base. The policies were concerned mainly with the fortification and advancement for their home country. The interests of the Indian economy were completely ignored. Such policies brought structural changes in the Indian economy by transforming it to a supplier of raw materials and consumer of finished products from Britain. The impacts of these policies are;

i. Low Economic growth:
ii. Backwardness of Indian Agriculture:
iii. Deindustrialisation of Indian Economy:
iv. Regression in Foreign Trade:

Question 2: Name some notable economists who estimated India's per capita income during the colonial period.

Answer: The some of the notable economists who were engaged in estimation of national income and per capita income, are- Dadabhai Naroji, William Digbay, Findlay Shirras, V.K.R.V Rao, R.C. Desai. Out of these, V.K.R.V Rao's estimates are considered to be significant. Most of these studies revealed that Indian economy grew at even less than two percent during 1900-50 with half per cent growth in per capita output per year.

Question 3: What were the main causes of India's agricultural stagnation during the colonial period?

Answer: Under the colonial rule, India was basically an agrarian economy, employing near y 75% of its population. Nevertheless, the growth of the agriculture sector was very low. The following are the causes explaining stagnancy in Indian agriculture sector during the colonial rule:

1. Introduction of Land Revenue System: The Zuminchtri system was introduced by Lord Cornwallis in Bengal in 1793. Under this system, the zamindurs (owners of land) were required to pay very high revenue (lagoon) to the British government, which they used to collect from the peasants (landless labourers, who were actually cultivating). The zamindars were mainly concerned with extracting high revenues from the peasants but never took any steps to improve the productivity of the land. This resulted in low agricultural productivity and worsened the peasants economically.

2. Forceful Commercialisation: In colonial period, Indian farmers were forced to grow commercial crops (like indigo required by British industries to dye textiles) instead of food crops (like rice and wheat). This commercialisation of Indian agriculture not only increased the burden of high revenues on the poor farmers but also led India to face shortage of food grains, resources, technology and investment.
3. Lack of Irrigation Facilities and Resources: Besides the above factors, Indian agricultural sector also faced lack of irrigation facilities, insignificant use of fertilisers, lack of investment, frequent famines and other natural calamities, etc. that further exaggerated the agricultural performance and made it more vulnerable.

Question 4: Name some modern industries which were in operation in our country in the time of independence.

Answer: In the beginning of the 20th century, iron and steel industries also started emerging gradually. It was incorporated in 1907 as TISCO. Some other industries that were operating at a smaller scale during the British era were sugar industry, cement industry and paper industry.

Question 5: What was the two-fold motive behind the systematic deindustrialisation affected by the British in pre-independent India?

Answer: The following are the two-fold motives behind the systematic deindustrialisation affected by the British:

I. Making India a Supplier of Raw Materials: The main motive of the British government was to make India a mere supplier of cheap raw materials to feed its own flourishing industrial base.

2. Making India a Market for Finished Goods: Another important objective of the British government was to use India as a virgin market to sell the finished goods produced by the British industries. Question 6: The traditional handicrafts industries were ruined under the British rule. Do you agree with this view? Give reasons in support of your answer. 

Answer: Yes, we do agree with the above statement that the traditional handicrafts industries were ruined under the British times. The following are the reasons in favour of the statement.

1. Discriminatory Tariff Policy: They imposed heavy tariffs (export duties) on India’s export of handicraft products, while allowed free export of India’s raw material to Britain and free import of British products into India. This made Indian exports costlier and its international demand fell drastically leading to the collapse of handicrafts industries.

2. Competition from Machine made Britain Goods: The goods produced mechanically in Britain were comparatively cheaper and of superior quality than the Indian handicraft goods. This narrowed the market for Indian industries.

3. Emergence of New Class: The British rule in India popularised western lifestyle in India. There was an emergence of a new section of population (consisting mainly of zamindars) in India who liked the British goods. Hence, gradually Indian industries perished away.

Question 7: What objectives did the British intend to achieve through their policies of infrastructure development in India?
Answer: One cannot deny the fact that under the British rule, there was significant change in the infrastructural development in the country. But the bonafide motive of the British behind the infrastructure development was only to serve their own colonial interests. There was infrastructural development in the fields of transport and communication. The roads served the purpose of facilitating transportation of raw materials from different parts of the country to ports, and ports were developed for easy and fast exports to and imports from Britain. Similarly, railways were introduced and developed for the transportation of finished goods of British industries to the interiors of India. Railways assisted British industries to widen the market for their finished products. Post and telegraphs were developed to enhance the efficiency and effectiveness of the British administration. Hence, the aim of infrastructural development was not the growth and development of the Indian economy but to serve their own interest.

Question 8: Critically appraise some of the shortfalls of the industrial policy pursued by the British colonial administration.

Answer: The focus of the industrial policies pursued by the colonial government in India was to make our country a mere supplier of Britain's own flourishing industrial base. The policies were concerned mainly with the fortification and advancement for their own country. The industrial policy pursued by the British colonial administration has the following shortfalls:

1. Neglect of Indian Handicraft Industries: The British followed a discriminatory tariff policy under which they imposed heavy tariffs (export duties) on India's export of handicraft products while allowed free export of India's raw material to Britain and free import of British products to India. This made Indian exports costlier and its international demand fell drastically leading to the collapse of handicrafts industries. This led to the declining demand for Indian products and encouraged foreign products.

2. Lack of Investment in Indian Industries: British government was least interested in investing in Indian industries. Thus, due to the lack of sufficient investment, the growth of Indian industries was acutely constrained

Question 9: What do you understand by the drain of Indian wealth during the colonial period?

Answer: Dadabhai Naroji advocated the theory of Drain of Wealth in the 19th century. The colonial period was marked by the exploitation of Indian resources. The sole motive of Britain to
conquer India was to own a perennial source of cheap raw materials to feed its own industrial base in Britain. Further, British government used India's manpower to spread its colonial base outside India. Also, the administrative expenses that were incurred by the British government to manage the colonial rule in India were borne by Indian Exchequer. Thus, the British rule drained out Indian wealth for the fulfillment of its own interests.

**Question 10:** Which is regarded as the defining year to mark the demographic transition from its first to the second decisive stage?

**Answer:** The year 1921 is regarded as the defining year or the Year of Great Divide because prior to 1921, population growth in India was never consistent. India was in the first phase of demographic transition till 1921 that was characterised by high birth rate and high death rate. It implies low survival rate (or low life expectancy), which was nearly 8 per thousand per annum. Therefore, the period before 1921 witnessed stagnant population growth rate. After 1921, India's population growth never declined and showed a consistent upward trend.

**Question 11:** Give a quantitative appraisal of India's demographic profile during the colonial period.

**Answer:** India's Demographic conditions during the British rule depict our economy as stagnant and backward. Both the birth rate and death rate were as high as 48 and 40 per thousand. Due to high birth rate and high death rate the population growth was stagnant. The Infant Mortality Rate was also very high of about 218 per thousand. The Life Expectancy Rate was as low as 32 years while presently it is 63.5 years. The literacy rate was less than 16 percent which denotes social backwardness and gender bias in the economy. We can infer from the above figures that India was featured with massive poverty, low standard and quality of living and low survival rate in the country. The lack of health care facilities and lack of health awareness were the main causes behind such demographic conditions of India.

**Question 12:** Highlight the salient features of India's pre-independence occupational structure.

**Answer:** The occupational structure that refers to the distribution of population engaged in different occupations, showed no variation throughout the British rule.

1. **Agriculture** - The Prime Occupation: Under the colonial rule, India was basically an agrarian economy, employing nearly 75% of its population. Due to the prevalence of Zuminlori system, agricultural sector lacked investment and, thereby, its growth was highly constrained. 2. **Industry** - The Bleak Occupation: Nearly 10% of the total workforce was engaged in manufacturing and industrial sector.
3. Service sectors: Service sectors was at their infant stage. 3. Unbalanced Growth: There was regional variation in the occupational structure of India. While on the one hand, states like Tamil Nadu, Andhra Pradesh and Bombay experienced a fall in the agricultural workforce on the other hand states like Orissa, Rajasthan and Punjab experienced a rise in the agricultural workforce.

**Question 13:** Underline some of the India’s most crucial economic challenges at the time of independence.

**Answer:** The exploitative colonial rule of the British hampered almost every sphere of Indian economy badly. As an end-result, India faced acute economic challenges at the time of independence. The following are some of the economic challenges faced by the Indian economy:

1. **Low Level of Agricultural Productivity:** During the colonial rule Indian agricultural sector was used by the British to suit to their own interest. Consequently, Indian agricultural sector experienced stagnancy, low level of productivity, lack of investment, poor condition of landless farmers and peasants. Thus, the immediate concern for India was to develop its agricultural sector and its productivity. Some of the immediate reforms needed at the time of independence were abolition of Zunundari system, need of land reforms, reducing inequality of land ownership and upliftment of the peasants.

2. **Infant Industrial Sector:** India failed to develop a sound industrial base during the colonial rule. In order to develop the industrial sector, India needed huge capital, investments, infrastructure, human skills, technical knowhow and modern technology. Further, due to stiff competition from the British industries, India's domestic industries failed to sustain. Thus, developing small scale and large scale industries simultaneously was the main concern for India to develop its industrial sector. Moreover, the need to increase the share of industrial sector to India's GDP was one of the important economic challenges for India.

3. **Lack in Infrastructure:** Although there was a significant change in the infrastructural development in the country but this was not sufficient to improve the performance of agricultural and industrial sector. Also, there was a need to upgrade the existing infrastructure and to modernise the infrastructure to enhance its efficiency and effectiveness.

4. Poverty and Inequalities: India was trapped in the vicious circle of poverty and inequality. The colonial rule drained out a significant portion of India's wealth to Britain. Consequently, majority of India's population was poverty trodden. This further exaggerated economic inequalities across the country.
**Question 14:** When was India's first official census operation undertaken?

**Answer:** India's first official census operation was undertaken in the year 1881. After that the census has been conducted after every 10 years.

**Question 15:** Indicate the volume and direction of trade at the time of independence.

**Answer:** During the colonial rule, the British followed a discriminatory tariff policy under which they imposed heavy tariffs (export duties) on India's export of handicraft products, while allowing free export of India's raw material to Britain and free import of British products to India. This made Indian exports costlier and its international demand fell drastically. India's export basket during the colonial rule comprised mainly of primary products like sugar, jute, silk, etc. and the imports comprised of finished consumer goods like cotton, woolen clothes, etc., from Britain. As the monopoly power of India's export and import rested with Britain, so, more than half of India's trade was restricted to Britain and the remaining imports were directed towards China, Persia, and Sri Lanka. The opening up of Suez Canal further intensified the monopoly power of the British over India's foreign trade. It led to the fast movement of goods from India to Britain and vice-versa. The surplus generated from India's foreign trade was not invested in Indian economy, rather it was used for administrative and war purposes. This led to the drain of Indian wealth to Britain.

**Question 16:** Were there any positive contributions made by the British in India? Discuss.

**Answer:** Yes, there were various positive contributions that were made by the British in India. The following are the positive contributions made by the British:

1. **Introduction of Railways:** The introduction of railways by the British was a breakthrough in the development process of Indian economy. It opened up the cultural and geographical barriers and facilitated commercialisation of Indian agriculture.

2. **Introduction of Commercialisation of Agriculture:** Prior to the advent of the British, Indian agriculture was of subsistence nature. But with the commercialisation of agriculture, the agricultural production was carried out as per the market requirements.

3. **Development of Infrastructure:** The infrastructure developed in India by the British proved as useful tool to check the spread of famines. The telegram and postal services served Indian public.
4. **Promoted Western Culture:** English as a language promoted westernised form of education. The English language acted as a window to the outside world. This has integrated India with the rest of the world.

5. **Role Model:** The way and the technique of British administration acts as a role model for the Indian politicians and planners. It helped Indian politicians to govern the country in an efficient and effective manner.
UNIT-VI
CHAPTER-2
INDIAN ECONOMY (1950-1990)

- **Five Year Plans**
  After independence of India, the leaders had to decide to choose a better economic system which will suit and promote the interests of the masses of India. Nehru and the other leaders of independent India sought an alternative to the extreme types of capitalism and socialism practiced in the world elsewhere. They formed an economic system which combined the best of both capitalism and socialism i.e. mixed economy in 1948 with First Industrial Policy of India.

  The government would plan for the economy while encouraging the private sector to be a part of the plan effort Planning Commission was set up in 1950 and the Prime Minister was its chairperson. With the setting up of the planning commission, the era of five year plans had begun.

- **Common Goals of Five Years Plans**
  Any five year plan should have strategic and specific goals which it should aim to fulfill. The goals of the five year plans are:

  (i) Growth
  (ii) Modernisation
  (iii) Self reliance
  (iv) Equity

- (i) **Growth**: Growth refers to the increase in the production capacity of our country i.e production of output goods and also the increase of services within the country. This means a large stock of productive capital or a large quantity of supporting services like transport and banking or an increase in the efficiency of the productive capital and services of the country.

  In economics, the Gross Domestic Product (GDP) is a good indicator of the economic growth of a nation. The GDP is the market value of all the goods and services produced in a country during a year. GDP can be thought of as a bar of chocolate or piece of cake. Growth is the increase in the size of the chocolate or cake. If the chocolate or cake is bigger, more people can have and enjoy it. In the words of the first five year plan, it is necessary to produce more goods and services if the people of India are to enjoy a more rich
and varied life. The different sectors of the economy, namely the agricultural sector, the service sector and the industrial sector are considered when the GDP is derived. The structural composition of the economy is the contribution made by each of these sectors. The contribution of each sector differs from nation to nation, while in some the contribution by the service sector is more, in some the contribution by agriculture is more.

- **(ii) Modernisation:** In order to increase the production of goods and services, the producers have to use new technology. Adoption of new technology is modernisation. For example, farmers can use a new hybrid seed variety instead of the old ones to increase crop yield. Modernisation just not refer to just adoption of new technology, it also refers to changes in the thinking and social outlook of the people of our country. Giving equal rights to women is an example of modernisation. In a traditional society, women are restricted to do only household chores, whereas in a modern society they are given opportunities to work in all the sectors like banking, schools, factories etc. This kind of modernisation makes a society more civilized and prosperous.

- **(iii) Self Reliance:** The economic growth and modernisation of a nation can be promoted in two ways:
  1. Using resources imported from other countries.
  2. Using its own resources

The first seven five year plans stressed and gave a lot of weightage to self reliance meaning avoiding import of goods which can be produced in our country itself. This policy was considered essential in a bid to reduce our dependence on other nations, mostly for food. A newly independent nation would obviously stress on the need for self reliance. It was also feared that a dependence on foreign nations would make our sovereignty vulnerable.

- **(iv) Equity:** All the above three mentioned goals by themselves would not lead to the betterment of the standard of living of the people of a nation unless there is equality. If modernisation, growth and self-reliance does not reach the poorer sections of a country, then only the rich would enjoy the benefits of economic prosperity. So apart from modernity, growth and self-reliance, every Indian should be able to meet his or her basic needs like food, clothing, housing, education and healthcare. Inequality in the distribution of wealth and economic prosperity had to be reduced.
I: AGRICULTURE

In 1951, about 59 percent of national income was generated in the agriculture sector. About three-fourths of India's total population found their livelihood in agriculture. During the colonial rule, there was neither growth nor equity in the agriculture sector. Therefore planners gave top priority to the agriculture sector.

- **Role of agriculture sector**
  1. Largest Share in national income
  2. Largest Share in employment
  3. Base of industrial development
  4. Important role in the Foreign Trade.
  5. Major part of household consumption.

- **Problems of Indian agriculture**
  Indian agriculture face a number of problems which are stated below:

```
Problems of Indian Agriculture

General problems
1. Social Problems
2. Pressure of population of land
3. Subsistence farming
4. Land degradation
5. Crop losses

Institutional Problems
1. Defective tendency of land reforms
2. Lack of credit Availability
3. Marketing facilities
4. Size of land holdings

Technical Problems
1. Obsolete techniques of production
2. Cropping pattern
3. Lack of irrigation facilities
```

- **Agricultural policies and programmes during 1950-90**

```
AGRARIAN REFORMS

Land Reforms
1. Abolition of intermediaries
2. Regulations of rent
3. Land Ceiling
4. Consolidating of holding
5. Cooperative farming

Technological Reforms (Green Revolution)
1. Use of HYVS
2. Extensive use of fertilizers
3. Use of Pesticides
4. Agricultural Mechanisation
5. Irrigation

General Reforms
1. Expansion of irrigation facilities
2. Institutional Credit
3. Improvement in agriculture marketing
4. Price support policy.
```
• **Green Revolution**
  The new agricultural strategy was put into practice for the first time in India in the kharif season of mid-sixty. This was termed as 'High-Yielding Varieties programme' (HYVP) as the basic element of this strategy was the application of HYVP. The programme was introduced in the form of a Package Programme.

  **Phases of Green Revolution**
  a) First Phase - mid 1960s upto mid 1970s.
  b) Second Phase - mid 1970s upto mid 1980s.

• **Features of Green Revolution**
  1. Use of High Yielding Varieties of Seeds (HYVS).
  2. Use of chemical fertilizers.
  3. Adequate irrigation facilities.
  4. Use of pesticide.

• **Effects of Green revolution**
  1. Marketable Surplus = Total Production – Self Consumption.
  2. Attaining marketable surplus.
  4. Benefits to low income groups.

• **Drawbacks of Green revolution**
  1. Confined of food crops and limited area of country.
  2. Limited coverage.
  3. Inequality among farmers.

• **Subsidies to the farmer**
  It means supply of certain inputs to the farmers at lower than the market rate.

• **In favour of subsidies**
  1. Most farmers in India are poor and will not be able to afford the required inputs without subsidies.
  2. Elimination of subsidies will increase the inequality between rich and poor farmers.

• **Against the subsidies**
  1. The purpose of subsidies has been served so it should be phased out.
  2. Subsidy does not benefit the target group it only benefits the farmers in the prosperous regions.
II. Industry

• **Importance of Industry**
  1. Employment generation
  2. Development of agriculture
  3. Exploitations of resources
  4. Productivity of labour
  5. High potential for growth
  6. Key of high volume of exports
  7. Leads to self - sustaining development
  8. Promotion of regional balances.

• **Industrial policy of a1956 (Industrial Constitution of India)**
  1. Classification of Industries – This policy classified industries into three categories.
     a) The first category included 17 industries which would be exclusively owned by the state, i.e. Public Sector.
     b) The second category included 12 industries in which the private sector could supplement the effort of the state. But the state takes the sole responsibility for starting new units.
     c) The third category consisted of the remaining industries which were to be in the private sector, i.e. Open for all public or private sector.
  2. Industrial Licensing – Private sector was kept under state control through a system of license. No new industry was allowed unless was obtained from the government.
  3. Development of small scale industries.
  4. Emphasis on industrial places.
  5. Technical Education and training.

• **Role of Public sector**
  1. Creation of strong industrial base.
  2. Development of the infrastructure.
3. Development of the backward areas.
4. To mobilise savings and earn foreign exchange.
5. To prevent concentration of economic power.
6. To promote equality of income and wealth distribution.
7. To generate employment, i.e. Job creation.
8. To promote import substitution.

• **Role of Small Scale Industries**
  1. Labour intensive technique.
  2. Self employment
  3. Less capital intensive.
  4. Low import, i.e. Import substitution.
  5. Export promotion
  6. Equal distribution of income
  7. Descentralisation of industries.
  8. Seed beds for large scale industries.

• **Problems of Small Scale Industries**
  1. Problems of finance.
  2. Shortage of raw material.
  3. Difficulties in marketing.
  4. Outdated machines and equipments.
  5. Underutilised export potential.
  6. The Bureaucratic hurdles.
  7. Competition from large scale industries.

### III. **Trade Policy : Import Substitution**

India adopted import substitution policy for a large part of the period 1950-90. The policy of import substitution is commonly called an Inward looking trade strategy. Government made use of two ways to protect goods produced in India from imports –

a) **Tariff** – It refers to taxes levied on imported goods.

b) **Quotas** – It refers to facing the maximum limit on the imports of a commodity by a domestic producer.
• **Reasons For Import Substitution**
  1) Industries of developing countries, like India are not in a position to compete against the goods produced by more developed economics.
  2) To save scarce foreign exchange for the import of essential goods.
QUESTION BANKS

ONE (1) MARKS QUESTIONS :-

1. Define green revolution.
2. What is market surplus.
3. Define small scale industry.
4. In which year, India adopted High yielding varieties programme for the first time.
5. In 1951, agriculture contributed to country's national income.
6. In which year, the second Industrial policy in India was declared.
7. Industrial policy resolution classified industries into –
   a) 2 categories  b) 3 categories  
   c) 4 categories  d) 5 categories
8. Green revolution is the most successful in the crops of
   a) Wheat and rice  b) Wheat and potato  
   c) Rice and coffee  d) Rice and tea

THREE & FOUR (3 & 4) MARKS QUESTIONS :-

1. Discuss any three drawbacks of green revolution.
2. Discuss the role of small scale industries in the generation of employment.
3. Give three reasons why small scale industries should be encouraged in India?
4. Why there was a need for protection of small scale industries? State the steps undertaken by the government for their growth.
5. How were the industries classified according to IPR 1956?
6. Define Green revolution. Why was it implemented and how did it benefit the farmers?
7. Explain any three problems of Indian agriculture.
8. What do you mean by planning goal of self reliance?

SIX (6) MARKS QUESTIONS :-

2. Explain the main features of the Industrial policy 1956.
3. Explain the problems of small scale Industry.
4. Explain any four objectives of planning committees.
5. "Subsidies put a huge burden on the government's finances, but are necessary for poor and marginal farmers" Comment.
6. Explain how import substitution can protect domestic industry.

ANSWERS OF ONE (1) MARK QUESTIONS
1. Green revolution refers to the tremendous increase in agriculture production and productivity with the introduction of new technology.
3. SSI in presently defines as the one whose investments do not exceed of Rs. 5 score.
4. 1966-67
5. 55-56%
6. 1956
7. (b) 3 categories
8. (a) Wheat and Rice
**Solution of Questions (NCERT-Book)**

**Question 1: Define a plan.**

**Answer:** A plan is a proposed list of goals that an economy wants to achieve within a specific period of time. It suggests the optimum ways to utilise the scarce available resources to achieve the enlisted goals. In India, planning is done for a period of five years, which is called five year plan. Some of the common goals are economic growth, modernisation, self-reliance and equity.

**Question 2: Why did India opt for planning?**

**Answer:** India, inspired by the extraordinary success of planning in Soviet Union, opted for socialism. Although, Indian political and economic conditions were not as favourable as it was for Soviet Unions to opt for socialism, yet India adopted socialism but with a difference. India hinged upon the socialist idea with a strong emphasis on public sector and active participation of the private sector in a democratic framework.

The Planning Commission (1950) was established with the motive that the government would undertake comprehensive planning for the nation as a whole, where public sector would lay down the basic economic framework and would encourage private sector for their active contribution to the economic growth.

**Question 3: Why should plans have goals?**

**Answer:** Every plan should have specified goals. Plan without goal is like life without soul. While a plan specifies the means and ways to allocate scarce resources to achieve proposed targets, goals are the ultimate targets, the achievement of which ensures the success of plans. Thus, plans must include the goals.

**Question 4: What are high Yielding Variety (HYV) seeds?**

**Answer:** High Yielding Variety of seeds was developed by the Nobel Laureate Dr. Norman Borlaug in Mexico. These seeds are more productive and need regular and adequate irrigation facilities along with greater use of fertilisers and pesticides. In 1966, consequent to the use of HYV seeds, Indian agricultural sector experienced Green Revolution, especially in the crops of rice and wheat. HYV seeds grow faster than the normal seeds and, consequently, crops can be harvested in a much shorter time period. Initially, HYV seeds were used in states like Punjab, Andhra Pradesh and Tamil Nadu (as these states had more suitable irrigation facilities) and later on to other states. Consequent to the use of HYV seeds, the production of food grains in 1967-68 increased by 25% (approx).

**Question 5: What is marketable surplus?**

**Answer:** Marketable surplus refers to the difference between the total output produced by a farmer and his on-farm consumption. In other words, it is that portion of the total output that the farmer sells in the market.

Marketable surplus = Total farm output produced by farmer's - On-farm consumption of farm output
Question 6: Explain the need and type of land reforms implemented in the agriculture sector.

Answer: The need for land reforms in India was very necessary due to the following reasons:

1. Land tenure system of zamindari system, the mahalwari system and the rytowari system led to the exploitation of tenants in the form of exorbitant rents.
2. Small Size of Land Holdings
3. Lack of Initiative to undertake mechanised methods of cultivation.
4. Low Productivity due to Traditional Approach dependency on conventional and the traditional inputs, climatic conditions.
5. Due to the absence of well developed marketing system, the farmers used to rely on the intermediaries to sell their product ill the market.
6. The basic motive for farming was for subsistence not for sale and to earn profit.

Due to the above problems in the Indian agriculture, it was very necessary to undertake land reforms. Land reforms comprise of the following steps:-

1. **Abolishing Intermediaries:** There were many steps undertaken to make the tillers, the owners of the land.
2. **Regulation of Rent:** In the first five year plan, the maximum rent fixed was one-fourth or M£:- fifth of the total farm produce.
3. **Consolidation of Holdings:** The farmers were given consolidated holdings equal to the total of the land in their various fragmented plots.
4. **Land Ceilings:** It means legislated fixed amount of land that an individual may hold. The basic motive behind this step was to promote equality of ownership of land holdings.
5. **Co-operative Farming:** This step was taken to counter the problems due to sub-division of holdings. Small scale farming by an individual land holder is neither profitable nor productive, so, these steps encouraged different farmers to pool their farms and perform farming jointly. This enhanced the productivity and greater profits were shared by the individual farmers.

Question 7: What is Green Revolution? Why was it implemented and how did it benefit the farmers? Explain in brief.

Answer: In the latter half of second five year plan, government introduced the use of HYV seeds, modern techniques and inputs like fertilisers, irrigation facilities and subsidised credit. These steps collectively are known as Intensive Area Development Programme (IADP). Consequently, in the year 1967-68, food grains production increased nearly by 25%. Due to this substantial increase of food grains production, this outcome is known as 'Green Revolution'. The needs of Green Revolution are as follows.

1. The well irrigated and permanent irrigated area was only 17% in 1951. The major part of area was dependent on rainfall.
2. The use of conventional inputs and absence of modern techniques further hampered the agricultural productivity.

3. Small and marginal farmers found it very difficult to get finance and credit at cheap rate from the government and banks, hence, fell an easy prey to the money lenders.

5. Due to the traditional agricultural practices, low productivity, and to feed growing population, often food grains were imported that drained away scarce foreign reserves.

6. Agriculture was basically for subsistence and, therefore, less amount of agricultural product was offered for sale in the market.

**Question 8: Explain 'growth with equity' as a planning objective.**

**Answer:** Both growth and equity are the two important aspects of India’s five year plans. While growth refers to the increase in GDP over a long period of time equity refers to an equitable distribution of GDP so that the benefits due to higher economic growth are shared by all sections of population. Equity implies social justice. Growth itself is desirable but growth in itself does not guarantee the welfare of people. Growth is assessed by the market value of goods and services (GDP) and it may be possible that the goods and services that are produced may not benefit the majority of population. In other words, only a few with high level of living and money income may get the share of GDP. Hence, growth with equity is a rational and desirable objective of planning. This objective ensures that the benefits of high growth are shared by all the people equally and, hence, this not only leads to reduction of inequality of income, poverty promotion of egalitarian society but also enables everyone to be self-reliant. Therefore, to conclude, it can be said that growth with equity is the most important objective of an economic planning.

**Question 9: Does modernisation as a planning objective create contradiction in the light of employment generation? Explain.**

**Answer:** No, modernisation as a planning objective does not contradict employment generation. In fact both modernisation and employment generation are positively correlated. While modernisation refers to the use of new and modern technology in production process that may make some people lose their jobs in the initial stages. But gradually, the use of modern technology and input will raise the productivity and, consequently, the income of the people that will further raise the demand for goods and services. In order to fulfill this increased demand, there will be more job opportunities that will lead more people to be hired and, hence, more employment opportunities will be generated. Hence, both modernisation and employment generation are not contradictory but are complementary to each other.

**Question 10: Why was it necessary for a developing country like India to follow self-reliance as a planning objective?**
Answer: Self-reliance implies discouraging the imports of those goods that could be produced domestically. Achieving self-reliance is of prime importance for a developing country like India as otherwise, it would increase the country's dependence on foreign products. Dependence on foreign goods and services can promote economic growth of India but this would not contribute to the development of domestic productive resources. Dependence on foreign goods and services provides impetus to foreign country TMs industries at the cost of domestic infant industries. Further, imports drain away the scarce foreign reserves that are or prime importance to any developing and underdeveloped economy. Therefore, achieving self-reliance is an important objective for developing countries in order to avoid themselves from being acquiescent to the developed nations.

Question 11: What is sectoral composition of an economy? Is it necessary that the service sector should contribute maximum to GDP of an economy? Comment.

Answer: The sectoral composition of an economy is the contribution of different sectors to total GDP of an economy during a year. That is, the share of agricultural sector, industrial sector and service sector in GDP. Yes, it is necessary that at the later stages of development, service sector should contribute the maximum to the total GDP. This phenomenon is called Structural Transformation. This implies that gradually the country's dependence on the agricultural sector will shift from the maximum to minimum and, at the same time, the share of industrial and service sector in the total GDP will increase. This structural transformation together with the economic growth is termed as economic development.

Question 12: Why was public sector given a leading role in industrial development during the planning period?

Answer: At the time of independence, Indian economic conditions were very poor and weak. There were neither sufficient foreign reserve nor did India have international investment credibility. The following are the reason that explains the driving role of the public sector in the industrial development:

1. Need of Heavy Investment: There was a need of heavy investment for industrial development. It was very difficult for the private sector to invest such a big amount. Further, the risks involved in these projects were also very high and also these projects had long gestation period. Thus, the government played the leading role to provide the basic framework of heavy industries.

2. Low Level of Demand: At the time of independence, the majority of population was poor and had low level of income. Consequently, there was low level of demand and so there was no impetus for any private sector to undertake investment in order to fulfill these demands. Thus, India was trapped into a vicious circle of low demand. The only way to encourage demand was by public sector investments.
**Question 13:** Explain the statement that green revolution enabled the government to procure sufficient food grains to build its stocks that could be used during times of shortage.

**Answer:** Green Revolution led to an increase in the production of food grains. With the use of modern technology, extensive use of fertilisers, pesticides and HYV seeds there was a significant increase in the agricultural productivity and product per farm land. In addition, the spread of marketing system, abolition of intermediaries and easy availability of credit has enabled farmers with greater portion of marketable surplus. All these factors enabled the government to procure sufficient food grains to build the buffer stock and to provide cushion against the shocks of famines and shortages.
UNIT-VI
CHAPTER-3
ECONOMIC REFORMS SINCE 1991

Since independence, India followed a mixed economic structure which combined the advantages of both the socialist and capitalist economies. The inefficient management of the Indian economy in the 1980s led to the financial crisis. The government generates funds through taxation, running of public sectors etc in order to implement various policies and for the general administration. Hence, The Indian Government has introduced many Economic Reforms in India since 1991.

Need of Economic Reforms
In 1990-91 India had to face grave economic problem. During the year 1991, India was facing an economic crisis because of its external debt. The government was not able to repay the money it had borrowed from abroad.

• India was facing serious deficiency in her foreign trade balance and it was increasing.
• Since 1987-88 till 1990-91 it was increasing in such a rapid scale that by , the end of 1990-91 the amount of this deficit balance became 10,644 crores of rupees..
• At the same time the foreign exchange stock was also decreasing.
• In 1990 and 1991 the government of India had to take huge amount of loan from the IMF as compensatory financial facility.
• Even by mortgaging 47 tons of gold it had taken short term foreign loan from the Bank of England.
• At the same time, India was also suffering from inflation, the rate of which was 12% by 1991.
• The reasons of that inflation were the increase in the procurement price of the agricultural products for distribution, the increase in the amount of monetized deficit in the budget, increase of import cost and decrease in the rate of currency exchange and Administered price like.
• Thus India was facing trade deficit as well as Fiscal Deficit. Hence the government of India had only two ways before it-
  1. To take foreign debt and to create favorable conditions within the country for increasing the flow of foreign exchange and also to increase the volume of export.
2. The other was to establish fiscal discipline within the country and to make structural adjustment for the purpose.

**Main Features of Economic Reforms**
To get relief from such a grave problem the government of India had to introduce a package of reforms which included:

- To liberalise the industrial policy of the government.
- To invite foreign investment by privatization of industries.
- Abolishing the license system as a part of that liberalisation.
- To make the import-export policy of the country more liberal and so that the export of goods may become more easy and the necessary raw materials and instruments for both industrial development and production of exportable commodities may be imported and also to facilitate free trade by reducing the import duty.
- To decrease the value of domestic currency rupees in terms of dollar i.e. devaluation.
- To take huge amount of foreign debt from the IMF and the World Bank for rejuvenating the economic condition of the country and to introduce the structural adjustment in the economic condition of the country as a pre-condition of that debt,
- To reform the banking system and the tax structure of the country and
- To establish market economy by withdrawing and restricting government interference on investment.

**Liberalisation, Privatisation and Globalisation (LPG) Policies**
The new model of economic reforms is commonly known as the LPG or Liberalisation, Privatisation and Globalisation model. The primary objective of this model was to make the economy of India the fastest developing economy in the globe with capabilities that helps it match up with the biggest economies of the world.

1. **Liberalisation**: Liberalisation refers to a relaxation of government restrictions, usually in such areas of social, political and economic policy. The economic liberalisation in India denotes the continuing financial reforms which began since July 24, 1991.
2. **Privatisation**: Privatisation refers to the participation of private ownership from the public sector (or government) to the private sector as well entities in businesses and services and transfer of ownership from the public sector (or government) to the private sector as well.

3. **Globalisation**: Globalisation stands for the integration and consolidation of the various economies of the world.

Given below are the salient highlights of the Liberalisation, Privatisation and Globalisation Policy in India:

- Foreign Technology Agreements
- Foreign Investment
- MRTP Act, 1969 (Amended)
- Industrial Licensing Deregulation
- Beginning of privatization and disinvestment
- Opportunities for overseas trade
- Steps to regulate inflation
- Tax reforms
- Financial sector reforms
- Banking reforms
- Abolition of License -Permit Raj

**An Appraisal of LPG Policies**

The concepts of liberalisation, privatisation and globalisation are actually closely related to one another. The advent of globalisation as a result of liberalisation, privatisation and globalisation has both positive and negative impacts on our economy.

While one group of people argue that globalisation provides greater opportunities, opens up new markets, promotes the use of better technology and increases the efficiency of production.

Another group of people feel it does not protect the domestic industries particularly in developing nations. From India’s perspective, globalisation has improved our conditions of living and opened up employment in fields like entertainment, Information Technology (IT), Telecommunication, Travel and Hospitality.
DEMOLITIZATION (8 November 2016)
The Government of India, made an announcement on November 8, 2016 with profound implications for the Indian economy. The two largest denomination notes, '500 '1,000, were 'demonetised' with immediate effect, ceasing to be legal tender except for a few specified purposes such as paying utility bills. This led to eighty six per cent of the money in circulation invalid. The people of India had to deposit the invalid currency in the banks which came along with the restrictions placed on cash withdrawals. In other words, restrictions were placed on the convertibility of domestic money and bank deposits.

Meaning of Demonetization
Demonetization is a process of stripping a currency unit of its status as a legal tender. In simple words, when the Government demonetized the 500 and 1000 rupees notes, they were no longer valid as legal currency. Usually, a new currency replaces the old currency unit/s. In India, this is not the first instance of demonetization. In 1946, the Reserve Bank of India had demonetized Rs. 1,000 and Rs. 10,000 currency notes which were then under circulation. In 1954, the Government introduced new currency notes of Rs. 1,000, Rs. 5,000, and Rs. 10,000. Further, these notes were demonetized in 1978 when the Morarji Desai Government decided to curb illegal transactions and anti-social activities.

Reasons to Government demonetize 500 and 1000 notes in 2016
The Government made many claims with respect to the objectives and outcomes of the demonetization scheme in 2016. These were:
1. It will plug financing to terrorists
2. It will help unearth black money
3. The unearthed black money will also expand the fiscal space of the government
4. It will help reduce interest rates in the banking system
5. It will help formalize India's informal economy, reduce the extent of cash transactions, and help in the creation of a less-cash economy.
The government offered several incentives to induce people to use digital transactions too.
Possible Benefits of Demonetization

The aim of demonetisation was to curb corruption, counterfeiting the use of high denomination notes for illegal activities; and especially the accumulation of 'black money' generated by income that has not been declared to the tax authorities.

- Increased Savings — When currency is demonetized, people tend to deposit their cash with a bank and store less physical currency at home. This helps them save more.
- Lower lending rates With currency demonetization, money moves from people to banks and financial institutions. Therefore, there is a better circulation of money. Further, banks and financial institutions have a lower cost of funds which translates into lower lending rates.
- Better economy — Since demonetization induces people to deposit their cash with the banks, there is a higher circulation of money in the economy. The government receives more taxes and can undertake more development projects. Eventually, this leads to a better-performing economy.
- Curbing anti-social activities — Usually, anti-social elements like smugglers or terrorists use cash as a mode of transaction. When the government decided to demonetize 500 and 1000 rupees notes, they were the highest denomination notes in circulation. By demonetizing them, the government forced these anti-social units to find ways to get rid of the old notes. This allowed the government an opportunity to get a better control over the unaccounted money in the economy and curb anti-social activities.
- Reducing counterfeit currency notes During demonetization, people deposit all old notes with banks who check if the notes are genuine or counterfeit before accepting them. Therefore, this allows the government to weed out counterfeit notes circulating in the market.

Features
1. Demonetisation is viewed as a tax administration measure. Cash holdings arising from declared income was readily deposited in banks and exchanged for new notes. But those with black money had to declare their unaccounted wealth and pay taxes at a penalty rate.
2. Demonetisation is also interpreted as a shift on the part of the government indicating that tax evasion will no longer be tolerated or accepted.
3. Demonetisation also led to tax administration channelizing savings into the formal financial system. Though, much of the cash that has been deposited in the banking system is bound to be withdrawn but some of the new deposits schemes offered by the banks will continue to provide base loans, at lower interest rates.
4. Another feature of demonetisation is to create a less-cash or cash-lite economy, i.e., channeling more savings through the formal financial system and improving tax compliance. Though there are arguments against this as digital transactions require use of cell phones for customers and Point-of-Sale (PoS) machines for merchants, which will only work if there is internet connectivity. On the contrary, these disadvantages are counterbalanced by an understanding that it helps people into the formal economy.

**Digitalisation has broadly impact three sections of society:** The poor, who are largely outside the digital economy; the less largely outside the digital economy; the less affluent, who are becoming part of the digital economy who have been covered under Jan Dhan Accounts and Rupay cards; and the affluent, who are fully conversant with digital transactions.

**GOODS AND SERVICE TAX (01, July 2017)**

Introduction of Goods and Services Tax (GST) will indeed be an important perfection and the next logical step towards a widespread indirect tax reforms in India. As per, First Discussion Paper released by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a "Dual GST" in India, i.e. taxation power lies with both by the Centre and the State to levy the taxes on the Goods and Services.
Constitutional Amendment: While the Centre is empowered to tax services and goods up to the production stage, the States have the power to tax sale of goods. The States do not have the powers to levy a tax on supply of services while the Centre does not have power to levy tax on the sale of goods. Thus, the Constitution does not vest express power either in the Central or State Government to levy a tax on the 'supply of goods and services'. Moreover, the Constitution also does not empower the States to impose tax on imports. Therefore, it is essential to have Constitutional Amendments for empowering the Centre to levy tax on sale of goods and States for levy of service tax and tax on imports and other consequential issue.

What is GST?
`G`- Goods
`S`- Services
`T`- Tax

**Goods and Service Tax (GST)** is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level under which no distinction is made between goods and services for levying of tax. It will mostly substitute all indirect taxes levied on goods and services by the Central and State governments in India. GST is a tax on goods and services under which every person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs (therefore a tax on value addition only) and ultimately the final consumer shall bear the tax".

**Types of GST**
There are three kinds of taxes under the GST:- SGST, CGST, and IGST
1. **SGST**: State Goods and Service Tax is the part of tax diverted to the state government which is credited to revenue department of state government. This is generally equivalent to CGST. This compensates the loss of existing VAT or Sales Tax revenue to state government. In the ease of local sales, 50% quantum of tax amount under GST is diverted to SGST tax.
2. **CGST:** Central Goods and Service Tax is the share of GST tax diverted to revenue department of central government and is also equivalent to SGST. This share of tax compensates the loss of existing excise duty and service tax to the central government. In the case of local sales, balance 50% quantum of GST is transferred to CGST.

3. **IGST:** Integrated Goods and Services Tax is levied when inter-state sales and purchase is made. One part of this tax transferred to central government and another to state government to whom goods and services belong. The IGST is charged only in case of inter-state sales or when transactions between two states involved.

**OBJECTIVES OF GST:** One of the main objective of Goods & Service Tax (GST) would be to eliminate the doubly taxation i.e. cascading effects of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax till the level of final consumers will significantly improve the competitiveness of original goods and services in market which leads to beneficial impact to the GDP growth of the country.

The introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle.

**Worldwide GST:**
France was the first country to introduce GST in 1954. Worldwide, Almost 150 countries have introduced GST in one or the other form since now. Most of the countries have a unified GST system. Brazil and Canada follow a dual system.

**Tax Rates under GST in India**
GST rates are divided into five categories which are 0%, 5%, 12%, 18%, 28%. All the basic need requirement goods are pleased in 0% category like food grains, bread, salt, books etc. Goods like paneer, packed food, tea coffee etc are placed under 5% category. Mobiles, sweets, medicine, are under 12%. All types of services are under 18% category. All other remaining
luxury items are placed under the last head of 28%. Petrol, gas, crude oil, diesel etc. are still out from the criteria of GST.

**Impact of GST**
In the case of indirect taxes, the burden was on end customer or consumer. But due to the implementation of one tax in the whole country the overall cost of production of all goods will be reduced but on the other hand in case of services, it will increase after the implantation of GST but CST gets abolished which ultimately reduces the cost of goods. Currently, we pay 30-35% tax on a commodity. In the case of sonic goods, direct and indirect taxes imposed by government raise its cost' upto 30%. After the implementation of GST, it will reduce. The GST also reduces the cascading effect of tax which helps in making the trade simple and reduces the tax Burden of Entrepreneurs.

**One India One Tax is a Myth**
GST is one tax in India is not the correct statement as GST only comes on the replacement of different indirect taxes, However Custom Duty or Import Export Duty will remain continued to levy. Further few amendments have already being made in custom law and same will remain applicable in India. All other direct taxes like Income Tax, Gift Tax, Property Tax etc will remain continued in forces as earlier

**Conclusion of GST**
Implementation of GST is one of the best decision taken by the Indian government. For the same reason, July 1, 2017 was celebrated as Financial Independence day in India when all the Members of Parliament attended the function in Parliament House. The transition to the GST regime which is accepted by 159 countries would not be easy. Confusions and complexities were expected and will happen. India, at some point, had to comply with such regime. Though the structure might not be a perfect one but once in place, such a tax structure will make India a better economy favorable for foreign investments. Until now India was a union of 29 small tax economies and 7 union territories with different levies unique to each state. It is a much accepted and appreciated regime because it does away with multiple tax rates by Centre and States. And if you are doing any kind of business then you should register for GST as it is not only going to help Indian government but will help you also to track your business weekly as in GST you have to make your business activity statement each week.
<table>
<thead>
<tr>
<th>Positive impacts of Economic Reforms</th>
<th>Negative impacts of Economic Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. High economic growth rate</td>
<td>1. Marginalization of agriculture</td>
</tr>
<tr>
<td>2. Increase in Foreign investment</td>
<td>2. Jobless economic growth</td>
</tr>
<tr>
<td>3. Increase in forex reserve</td>
<td>3. Unequal income distribution</td>
</tr>
<tr>
<td>4. Controlled inflation</td>
<td>4. Profit oriented society</td>
</tr>
<tr>
<td>5. Changes in export structure</td>
<td>5. Negative impacts of privatization</td>
</tr>
<tr>
<td>6. Changes in export direction</td>
<td>6. Over exploitation of natural resources</td>
</tr>
<tr>
<td>7. Establishment of consumer sovereignty</td>
<td>7. Environmental degradation</td>
</tr>
</tbody>
</table>
**QUESTION BANK**

**ONE (1) MARK QUESTIONS :-**

1. When was economic reforms introduced in India?
2. What do you mean by liberalization?
3. What is privatization?
4. Define the globalization.

**THREE & FOUR (3 & 4) MARK QUESTIONS :-**

1. Describe the economic reforms undertaken in 1991.
2. What were the needs of economic reforms for India?
3. What are the main features of economic reforms?
4. Give any three features of 'LPG - Policy'.
5. Write the 3-4 positive and negative impacts of LPG policy.

**SIX (6) MARK QUESTIONS :-**

1. Why were reforms introduced in India in 1991?
2. Explain the changing role of the state in the Indian economy since 1991.
3. Explain the steps taken by economic reforms towards
   (a) Liberalisation  (b) Privatisation  (c) Globalization
4. Evaluate the positive and negative impacts of LPG policy

**ANSWERS OF ONE (1) MARK QUESTIONS**

1. In 1991
2. It refers the relaxation of government restrictions.
3. It is the process that transfer of ownership from the public sector to the private sector.
4. It refers to the integrator of the various economies of the world.
Question 1: Why were reforms introduced in India?

Answer: Economic reforms were introduced in the year 1991 in India to combat economic crisis. Economic Crisis of 1991 was a culminated outcome of the policy failure in the preceding years. It was in that year the Indian government was experiencing huge fiscal deficits (gross fiscal deficit rose from 5.7% of GDP to 6.6% of GDP during 1980-81 to 1990-91), large balance of payment deficits (The current account deficit rose from 1.35% to 3.69% of GDP during 1980-81 to 1990-91), high inflation level (The rate of inflation rose from 6.7% p.a. to 10.3% p.a. during 1980s to 1990-91. In order to lower the inflation rate, government in 1991 had to opt for the economic reforms.) and an acute fall in the foreign exchange reserves. Moreover, the gulf crisis of 1990-91 led to an acute rise in the prices of fuel which further pushed up the inflation level. Because of the combined effect of all these factors, economic reforms became inevitable and were the only way to move Indian economy out of this crisis.

Question 2: Why is it necessary to become a member of WTO?

Answer: It is important for any country to become a member of WTO (World Trade Organisation) for the following reasons:

i) WTO provides equal opportunities to all its member countries to trade in the international market.

ii) It provides its member countries with larger scope to produce at large scale to cater to the needs of people across the international boundaries. This provides ample scope to utilise world resources optimally and provides greater market accessibility.

iii) It advocates for the removal of tariff and non-tariff barriers, thereby, promoting healthier and fairer competition among different producers of different countries.

iv) The countries of similar economic conditions being members of WTO can raise their voice to safeguards their common interests.

Question 3: Why did RBI have to change its role from controller to facilitator of financial sector in India?

Answer: Prior to liberalisation, RBI used to regulate and control the financial sector that includes financial institutions like commercial banks, investment banks, stock exchange operations and foreign exchange market. With the
economic liberalisation and financial sector reforms, RBI needed to shift its role from a controller to facilitator of the financial sector. This implies that the financial organisations were free to make their own decisions on many matters without consulting the RBI. This opened up the gates of 'financial sectors for the private players. The main objective behind the financial reforms was to encourage private sector participation, increase competition and allowing market forces to operate in the financial sector. Thus, it can be said that before liberalisation, RBI was controlling the financial sector operations whereas in the post-liberalisation period, the financial sector operations were mostly based on the market forces.

**Question 4:** Flow is RBI controlling the commercial banks?

**Answer:** RBI controls the commercial banks via various instruments like Statutory Liquidity Ratio (SLR), Cash Reserve Ratio (CRR), Bank Rate, Prime Lending (PLR), Repo Rate, Reverse Repo Rate and fixing the interest rates and deciding the nature of lending to various sectors. These are those ratios and rates that are fixed by RBI and it is mandatory for all the commercial banks to follow or maintain these rates. All these measures control the commercials banks' operations and also control money supply in Indian economy.

**Question 5:** What do you understand by devaluation of rupee?

**Answer:** Devaluation of Rupee refers to the fall in the value of rupee in terms of foreign currency. Specifically, it implies deliberate official lowering of the value of the country's currency with respect to the foreign currency. Devalutaion prevails under the fixed exchange rate regime. This implies that value of rupee has fallen and the value of foreign currency has risen. It means that now (after devaluation) one US$ can be exchanged for more rupees. This encourages exports and discourages imports as the former is cheaper now for foreign countries and the latter is expensive for Indians.

**Question 6:** Distinguish between the following:

(i) Strategic and Minority sale
(ii) Bilateral and Multi-lateral trade
(iii) Tariff and Non-tariff barriers.
Answer:

<table>
<thead>
<tr>
<th>(i)</th>
<th>Strategic Sale</th>
<th>Minority Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Strategic Sale refers to the sale of 51% or more stake of a PSU to the private sector who bids the highest.</td>
<td>Minority Sale refers to the sale of less than 49% stake of a PSU to the private sector.</td>
</tr>
<tr>
<td>(b)</td>
<td>The ownership of PSU is handed over to the private sector.</td>
<td>The ownership of PSU still remains with the government as it holds 51% of stakes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(ii)</th>
<th>Bilateral Trade</th>
<th>Multilateral Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>It is a trade agreement between two countries</td>
<td>It is an agreement among more than two countries.</td>
</tr>
<tr>
<td>(b)</td>
<td>This is an agreement that provides equal opportunities to both the countries.</td>
<td>This is an agreement that provides equal opportunities to all the member countries in the international market.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(iii)</th>
<th>Tariff Barriers</th>
<th>Non-tariff Barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>If refers to the tax imposed on the imports by the country to protect its domestic industries.</td>
<td>If refers to the restrictions other than taxes imposed on imports by the countries.</td>
</tr>
<tr>
<td>(b)</td>
<td>It includes custom duties, export-import duties</td>
<td>It includes quotes and licenses.</td>
</tr>
<tr>
<td>(c)</td>
<td>It is imposed on the physical units (like per tonne) or on value of the goods imported.</td>
<td>It is imposed on the quantity of the goods imported.</td>
</tr>
</tbody>
</table>

**Question 7: Why are tariffs imposed?**

**Answer:** Tariffs are imposed to make imports from foreign countries relatively expensive than domestic goods,
thereby, t discouraging imports indirectly. These are imposed to provide a safe and protective environment to the infant domestic firms from their technologically advanced foreign counterparts. Tariffs facilitate the domestic firms to survive and grow. Tariffs are also imposed on those goods that the government thinks to be socially unwanted and imports of which will exert unnecessary burden on the scarce foreign exchange reserves.

**Question 8: What is the meaning of quantitative restrictions?**

**Answer:** Quantitative Restrictions (QRs) refer to the restrictions in the form of limits or quotas on the amount of commodities that can either be imported or exported. QRs usually on imports (refers to non-tariff measures) are imposed to discourage imports of foreign goods and to reduce Balance of Payment (BOP) deficits. The imposition of QRs provides impetus to the domestic firms to survive, grow and expand in a protective and lesser competitive environment.

**Question 9: Those public sector undertakings which are making profits should be privatised. Do you agree with this view? Why?**

**Answer:** An efficient and profit earning PSU is a revenue generator for the government. But if, a PSU is an inefficient and loss making one, then the same PSU exerts unnecessary burden on the government's scarce revenues and further may lead to budget deficit. The loss making PSUs should be privatised whereas it would not be fair to privatise a profit making PSU. Privatising a PSU may lead to concentration of monopoly power in the private hands. Further some of the PSUs like, water, railways, etc. enhance the welfare of nation and is meant to serve general public at a very nominal cost. Privatisation of such important PSUs will lead to loss of welfare of poor people. Hence, only less important PSUs should be privatised while leaving the core and important PSUs to be owned by the public sector. Instead of privatisation of profit-making PSUs, government can allow more degree of autonomy and accountability in their operations, which will not only increase their productivity and efficiency but also enhance their competitiveness with their private counterparts.

**Question 10: Do you think the navaratna policy of the government helps in improving the performance of public sector undertakings in India? how?**
**Answer:** To improve efficiency, infuse professionalism and to enable PSUs to compete effectively in the market, government awarded the status of navaratna to the following nine PSUs:

1) Indian Oil Corporation Ltd (IOCL)`
2) Bharat Petroleum Corporation Ltd (BPCL)
3) Hindustan Petroleum Corporation Ltd (HPCL)
4) Oil and Natural Gas Corporation Ltd (ONGC)
5) Steel Authority of India Ltd (SAIL)
6) India Petro-chemicals Corporations Ltd (IPCL)
7) Bharat Heavy Electricals Ltd (BHEL)
8) National Thermal Power Corporation (NTPC)
9) Videsh Sanchar Nigam Ltd (VSNL)

These corporations were granted a greater degree of financial, managerial and operational autonomy. This boosted their efficiency and effectiveness. They also became highly competitive and some of them are becoming the giant global players. Consequent to their better performance, government retained them under public sector and enabled them to grow themselves not only in the domestic market but also in the international market. These corporations are self-reliant and financially self-sufficient. Thus, the navaratna policy has certainly improved the performance of these PSUs.

**Question 11: Discuss economic reforms in India in the light of social justice and welfare.**

**Answer:** The economic reforms have enabled India to access and compete in the international markets. This facilitated the movement of goods and services across the international boundaries. Further, the increased inflows of foreign capital and investment to India have eliminated the shortage of foreign exchange to finance the imports of sophisticated and advanced technologies to India. Moreover, the boom in the outsourcing and the service sector led India's economic growth and GDP to increase by many folds. But on the other side, agriculture that employed a significant proportion of population, failed to be benefited by these economic reforms. Also the reforms favoured the high income group population at the cost of their poor counterparts. This resulted in wide and still increasing economic and social inequalities among different section of population. Further, the economic reforms developed the areas that were well connected with the
metropolitan cities leaving the remote and rural area undeveloped. Consequently, there were wide regional disparities. The boom in the service sector, especially in the form of quality education, superior health care facilities, IT, tourism, multiplex cinemas, etc. were out of the reach of the poor section of the population. The population engaged in the agricultural and allied sectors has still not been able to share the fruits of advanced technology and modern techniques. Further, the high income group has experienced increase in income, thereby, appreciating the quality of their consumption basket, leaving the low and middle income group to fight hard to earn their livelihood. Thus, it can be concluded that the economic reforms failed to provide social justice and enhance welfare of the general public of India.
Poverty is the inability to fulfil the minimum requirement of life food, clothing, housing, education and wealth.

A - Relative Poverty
It refers to poverty of people in comparison to other people, region or nations.

- People who are always poor are known as chronic poor.
- People who regularly move in and out of poverty line is known as transient poor.
- People who live above the poverty line are known as non poor.
- Poverty line refers to that line which express per capita average monthly expenditure incurred by the people to satisfy their minimum needs.

B - Absolute Poverty
It refers to total numbers of people living below the poverty line.

- **Estimation of poverty line**
  a) Calories based estimation – For rural area intake calorie was estimated at 2400 and for urban area it is 21,00 calories.
  b) Per capital expenditure based – In India, persons who spend more than 1000 in urban and 816 in rural are treated as non poor.

As per Rangrajan Committee (Report by 2014) the calculation of poverty the based on per capita consumption expenditure per month on per day. It is fixed as Rs. 32 per day (Rs. 972/month) in rural areas and Rs. 47 per day (1407 per months) in urban areas.

Three approaches of Govt. to combat Poverty

- Enhancing Economic Growth
- Specific programmes for poverty alleviations
- Fulfilling Minimum Needs of the poor

• **Causes of poverty**
  1) Low rate of economic growth
  2) Rise in population
  3) Unemployment
  4) Inflation
**Poverty Alleviation Programmes**

The poverty alleviation programmes in India can be categorized based on whether it is targeted to rural areas or urban areas. Most of the programmes are designed to target the rural poverty as prevalence of poverty is high in rural areas. Also targeting poverty is a great challenging in rural areas due to various geographic and infrastructure limitations. The programmes can be mainly grouped into 1) Wage employment programmes 2) Self-employment programmes 3) Food security programmes 4) Social security programmes 5) Urban poverty alleviation programmes.

Following, are some of the poverty alleviation policies introduced by the government:

1. **National Rural Employment Guarantee Act**: Also known as NREGA, this is the flagship programme of Government directly touching lives of the poor and promoting inclusive growth. It aims at enhancing the general livelihood of the rural people by guaranteeing at least a 100 days of employment in a financial year to adults of the household who are willing to do unskilled labour. It was enforced on 2nd February 2006 and implemented in phases. Today it is indeed one of the largest employment generating scheme of the government.

2. **Sampoorna Grameen Rozgar Yojna**: SGRY was launched in the year 2001 by way of merging two ongoing schemes- EAS and IGSY. The objective was to provide additional food security and wage employment to the rural sector. It also helped in creating durable community assets for the rural people. The program targeted poor with special emphasis on women, SCs, STs and parents of children withdrawn from hazardous industries.

3. **National Food For Work Programme**: This programme was launched in November 2004 in 150 backward districts of the country that were identified by the Planning Commission. The aim of this project was to offer additional sources for rural employment apart from SGRY to these 150 districts. This scheme was entirely sponsored by the Central Government. Since then the program has been merged with NREGA, identifying in total 200 districts to implement the scheme.

4. **Pradhan Mantri Sadak Yojna**: PMGSY launched on 25th December 2002 was a fully Central Sponsored Scheme. The objective of this scheme was to construct roads connecting the rural and urban centres through quality roads. This generated employment for rural labourers and lead to infrastructure development.
5. Jawahar Gram Samriddhi Yojna: Launched in 1999, IGSY aimed at creating demand-driven infrastructure in the village, for the use of village community. Secondly, it aimed at creating an additional source of employment for the rural populace. The scheme is prepared and implemented by Village Panchayal.

6. Indira Aawas Yojna: This is the flagship rural housing scheme introduced by the Government. Under this scheme, states were to provide shelter to those below the poverty line. The objective was to create new accommodation for the poor construction of new houses as well as by converting the unserviceable kuchha houses into pucca and semi-pucca houses.

7. Credit-Cum-Subsidy Scheme For Rural Housing: The houses that could not be covered under the IAY because of some reason, were included in this scheme. Under this scheme, the houses were constructed for the families who could afford a certain amount of repayment capacity. The families could apply for a loan at a highly subsidised rate and get a home under this scheme. All those poor who could not be included in IAY were included in this scheme.

The objective behind initiating all these and many more similar schemes was to gradually rid the nation of the plague of poverty, once and for all. The schemes were designed in such a way as to offer not just financial health but means of employment by which the poor could continue to feed their family and gradually raise their standard of living. The schemes aim at a sustained development. While the schemes have benefited many poor people and helped change the face of several rural villages. But there is still a very long way to go before the country can be rid of poverty. Probably, things will get better in the coining future.
QUESTION BANK

ONE (1) MARK QUESTIONS :-
1) Define poverty.
2) Define poverty line.
3) Write two programmes to solve poverty.
4) How does absolute poverty measure in India?
5) National rural guarantee act, 2005 ensures for how many days of employment in a year in rural areas?
6) Which states are the most poor?

THREE & FOUR (3 & 4) MARKS QUESTIONS :-
1) What is meant by poverty? Distinguish between absolute and relative poverty.
2) Briefly explain the three approaches adopted by the Indian Government to combat poverty.
3) Explain how rapid growth in population spreads poverty.
4) Comment on 'MGNREGA'.
5) How inequalities of income are responsible for poverty?
6) Explain the three main causes of poverty in India.

SIX (6) MARKS QUESTIONS :-
1) Briefly explain the three dimensional attack on poverty adopted by the government.
2) Is there any relationship between unemployment and poverty?
3) Give the critical assessment of poverty alleviation programmes.
4) Explain briefly the causes for poverty.

ANSWERS OF ONE (1) MARK QUESTIONS
1) It refers the situation where people do not fulfil the minimum needs of life.
2) Poverty line refers to that line which express per capital average monthly expenditure incurred by the people to satisfy their minimum needs.
3)  (i)  Food For Work  
    (ii)  MGNREGA  
4)  Absolute poverty is measured in India with the help of poverty line.  
5)  100 days  
6)  Odisa, West Bengal, U.P. and Bihar
SOLUTIONS OF QUESTIONS (NCERT BOOK)

Question 1: Why is calorie-based norm not adequate to identify the poor?
Answer: The calorie-based norm is not adequate to identify the poor because of the following reasons:
   a) This mechanism does not differentiate a very poor from other poor. It indicates whole class of poor and not, especially, those poor who are the most needy.
   b) This mechanism uses inappropriate proxies for income like Monthly Per Capita Expenditure (MPCE), etc. These items do not act as suitable and appropriate proxies for income to measure calorie requirements.
   c) This mechanism does not consider various important factors that are associated with poverty like as health care, clean drinking water, proper sanitation and basic education.
   d) Another shortcoming of calorie-based norm is that it fails to account for social factors that exaggerate and worsen poverty like ill health, lack of access to resources, lack of civil and political freedom, etc. Therefore, because of these shortcomings in the calorie-based norm, it cannot be used to identify the poor.

Question 2: What is meant by 'Food for Work programme'?
Answer: Food for Work (FFW) programme was started in 2000-01 with the objective of generating ample employment opportunities for unskilled labourers concentrated in the drought-affected states of Chhattisgarh, Gujarat, Himachal Pradesh, M.P, Orissa, Rajasthan, Maharashtra and Uttaranchal. This programme provides food in exchange of work done by labourers. This programme was aimed to protect poor people against reduction in their purchasing power capacity in the natural calamities prone areas. The work done by the labourers includes watershed development works, water harvesting and construction of metal roads connecting rural and urban areas. This programme not only provides labourers with food but also creates semi-durable assets that facilitate economic and social development of the backward areas.

Question 3: How can creation of income earning assets address the problem of poverty?
Answer: The income earning assets are those assets the ownership of which are controlled and owned by the members of a household. These are land, capital, labour and different levels of skills. Poverty and inequality of
income arises due to improper distribution of and access to such income-
earning assets. The labour skills of the poverty-trodden population are
usually traditional and poor in quality that consequently leads to poor
income and employment opportunities. Moreover, a substantial proportion
of population is engaged in the small scale production that often lacks
capital and modern technology. Consequently, such techniques directly
hamper the income earning capabilities of small scale industries. In addition
to this, poor people often lack access to social services like proper medical
and health care facilities, better education, proper sanitation, etc. The lack of
access to such social services affects health, productivity and finally income
earning capabilities of the poor.
In order to alleviate the problem of poverty, the role of income earning assets
cannot be substituted. There are various measures that can create income
earning assets for the poor people like providing proper access to easy
credit, capital, monetary assistance, imparting technical skills, allotment of
land to the landless and marginal farmers and better access to education,
health services along with better access to information and support services
for increasing their productivity. All these measures directly or indirectly
contribute positively to the quality of human capital and their endowment of
income-earning assets. This in turn leads to increase in the income
opportunities and earning capabilities, thereby, contributing to the
alleviation of poverty.

**Question 4:** The three dimensional attack on poverty adopted by the
government has not succeeded in poverty alleviation in India.

**Comment.**

**Answer:** In order to alleviate poverty, government has adopted the following
three dimensional approaches:

(i) Trickle-down Approach- This approach is based on the expectation that
the positive effects of economic growth will be trickled down or benefit all
sections of the society and also the poor people.

(ii) Poverty Alleviation Approach- This approach aimed at the creation of
income-earning assets and employment generation opportunities.

(iii) Providing Basic Amenities- This approach aimed at providing the basic
amenities like proper medical and health care facilities, better education,
proper sanitation etc. to the poor people. These basic amenities positively
affect health, productivity, income-earning opportunities and, thereby,
alleviate poverty. A thorough analysis of the three dimensional approach
yield the following conclusions:
1. Although there has been a reduction in the percentage of absolute poor in some of the states but still the poor people lack basic amenities, literacy, and nourishment.
2. Secondly, there has not been significant change in the ownership of income-earning assets and productive resources.
3. Thirdly, land reforms do not have high successful records that further added to the inequality of income from land.
4. Fourthly, lack of capital and availability of easy credit, lack of modern technology and poor access to information and marketing became the major bottlenecks for the small productive houses like cottage industries and other small scale industries.
5. Fifthly, improper implementation of poverty alleviation programmes by ill-motivated and inadequately trained bureaucrats further worsened the situation.
Therefore, it can be summed up that although various poverty alleviation programmes were \\veil planned on papers but these were not implemented properly.

**Question 5:** What programmes has the government adopted to help the elderly people and poor and destitute women?

**Answer:** The government has adopted various programmes to help the elderly people and poor and destitute women. One of such programmes is National Social Assistance Programme, introduced by the central government. This programme targets elderly people, widows and the poor and destitute women who are alone and have no one to take care of them. Under this programme, these targeted people are given pension to sustain their livelihood.

**Question 6:** Is there any relationship between unemployment and poverty? Explain.

**Answer:** Yes, there do exist a direct and positive relationship between unemployment and poverty. Unemployment leads to poverty and poverty in turn leads to unemployment. An unemployed person has no means to earn money and cannot fulfill his own and his family’s basic needs. He and his family cannot avail quality education, medical facilities and has no means to create income-earning assets. Such circumstances often compel indebtedness. Consequently, an unemployed person exaggerates poverty for his family due to indebtedness. This confirms the positive relationship between unemployment and poverty.
If government wants to alleviate poverty, then it should aim at creating new employment opportunities. As a result, more people will get employed and perhaps their income will rise. This rise in income will improve their access to quality education, better health care and other basic amenities. Further, these newly employed people will experience appreciation in their living standards and can create income-earning assets. The combined result of all these factors leads to alleviation of poverty. Hence, there exists a positive (but a negative) relationship between unemployment (employment) and poverty.

**Question 7:** Suppose you are from a poor family and you wish to get help from the government to set up a petty shop. Under which scheme will you apply for assistance and why?

**Answer:** For setting up a petty shop, I would apply for financial assistance under the programme of Prime Minister's Rozgar Yojana (PMRY). Under this programme, an unemployed educated person from low-income family in rural and urban areas can set up any kind of enterprise that can generate employment.

**Question 8:** Suppose you are a resident of a village; suggest a few measures to tackle the problem of poverty.

**Answer:** Being a resident of a village, I would suggest the following measures to tackle the problem of poverty:

1. Identification of poor.
2. Generating employment opportunities for the identified poor.
3. Free access to education and health care facilities.
4. Establishment of small scale industries.
5. Redistribution of income-earning assets.
6. Encouraging poor for their active participation
7. Organising Training Camps and Night Classes for imparting vocational training to unskilled labourers.
8. Advancing financial and technical assistance to establish small enterprises.
9. Upgradation of agricultural practices to raise productivity
10. Enforcement of measures to check population growth.
12. Motivating the poor to acquire skills, information and knowledge.
UNIT-VII
CHAPTER - 5
RURAL DEVELOPMENT

Rural Development is a process of improving the standard of life and social economic welfare of the people living in rural areas.

- **Key Issues in Rural Development:**
  1) Raising agricultural productivity per unit of land.
  2) Improving agricultural marketing system that ensures remunerative price to the former for his produce.
  3) Motivate the production of higher value crops.
  4) Motivate agricultural diversification.
  5) Diversification of production activity with a view to find alternative means of sustainable living other than crop-cultivation.
  6) Provision of credit facilities in the rural areas.
  7) To reduce the level of poverty in rural areas by farm and non-farm employment.
  8) Promotion of organic farming.
  9) To expand education and health facilities in rural areas.

**Sources of Rural Credit in India**

- **Non-Institutional Sources**
  It includes money lenders, traders, commission agents, landlords, relative and friends.

- **Institutional Sources include:**
  1) Co-operative credit societies
  2) SBI and other Commercial Banks.
  3) Regional Rural Banks.
  4) NABARD (National Bank for Agriculture and Rural Development)
  5) Self Help Groups
• **Agricultural Marketing**
  The term agricultural marketing includes all those activities which are mostly related to gathering, processing, grading, packaging, storing, transporting and selling the agricultural produce.

• **Defects of Agricultural Marketing**
  1) Inadequate storage facility.
  2) Inadequate means of transport and communication.
  3) Malpractice in a regulated markets.
  4) Multiplicity of middlemen.
  5) Lack of proper grading.
  6) Lack of adequate institutional finance.
  7) Lack of proper marketing facilities.

• **Measures adopted by the government to improve marketing system:**
  1) Regulated markets.
  2) Provision of warehousing facilities.
  3) Compulsory use of standard weights for measurement.
  4) Subsidised transport.
  5) Establishment of food corporation of India (FCI), central ware housing corporation etc. by the govt. to increase the capacity of storing.
  7) Dissemination of marketing information.

• **Diversification in agriculture activities:**
  It has two aspects:
  1) **Diversification of crop production:** It refers to a system of multiple cropping rather than mono cropping. It has two advantages:
    a) It lowers the risk of farmer on account of monsoon failure.
    b) It enhances the scope for commercialisation of farming.
2) Diversification of productive activities:— It implies a shift of labour force from crop-farming to non-farming areas of employment, like – Animal husbandry, fisheries, horticulture etc.

- **Non-farm areas of employment for rural population**
  1) Animal husbandry
  2) Fisheries
  3) Poultry
  4) Bee-Keeping
  5) Horticulture
  6) Cottage and Household Industry

- **Organic Farming**
  Organic Farming is a system of farming in which organic inputs (basically include animal measures and composts) are used for cultivation. It discourages the use of cultivation. It discourages the use of chemical inputs. This methods of farming is environment friendly.

- **Advantages of Organic Farming:—**
  1) Organic level of soil increase by the use of organic inputs and sustains soil fertility.
  2) Organic inputs provide minerals for the growth of plants.
  3) Organic inputs are cheap as compared to chemical inputs.
  4) Organic farming is environment friendly.
  5) Inexpensive technology for small farmers.
  6) Organic farming is based on labour intensive technique.
  7) We get heathier and tastier food by the use of organic farming.
QUESTION BANK

ONE (1) MARK QUESTIONS :-

1) Which is the apex institution to provide credit facility to agriculture and rural development :-
   a) NABARD
   b) SBI
   c) RBI
   d) National Co-operative Bank of India

2) National Rural Development institute is situated at :-
   a) Haryana
   b) Delhi
   c) Hyderabad
   d) Mumbai

3) When National Horticulture Mission was launched ?
   a) 2001-02
   b) 2010-11
   c) 2005-06
   d) 2014-15

4) Which of the following is not related to agricultural marketing :
   a) Storage
   b) Gathering
   c) Processing
   d) Use of chemical fertilizers

5) What is rural development.

6) When was NABARD established?

7) What is agricultural marketing.

8) What do you mean by organic farming?

THREE & FOUR (3 & 4) MARK QUESTIONS :-

1) Write a short note on NABARD.

2) Why does Indian Farmer need credit?
3) Explain the importance of self help groups (SHGS) in rural areas.

4) Explain three steps taken by the government in developing rural market.

5) What are the advantages of organic farming.

6) Explain three non-farm areas of employment for rural population.

7) Give three basic objectives of co-operative credit societies.

8) Explain three defects of agriculture of marketing

9) Write a short note on –
   a) MSP (Minimum Support Price)
   b) Buffer Stock
   c) PDS (Public Distribution System)

10) Why is agricultural diversification essential for sustainable livelihoods.

SIX (6) MARK QUESTIONS :-

1) What is rural development? What are the key issues of rural development?

2) What are the sources of rural credit in India?

3) What steps have been taken by the government to improve agricultural market system in India?

4) What do you mean by agricultural diversification? Why is it required?

5) What do you mean by organic farming. Why should we adopt organic farming?
ANSWERS OF ONE MARK QUESTIONS

1) A
2) C
3) C
4) D
5) Rural Development is a process of improving the standard of life and social economic welfare of the people living in rural areas.
6) 1982
7) Agricultural Marketing includes all those activities which are mostly related to gathering, processing, grading, packaging, storing, transporting and selling the agricultural produce.
8) Organic farming is a system of farming in which organic inputs (basically include animal measures and composts) are used for cultivation. It discourages the use of chemical inputs.
SOLUTIONS OF QUESTIONS (NCEET BOOK)

Question 1: What do you mean by rural development? Bring out the key issues in rural development.

**Answer:** Rural development refers to the actions and initiatives taken for the social and economic development of the rural or backward areas. The key issues in rural development are as follows:

1. **Human Capital Formation—** Rural areas lack quality human capital. Therefore, rural development programmes should aim at development of human resources by investing in education, technical skills development through on-the-job training, health care, etc.

2. **Development of Productive Resources—** Productive resources help in generating employment opportunities. Rural development must aim at development of alternative sources of occupation. Development of productive resources reduces excess burden on the agricultural sector.

3. **Development of Rural Infrastructure—** Infrastructure development is a very crucial issue at the micro level. It provides a support system to all the production activities in the economy.

4. **Lattt reforms—** Land reforms lead to efficient and optimum use of land, enabling large scale production.

5. **Lessening Poverty—** Poverty is one of the main causes of rural underdevelopment. Poverty is not a problem in itself; in fact, it gives rise to many other interrelated problems like unemployment, inferior human capital, underdevelopment and backwardness, inequalities, etc.

**Question 2: Explain the role of micro-credit in meeting credit requirements of the poor.**

**Answer:** Micro credit refers to credit and other financial services provided to the poor through Self Help Groups (SHGs) and non government organisations. The Self Help Groups are playing a crucial role in meeting the credit requirements of the poor by inculcating saving habits among the rural households. The individual savings of many farmers are pooled together to meet the financial requirements of the needy members of the SHGs. The members of these groups have been linked with the banks. In other words, SHGs enable the economically poor individual to gain strength as part of a group. Also, the financing done through SHGs reduces transaction costs for both the lenders and the borrowers. The National Bank for Agricultural and Rural Development (NABARD) played a key role in providing credit at special concessional rates. Presently, more than seven
lakhs SHGs are operating across different rural areas. SHGs’ programmes are becoming popular among the small and marginal borrowers owing to their informal credit delivery mechanism along with minimum legal formalities.

**Question 3: Why is agricultural diversification essential for sustainable livelihoods?**

**Answer:** The agricultural diversification implies diversification of crop production and shifting of agricultural workforce to other allied activities such as livestock, poultry, fisheries, etc. and non-agriculture sector. The shift from the crop farming to non-farm employment is essential in order to raise income and to explore alternative avenues of sustainable livelihood. The importance of agricultural diversification can be explained with the help of the following, points: 1. A substantial portion of Indian farming is dependent on the vagaries of monsoon, making it a risky affair to rely upon solely. Accordingly, the need for diversification is required to enable the farmers to earn from other alternative non-farm occupations. This lessens excess burden on agriculture by reducing disguised unemployment. 2. The kharif season opens up ample opportunities for agricultural employment. However, owing to lack of irrigation facilities, the farmers fail to get gainful employment opportunities during the Rabi season. Therefore, the need of diversification arises during the Rabi season. 3. Agriculture being over crowded cannot further generate employment opportunities. Therefore, the prospects of the non-farm sectors should be opened up in the rural areas to provide job opportunities, thereby, diverting workforce from the already crowded agricultural sector. 4. The non farm sector has several segments that possess dynamic linkages. Such linkages enhance the healthy growth of an economy.

**Question 4: Critically evaluate the role of the rural banking system in the process of rural development in India.**

**Answer:** With the nationalisation of the commercial banks after 1969, the concept of social banking came into existence. It implies extending institutional credit at moderate rate of interest. The National Bank for Agricultural and Rural Development (NABARD) has made a significant progress in the field of rural credit. It cannot be denied that the institutional credit has freed the farmers from the trap of money lenders and mahajans. But, on the other hand, institutional credit is not free from deficiencies. The rural or institutional credit has invariably been associated with security or
collateral. Consequently, a substantial number of farmers cannot avail credit. Also, the commercial banks failed to encourage the habit of thrift among farmers. In addition to this, the leniency on the part of the government to collect taxes was another setback in the rural banking. This further led to the emergence of the feeling among the farmers of not repaying the borrowed amount. This increased the defaulter's rate and led to financial unfeasibility for the rural banks.

**Question 5: What do you mean by agricultural marketing?**

**Answer:** Agricultural marketing refers to all those processes that are involved from harvesting to final sales of the products by the farmers. These processes involve: a) gathering the product after harvesting b) processing the product c) grading the product, according to, different quality norms d) packaging the product e) storing the product for future use f) selling the product at attractive prices In other words, it does not simply refer to the farmers' act of bringing their product to the market for the purpose of sale. But it also includes all those activities that help the farmers to fetch the maximum price for his product.

**Question 6: Mention some obstacles that hinder the mechanism of agricultural marketing.**

**Answer:** Agricultural marketing does not simply refer to the farmers' act of bringing their product to the market for the purpose of sale. But it also includes all those activities that help the farmers to fetch the maximum price for their product. The following are some of the obstacles that hinder the mechanism of agricultural marketing: i. Farmers are vulnerable to defective weighing techniques and misappropriation of accounts, ii. Farmers are often ill-informed about market prices and market conditions. Being ignorant, farmers are forced to sell their product at lower prices. iii. The farmers lack access to proper storage facilities to store their Produce for future sell at better prices. iv. The farmers cannot avail agricultural credit, leading to their exploitation by the moneylenders and mahajans.

**Question 7: What are the alternative channels available for agricultural marketing? Give some examples.**

**Answer:** The small and marginal farmers, selling their product through the middlemen, were exploited by these middlemen. The farmers were not given appropriate price for their product. In this context; there arose a need for an alternative marketing channel. Under this channel, the farmers can sell their product directly to the consumers that would fetch them
comparatively higher price, thereby, attractive profits. Some of the examples of alternative agricultural marketing are Apni Mall& in states like Punjab, Haryana and Rajasthan, Hadaspar Mandi in Pune. Rythu Bazars in Andhra Pradesh, Uzhavar Sandies in Tamil Nadu. Another alternative channel for agricultural marketing is the contract of direct sales between the farmers and the national and international companies. These companies offer advance payments to the farmers for supplying products at pre-determined rates. These alternative agricultural channels raise farmer income and simultaneously reduce price risk for the small and marginal farmers.

**Question 8: Distinguish between 'Green Revolution' and 'Golden Revolution'.**

**Answer: Green Revolution**

1. The combined use of HYV seeds and increased use of fertilisers and developed irrigation facilities jointly to increase the production of rice and wheat. This increase in the production of the food grains is known as the

2. It led to increase in the production, especially, of rice and wheat.

3. As a result of this revolution, India became self-sufficient in the production of wheat and rice.

**Golden Revolution**

1. The rapid growth in the production of the horticultural crops such as fruits, vegetables, tuber crops, flowers, etc. is known as Golden Revolution.

2. It led to increase in production of fruits, vegetables, flowers, aromatic plants, spices, etc.

3. As a result of this revolution, India became a world leader in the production of mangoes, bananas, coconut and spices.

**Question 09: Information technology plays a very significant role in achieving sustainable development and food security comment.**

**Answer:** Information technology (IT) plays a very significant role in achieving sustainable development and food security. IT enables to provide and store data related to the past and future conditions providing inputs for policy decision and for adopting various corrective measures. For example, with the help of IT, weather conditions can be forecast. If, for example, there is a probability of crop failure, then preventive measures can be taken to avoid or mitigate the impact of food insecurity. Information technology facilitates the storage and dissemination of information on emerging technologies, weather and soil conditions for growing various crops, etc, which ease the
decision making process vis-a-vis production and productivity. Now days, the farmers can consult Kisan Call Centres and various web sites providing valuable information regarding measures to improve farm productivity and quality of farm inputs, seeds, fertilisers and various modern techniques. It acts as a tool for identifying the experts on food security and sustainable development. IT sector also generates employment opportunities in the backward areas via developing 'info kiosk' (i.e. PC with internet, scanner, etc.) in the rural areas. Thus, it can be said that IT plays a vital role in assuring food security and sustainable development in India.

**Question 10: What is organic farming and how does it promote sustainable development?**

**Answer:** Organic farming refers to a system of farming that sustains and enhances the ecological balance. In other words, this system of farming relies upon the use of organic inputs for cultivation. The traditional farming involves the use of chemical fertilisers, toxic pesticides, etc. that harms the eco system drastically. So, this type of farming is practiced to produce toxic-free food for the consumers while simultaneously maintaining the fertility of the soil and contributing to ecological balance. This type of farming enables eco friendly sustainable economic development.

**Question 11: Enlist some problems faced by farmers during the initial years of organic farming.**

**Answer:** In the initial years, it has been observed that the yields from Organic Farming arc lesser than the modern agricultural farming. So, the farmers found it difficult to undertake large scale production. Also, due to the low yield per hectare, this technique was not financially viable for the small and marginal workers. The products obtained from organic farming have shorter life and are quickly-perishable. Moreover, the choice in production during off-season is quite limited in Organic Farming. Despite these shortcomings in the initial years, India has attained comparative advantage in Organic Farming due to labour intensive techniques. Hence, the availability of labour in abundance popularised Organic Farming in India.
UNIT-VII
CHAPTER - 6
HUMAN CAPITAL FORMATION IN INDIA

• Human Capital refers to the stock of knowledge, skills, ability, education, motivation and health in a nation at a point of time.

• Human capital formation is the process of acquiring and increasing among the people of the country over a long period of time.

• Sources of human capital formation :-
  1) Expenditure on education
  2) Expenditure on skill development
  3) On the job training
  4) Expenditure on Migration
  5) Expenditure on health
  6) Expenditure on information

• Problems facing human capital formation in India :-
  1) Pressure of rapidly growing population
  2) In-equate resources
  3) Problem of Brain-Drain
  4) Lack of proper management of human resources
  5) Lack of quality education of technical and management
  6) In-equate development of health services

• Role of human capital in economic development of a country :-
  1) Increasing skill and the level of productivity
  2) Bring positive change in attitude and behaviour
  3) Increasing research and technical reforms
  4) Raises life expectancy
  5) Raises the level of life-standard

• Roles of education in human development :-
  1) Raise creativity and productivity of the people
2) Education produces good citizens
3) Develops science and technology
4) Helpful in proper civilization of resources of the country
5) Expands mental horizon of the people
6) Develop skills among the people

- **Human capital formation in India:**
  1) Human capital formation is the goal and factor of economic development. Human resource development is included in the directive principles of the state in India.
  2) In India, ministry of education at the centre and state level. NCERT (National Council of Educational Research and Training), UGC (University Grant Commission), AICTE (All India Council of Technical Education) regulate the education sector.
  3) In India, Ministry of Health at the union and the state level and ICMRC (Indian Council of Medical Research) regulate the health sector.
  4) Provision of drinking water and sanitation facilities are the basic needs of healthy life. State Governments and local bodies are responsible to provide such facilities.

- **Growth of Education Sector in India:** Education is the main factor of the social and economic development of a country. A good education system produces not only skilled and trained people but also promotes science and technology. The following observations highlight the growth of education sector in India:
  1) **Elementary Education:**
     a) Elementary education includes primary and middle school education.
     b) In 1950-51, the number of primary and middle schools were 2.23 lakh. Which increased to 12.96 lakh in 2010-11.
     c) Now, elementary education is free and compulsory (Class 1 to 8) for the age group of 6–14.
d) Various policies such as Sarva Shiksha Abhiyan, Midday Meal Scheme, district primary education programme, right to education have been playing major role in enhancing primary education in India.

2) Secondary and Senior Secondary Education :-
   1) In 1950-51, there were 7400 Secondary Schools with 14.8 lakh students. In 2009-10, the number of schools rose to 1.90 lakh with 441 lakh students.
   2) For the expansion of secondary education, the following institutions are working :-
      a) Navodaya and Kendriya Vidhayalayas
      b) National Council of Educational Research and Training
      c) Commercialisation of Secondary Education
      d) Technical, Medical and Agricultural Education

3) Higher Education :-
   1) Universities, Colleges, Professional and Technical Educational in situations are included in higher education.
   2) After Independence, there has been a lot of development in the field of higher education in the country. As many as 749 (as on 31st March, 2016) universities are providing higher education in the country of these, there are 46 central universities, 345 state universities, 123 deemed universities and 235 private universities. Besides, there are about 37204 (2012-13) colleges in the country.
   3) The following main institutions are working in the field of higher education :-
      a) University Grant Commission (UGC)
      b) Indira Gandhi National Open University (IGNOU)
      c) All India Council for Technical Education (AICTE)
      d) Indian Council for Medical Research (ICMR)
• Problems related to Development of Education in India:
  1) Large number of illiterates
  2) Inadequate Professional and Technical Education
  3) Gender Bias
  4) Low Rural Access Level
  5) Low government expenditure on the development of education

**QUESTION BANK**

**ONE (1) MARK QUESTIONS:**

1) ................. five year plan recognised the importance of Human Capital.
   a) Second       b) Eight
   c) Seventh      d) Third

2) In India, which of the following organisation regulate the health sector?
   a) UGC          b) AICTE
   c) ICMR         d) None of the above

3) As per census roll, literacy rate in India is about:–
   a) 56%          b) 80%
   c) 74%          d) 65%

4) Which one of the following is a reason for poor human capital formation in India?
   a) Brain-Drain
   b) High growth of population
   c) Insufficient resources
   d) All of the above

5) What do you mean by human capital for motion?
6) What is on the job training?
7) Why do we need to invest in human capital?
THREE & FOUR (3 & 4) MARK QUESTIONS :-

1) What are three major sources of human capital formation?
2) Explain the concept of human capital formation.
3) Bring out the differences between human capital and physical capital.
4) Is rapidly growing population a constraint in the process of human capital formation? Explain.
5) Explain how educational planning is necessary for human capital formation.
6) What are the principle objectives of education in India?
7) How is health a source of human capital formation?
8) How migration promotes human capital formation?
9) Explain how investment in education stimulates economic growth.
10) Trace the relationship between human capital and economic growth.

SIX (6) MARK QUESTIONS :-

1) What is human capital formation? Differentiate between human capital and physical capital.
2) How does investment in human capital contribute to economic growth?
3) What are the sources of human capital formation.
4) What is the need for government intervention in promoting health and education in India?
5) How does expenditure on "on the job training" and "Information" act as a source of human capital.
6) Explain the growth of education sector in India.
7) Explain how education is still a challenging preposition in India.
8) Discuss the need for promoting women's education in India.
ANSWER OF ONE MARK QUESTIONS

1) C
2) C
3) C
4) D
5) Human capital formation is the process of acquiring and increasing the abilities, skills, education and experience among the people of the country over a long period of time.
6) On the job training refers to the training providing to the workers by the firm to enhance their specialised skill. It makes them more efficient and productive.
7) Because it develops man’s ability and skill.
**SOLUTIONS OF QUESTIONS (NCERT BOOK)**

**Question 1:** What are the two major sources of human capital in a country?

**Answer:** Human capital is a stock of skill and expertise of a nation at a particular point of time. The importance of investment in enriching human capital is immense and long lasting. The following are the two prime ways to develop human capital qualitatively:

i. Investment in Educational Sector: Education not only raises the standard and quality of living but also encourages modern attitude of the people. Further, education increases the acceptability of modern techniques and also facilitates a primitive economy to break the shackles of tradition and backwardness. An investment in educational sector has two fold benefits. It not only increases the income earning capacity but also reduces the skewed distribution of income thereby forming an egalitarian society.

ii. Investment in Health Sector: investment in health sector increases efficiency, efficacy and productivity of a nation's workforce. Good health and medical facilities not only increase life expectancy but also improves quality and standard of life. Investment in health sector ensures the perennial supply of healthy workforce.

**Question 2:** Why do we observe regional differences in educational attainment in India?

**Answer:** India is a land of diverse culture; religions and communities. Every region has its Own customs and tradition. Also, as we go from one state to another, we find many differences in terms of language, habit, culture, need, climate, etc. Due to these differences, there exist regional differences in the educational attainment in our country. There exists a difference in the pattern of education across India. Some regions lack educational facilities whereas some give undue importance to education. For example, states like Bihar, Rajasthan, U.P and Arunachal Pradesh are educationally backward whereas, states like Kerela, Tamil Nadu and Uttranchal have higher literacy rates. Generally, it can be observed that the states that lack employment opportunities and where the standard of living is close to the subsistence level, education is given lesser importance. People in such states are engaged either in agricultural sector or informal sector that has
very less to do with education. The opportunity cost of sending children to school in such states is very high than employing them. The neglect of education in these regions is primarily because of the low standard of living and poverty. These people cannot afford to send their children to schools and, in fact, employ them either in the farm lands or in informal sector. Further, it can also be observed that male children across India have lopsided access to education compared to female children. Besides the above factor, there are other factors like custom, climate, etc. that explains the regional differences in educational attainment in India.

**Question 3: Bring out the differences between human capital and human development.**

**Answer:** Human capital and human development are interrelated concepts but they are not identical. While human capital refers to the stock of a nation's human skills and expertise at a particular point of time human development refers to holistic development and well being of a nation's human capital. On one hand, human capital considers education and health as a means (skills and expertises) to enhance productive capacity, on the other hand human development considers human beings as end in itself. The important difference between human capital and human development is associated with the difference in the motive of investment. While human capital focuses on investment in education and health sector to increase productivity and efficiency of workforce, on the other hand, human development focuses on investment in education and health sector to increase the general well being and standard and quality of living of human capital. If investment fails to increase the efficiency and income earning capacity, then human capital regards the investment to be unproductive. But, human development advocates in favour of such investments even though these had failed to bring out higher productivity and efficiency. Human development protects every individual's right to get education and lead a healthy life.

**Question 4: how is human development a broader term as compared to human capital?**
Answer: Human development is a broader term as compared to human capital because human capital is a means to an end whereas human development is an end in itself. Human capital considers education and health as a means to make a human being a good productive person. Human capital is a means to an end, where means implies skills that are used in the process of production and end denotes the consequent increase in the productivity. The higher levels of output can be achieved through extensive application of human capital. On the other hand, human development is an end in itself which refers to the holistic development of the individuals. The development can be possible only by acquiring good education and attaining good health. Therefore, education and health are the two main features of human development. Human development occurs when majority of people in the economy are educated and healthy. Thus, the end signifies the development of an individual via education and health. Therefore, we can conclude that human development is a broader term as compared to human capital.

Question 5: Education is considered an important input for the development of a nation. How?

Answer: Education is considered as an important input for the development of a nation because the development of a nation rests on the proportion of the educated people in the country. The significance of education in the economic development of a nation is explained through the following points:

i. **Imparts Quality Skills and Knowledge**: Education endows people with quality skills, thereby enhancing their productivity. Consequently, it enhances the income earning capacities of and opportunities for the people. Moreover, it also enables human capital to utilise the available physical capital optimally.

ii. **Develops Mental Abilities**: Education develops mental abilities of people and helps them to make their choice rationally and intellectually. Education churns out good citizens by inculcating values in them.

iii. **Acceptability of Modernisation**: An educated public of a nation has greater acceptability of modernisation and modern techniques. This not only helps the economy to grow but also facilitates a primitive economy to break the shackles of tradition and backwardness.
iv. **Eradicates Skewed Income Distribution**: Education not only increases the income earning capacity but also reduces the skewed distribution of income, thereby, forming an egalitarian society.

v. **Raises Standard and Quality of Living**: Education enhances the income earning capacity of people and, thereby, raising the standard of living and improving the quality of living. vi. **Increases the Participation Rate**: It fosters economic development by increasing the participation of people in the process of growth and development.

vii. **One Solution for Other Economic Problems**: The importance of education is not only limited to making people educated but also in facilitating an underdeveloped economy to solve different but interrelated macro economic problems like poverty, income inequality, population, investments, under utilisation of resources.

**Question 6**: Discuss the following as a source of human capital formation

(i) **Health infrastructure**

(ii) **Expenditure on migration**.

**Answer:**

(i) **Health infrastructure**

The wealth of a country can be increased with the efforts of healthy workforce. Investment in health sector increases efficiency, efficacy and productivity of a nation's workforce. In contrast to an unhealthy person, a healthy person can work better with more efficiency and, consequently, can contribute relatively more to the GDP of the country. Good health and medical facilities not only extends life expectancy but also improves quality and standard of life. Investing in health sector ensures the perennial supply of healthy workforce. Some of the common expenditures incurred in the health sector are on providing better medical facilities, easy availability of life savings drugs, common vaccination, spread of medical knowledge, provision of proper sanitation and clean drinking water, etc. Thus, the expenditure incurred on health is important in building and maintaining a productive work force.

(ii) **Expenditure on migration**

Migration refers to the movement of people from underdeveloped or
developing countries to developed countries in search for better avenues. Migrations contribute to human capital formation as it facilitates the utilisation of inactive or underdeveloped skills of an individual. The cost of migration involves cost of transportation, and cost of living at the migrated places. Usually, the cost of migration is very high due to the high cost of transportation and high cost of the developed countries. But still, people migrate in search of better job opportunities and handsome salaries. Migration of human capital helps the underdeveloped countries to acquire technical skills, efforts reducing methods and efficient ways of performing tasks. These skills and know-how are transmitted by the migrated people to their home country that not only add to the economic growth and development but also enhance the human capital of the home country. If the gains from migration outweigh the migration costs then it can be inferred that migration leads to better utilisation of human capital skills.

**Question 7: Establish the need for acquiring information relating to health and education expenditure for the effective utilisation of human resources.**

**Answer:** The degree of availability of jobs, salaries and admissions related information plays an important role in the determination of human capital. The availability of jobs and admissions related information not only help the students to opt for the best choice according to their interest areas but also leads to the effective utilisation of human skills and knowledge. Some of the important medium of catering different information related to jobs, eligibility criteria. posts and salaries are Employment News (Rozgar Samachar), Employment Exchanges, various TV programs and government and non-government websites. While on the one hand, expenditures on education enhance human skills and their utilisations, on the other hand, the expenditure on health improves health, efficiency, quality of living and life expectancy of people. The expenditure incurred on the availability of medical information and health awareness determines the health of the people. 'Hie acceptability and the use of medical information and family welfare programmes are often obstructed by lack of its publicity and promotion. Often people are reluctant to opt for various health measures due to the lack of complete knowledge and information. For example, few
years back, people knew very little about polio and about its vaccination. But due to the constant efforts by various government and non-government organisations under the Pulse Polio!mil-utilisation Program, people are now well aware of polio. Therefore, it is due to the continuous publicity and various awareness campaigns, this program have gained public consciousness. Thus, the expenditure on the spread of information (of education and health) determines the effectiveness and efficacy of human capital.

**Question 8:** How does investment in human capital contribute to growth?

**Answer:** Human capital and economic growth goes hand in hand. Human capital formation accelerates the economic growth whereas economic growth in turn facilitates human capital formation. The interrelationship between economic growth and human capital formation can be explained with the help of the below mentioned points.

1. **Increase in the Productivity of Physical Capital:** Physical capital refers to the stock of produced means of production. It consists of machines, production plants, tools and equipments. The skilled workers handle the productive assets in such a manner that these not only enhance their productivity and but also lead to an efficient utilisation of the physical capital. When the productivity increases, the pace of growth is automatically accelerated.

2. **Innovation of Skills:** An educated person is more productive and skillful. He has the potential to develop new skills and innovate new techniques that can be more efficient and productive. Greater the number of skilled and trained perSonnel, greater will be probabilities of innovations.

3. **High Participation Rate and Equality:** Human capital endowed with higher technical skills and innovating power is more productive and efficient. This increases the participation of more people in the process of economic growth and development. Higher the participation rate, higher is the degree of social and economic equality across the country. Thus, we can conclude that human capital and economic growth goes hand in hand. Human capital formation accelerates the economic growth whereas economic growth also facilitates human capital formation.
**Question 9:** There is a downward trend in inequality world-wide with a rise in the average education levels. Comment.

**Answer:** Theoretically, there is a negative relationship between education level and degree of inequality. This relationship has been practically established across the world in recent decades. Education not only imparts technical skills but also at the same time enhances productivity of a person. An educated person, endowed with higher productivity and efficiency enjoys relatively higher income earning capacity. The higher income earning capacity and greater acceptability of modern techniques raise the standard and quality of living. Distribution of income has become less skewed and gap between the rich and the poor has been narrowing slowly. Gradually, the importance of education is being realised world-wide and, consequently, governments of different countries have been investing heavily in the education sector. With the rise in average education levels, not only inequality but also other problems like, poverty, underutilisation of resources and inferior standards and quality of life have been minimised.

**Question 10:** Examine the role of education in the economic development of a nation.

**Answer:** The role of education in the economic development of a nation is explained through the following points:

i. **Imparts Quality Skills and Knowledge:** Education endows people with quality skills and, thereby, enhances their productivity. Consequently, it enhances the income earning capacities of and opportunities for people.

ii. **Develops Mental Abilities:** Education develops mental abilities of people and helps them to make their choice rationally and intellectually. Education churns out good citizens by inculcating values in them.

iii. **Acceptability, of Modernisation:** An educated public of a nation has greater acceptability of modernisation and modern techniques. This not only helps the economy to grow but also facilitates a primitive economy to break the shackles of traditions and backwardness.

iv. **Eradicates Skewed Income Distribution:** Education not only increases the income earning capacity but also reduces the skewed distribution of income and thereby forms an egalitarian society.

v. **Raises Standard and Quality of Living:** Education enhances the income
earning capacity of people and, thereby, it raises the standard of living and also improves the quality of living.

**vi. Increases the Participation Rate:** It fosters economic development by increasing the participation of people in the process of growth and development.

**vii. One Solution for Other Economic Problems:** The importance of education is not only limited to making people educated but also in facilitating an underdeveloped economy to solve different but interrelated macro economic problems like, poverty, income inequality, population, investments, under utilisation of resources.

**Question 11:** Trace the relationship between human capital and economic growth.

**Answer:** Human capital formation accelerates the economic growth. The interrelationship between the both can be explained with the help of the below mentioned points.

1. **Increase in the Productivity of Physical Capital:** The skilled workers handle the productive assets in such a manner that these not only enhances their productivity and but also leads to an efficient utilisation of the physical capital.

2. **Innovation of Skills:** An educated person is more productive and skillful. Greater the number of skilled and trained personnel, greater will be probabilities of innovations.

3. **High Participation Rate and Equality:** Human capital endowed with higher technical skills and innovating power is more productive and efficient. Higher the participation rate, higher is the degree of social and economic equality across the country. Thus, we can conclude that human capital and economic growth goes hand in hand. Human capital formation accelerates the economic growth whereas economic growth also facilitates human capital formation.

**Question 12:** Discuss the need for promoting women’s education in India.

**Answer:** The access to education has always been lopsided towards India’s male population. Women have always been neglected in the field of education. The weaker and lower status of women in India can be attributed
to the negligence of their education. Women have always been considered as a liability for a family. The roots of such thoughts are deep rooted in the traditional beliefs and customs. The role of women in the economic and social spheres cannot be neglected in order to achieve overall economic development and growth. With the rise in the educational levels and modernisation, people have realised the importance of female education. The need for female education should be highlighted in India in order to empower women. The following are the important points that advocate in favour of promoting women education: i. Women education is essential for improving their economic independence and economic feasibility ii. Women education is important in order to raise the social and Moral status of women. iii. It plays a significant role in maintaining favorable fertility rate. iv. Health care of women and children can be enhanced with education imparted to women. v. An educated women can infuse good moral values and can impart quality education to her children.

**Question 13: Argue in favour of the need for different forms of government intervention in education and health sectors.**

**Answer:** In India, the education and health sectors services are provided both by the public as well as by the private institutions. The cost of education and health facilities provided by private institutions is higher, so it is difficult for the majority of population to avail these services because of their economic inability. Thus, it is very important for the government to provide quality education and health facilities to this section of the population. Moreover, private institutions are unable to reach remote and rural areas where people lack initiative for education and health. In this context, the role of government to encourage them and to make them aware of advantages of education and health cannot be substituted. Also, there are some underprivileged sections of population like, ST, SC, OBC, the interests of whose can only be protected by the interference of government. Hence, government intervention in health and education sector is must in order to enhance the quality of human capital.

**Question 14: What are the main problems of human capital formation in India?**

**Answer:** India is faced with many problems of human capital formation. These are as follows:
I. Rising Population: The rising population exerts pressure on the available limited resources. So, the pressure on these facilities retards the quality of life and lowers the capacity to acquire specialised skills and knowledge.

ii. Brain Drain: People migrate from one place to another in search of better job opportunities and handsome salaries. It leads to the loss of quality people like doctors, engineers, etc. who have high caliber and are rare in a developing country.

iii. Improper Man Power Planning: No major efforts have been taken to maintain the demand-supply balance of the rising labour force. So, it leads to the wastage and misallocation of human skills.

iv. Low Academic Standards: In order to spread education, various educational institutions are opening up regardless of deficiency in their standards. These institutions impart inferior quality of education and skills and that in turn causes deficiency in the productivity and efficiency. This is one of the important hindrances for the development of quality human capital formation.
UNIT-VII
EMPLOYMENT : GROWTH,
INFORMALISATION AND OTHER ISSUES

Point to remember

- Work plays an important role in our lives, as individuals, and as social life.
- A worker is an individual, who is involved in some productive activity, to earn a living.
- **Production activity** :- It refers to all those activity which are undertaken to produce goods and services for generation of income.
- **Labour Force** :- All persons, who are working and those are not working but able to work and willing to work at the existing wage rate constitute labour force.
- **Work Force** :- The number of persons, who are actually employed at a particular time are known as workforce. It includes all those persons who are actually engaged in productive activities.

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

Types of Workers

- Self employed
- Hired Workers
  - Casual Workers
  - Regular Workers

- **Labour Supply** :- It refers to various amount of labour that people are willing to offer corresponding to a different wage rate. It is estimated in terms of man an days of work. One man days refers to 8 hours of work.
• About two fifth of the total population in the country is engaged in various economic activities. Men particularly rural mens form the major section of workforce in India.

• Majority of workers in India are self employed, casual wage labourers and regular salaried employees together account for less than half the proportion of India's workforce.

• About three fifth of India’s workforce depends on agriculture and other allied activities as the major source of livelihood.

• **Jobless Growth** :- It is defined as a situation where GDP grows faster than the employment opportunities resulting in unemployment.

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

• **Informalisation** :- Refers to a situation when people tend to find employment move in informal sector of the economy and less in formal sector of the economy.

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

![Diagram of Types of Unemployment]

• **Causes of unemployment** :-
  1) Slow rate of economic growth
  2) Population explosion

---

*Class XII - Economics*
3) Defective education system
4) Underdeveloped agriculture
5) Slow growth of Industry
6) Decline of cottage and small Industry
7) Inadequate employment planning
8) Low capital formation

- **Remedial measures of unemployment:**
  1) Accelerating growth rate of GDP
  2) Control of population growth
  3) Development of Agriculture sector
  4) Development of small scale enterprises
  5) Encouragement in infrastructure
  6) Special employment programmes
  7) Rapid Industrialisation

- **Special programmes to fight poverty and unemployment:**
  1) Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)
  2) Swarnjyanti Sahara Rozgar Yojna
  3) Pradhan Mantri Gramodaya Rozgar Yojna
  4) Swarn Jayanti Gram Swarojgar Yojna
QUESTION BANK

ONE (1) MARK QUESTIONS :-

1) Who is worker?
2) Define GDP.
3) What is workforce?
4) Define Participation Rate.
5) Define Jobless Growth.
6) Define Casusalisation of employment.
7) Give the meaning of disguised unemployment.
8) Who is casual wage labourer?
9) Define self employed workers.
10) What is informalisation of work force?

THREE & FOUR (3 & 4) MARK QUESTIONS :-

1) Analyse the recent trends in sectoral distributing workforce in India?
2) What is the difference between labour force and work force?
3) What are the adverse effects of unemployment?
4) Suggest general measures to control unemployment?
5) Give a brief note on the MNREGA?
6) Empowerment of women is related to employment of women. Comment.

SIX (6) MARK QUESTIONS :-

1) What are the various types of unemployment?
2) What are the causes of unemployment?
3) Explain occupational structure of workforce?
4) What do you mean by organised sector? Discuss the reasons for fall in employment in organised sector?
ANSWERS OF ONE (1) MARK QUESTIONS

1) A worker is an individual who is doing some productive employment to earn a living.

2) Sum of the goods and services produced in the economy during a year is called GDP.

3) The number of persons, who are actually employed at a particular time are known as workforce.

4) Participation rate is defined as the percentage of total population which is actually participating in productive activity.

5) Jobless growth is defined as a situation in which there is an overall acceleration in the growth role of GDP in the economy which is not accompanied by a commensurate expansion in employment opportunities.

6) Casualisation of employment is defined as a situation in which percentage of casually hired workers in the workforce tends to grow overtime.

7) Disguised unemployment refers to a state in which more people are engaged in work that are really needed.

8) Workers who are not hired by their employers on a regular or permanent basis and do not get social security benefits, are formed as casual wage labour.

9) Self employed workers are those who work in their own business or profession and get profit as their reward.

10) Informalisation of work force refers to a situation where by the proportion of work force in the informal sector to total workforce increases.
SOLUTIONS OF QUESTIONS (NCERT BOOK)

Question 1: Who is a worker? Define and explain.
Answer: A person who is involved in production activity contributing to the flow of goods and services in the economy is called a worker. In other words, a worker is regarded as an economic agent who contributes to the production of goods and services, thereby, to the GDP during a particular year. A worker renders services to others and receives rewards in the form of wages, salaries or in kind. Hence, we can say that when an individual is engaged in a production activity or self-employed and contributes to the generation of GDP, then, that person is referred to as a worker. For example, a doctor, an engineer, or a factory worker.

Question 2: Define worker-population ratio.
Answer: Worker-population ratio is defined as the proportion of population that is active, contributing to the production of goods and services. It is measured by the ratio between the country’s workforce and its total population. This ratio acts as an indicator for assessing the employment level in a particular country at any point of time. Higher the worker-population ratio higher is the engagement of people in the productive activities and vice-versa. Worker-population ratio is estimated by dividing the total work force by the total population and multiplying by 100. Algebraically.

Question 3: Find the odd man out (i) owner of a saloon (ii) a cobbler (iii) a cashier in Mother Dairy (iv) a tuition master (v) transport operator (vi) construction worker.
Answer: Tuition master and the owner of a saloon are the odd man out. This is because all others are hired while these two are self-employed. Tuition master and the owner of a saloon are engaged in their own business and own profession, whereas, the cobbler, the construction worker, the transport operator and the cashier in Mother Dairy are hired and render their services to others in exchange of rewards in the form of salaries or wages.

Question 4: The newly emerging jobs are found mostly in the sector. (service/ manufacturing).
Answer: The newly emerging jobs are found mostly in the service sector. The service sector is taking a lead over the manufacturing sector as a
ource of employment. It includes trade, commerce, banking, insurance, health and other services. These services are developing at a faster pace than the manufacturing and other allied production activities. This is because of the globalisation of the economy.

**Question 5:** An establishment with four hired workers is known as (formal/informal) sector establishment.

**Answer:** An establishment with four hired workers is known as informal sector establishment. An informal sector is an unorganised sector of the economy. It includes all enterprises that hire less than 10 workers, except farming and sell employment ventures. Therefore, an establishment with four hired workers is known as informal sector establishment.

**Question 6:** Raj is going to school. When he is not in school, you will find him working in his farm. Can you consider him as a worker? Why?

**Answer:** Yes, Raj can be considered as a worker. This is because his work is contributing to the total output of the farm. Further, as implied by the definition of worker, a person who is engaged in an economic activity or is assisting anyone in an economic activity and, thereby, contributing to the GDP of the country is regarded as worker, so, Raj is a worker.

**Question 7:** Compared to urban women, more rural women are found working. Why?

**Answer:** The percentage of female workforce in the rural areas is nearly 30% while it is only 1:1 % in the urban areas. This depicts that as compared to the urban women more rural women accounts for higher share in the female workforce. While on the one hand, the rural women are less educated, unskilled and low productive, on the other hand, urban women being more educated and more skilled and productive have higher probability to get employment. Ironically, the urban female accounts for lesser share in the female workforce as compared to their rural counterparts. The following are the reasons for low share of urban females in the total female workforce:

1. As in the agricultural and allied activities, high degree of skills and specialisations is not required, so, rural women engage themselves to support their family on farms.
2. As poverty in the rural areas is more widespread than in the urban areas, so, the rural women engage themselves in low productive jobs just to support the livelihood of their families.
3. As the urban families usually earn comparatively higher income than the rural families and, further, poverty in the urban areas is not as widespread as that of in the rural areas, so, there is lesser need for female members to get themselves employed.

4. The decision to take up jobs by the female members rests on the family's decision rather than her individual decision.

5. Although female literacy in India is improving, yet it has to get much better before urban female accounts for higher share in the total female workforce.

**Question 8:** Meena is a housewife. Besides taking care of household chores, she works in the cloth shop which is owned and operated by her husband. Can she be considered as a worker? Why?

**Answer:** A person who is involved in the production activity and contributes to the generation of GDP is referred to as worker. As here Meena works in the cloth shop to support her husband and contributes to GDP by rendering her services, so, she can be considered as a worker.

**Question 9:** Find the odd man out (i) rickshaw puller who works under a rickshaw owner (ii) mason (iii) mechanic shop worker (iv) shoeshine boy.

**Answer:** Shoe shine boy is an odd man out. All others (a rickshaw puller, a mason, and mechanic shop worker) are hired workers. They render their services to their employers and receive rewards in the form of salaries or wages in return. On the other hand, shoe shine boy is a self-employed worker and carries out his occupation himself. In other words, he is engaged in his own profession.

**Question 10:** Why are regular salaried employees more in urban areas than in rural areas?

**Answer:** Regular salaried employees are those hired workers who are on the permanent payrolls of their employers. They are usually skilled workers and are entitled to all types of social security benefits. The concentration of these workers is higher in the urban areas as compared to the rural areas because such jobs require skilled and specialised workers. The opportunities to acquire and enhance such skills are available more in the urban areas. And these skills are acquired through the process of training and education that cannot be accessed in the rural areas due to the lack of
investment, infrastructure and low literacy level of rural people. Further, the 
big companies are concentrated only in the urban areas due to the presence 
of infrastructure and availability of modern theilities like banks, transport and 
cominunication, etc. Therefore, the bulk of the jobs for the regular salaried 
employees are concentrated more in the urban areas resulting in the 
increase in number of the regular salaried employees.

**Question 11: Why are fewer women found in regular salaried employment?**

**Answer:** Lesser women are found in regular salaried employment as 
compared to men because a larger proportion of women are engaged in the 
economic activities without stable contracts and steady income. The stable 
contracts and steady income are two features prevalent in the regular 
salaried employment. Women are engaged in informal segments of the 
economy, \ here they are not entitled to any social security benefits. 
Moreover, women work in more vulnerable situations than men and have 
lower bargaining power and, consequently, are paid lesser than the male 
Nworkforce. Thus, the women workers are more likely to be found in the self-
employment and casual work as compared to men rather than regular salaried employment.

**Question 12: Analyse the recent trends in sectoral distribution of workforce in India.**

**Answer:** The three major sectors of an economy i.e. Primary, Secondary 
and Tertiary collectively are known as occupational structure of an economy. 
The primary sector includes agriculture, forestry, fishing, mining, etc. The secondary sector consists of 
manufacturing and construction activities. Tertiary sector includes various 
services like transport, communication, trade, etc. Primary sector is the 
prime source of employment for the majority of the workers in India. Its 
contribution is as high as 57.3 % of our total workforce. About 17.6% and 
25.1% Or the total workforce is employed in the secondary and the service 
sector respectively. People living in the urban areas are largely engaged in 
secondary and tertiary sectors and those in the rural areas are involved 
basically in primary sectors. Also, the tertiary sector is taking a lead over the 
secondary sector as a source of employment and increasing share in India's
GDP. As far as the distribution of male and female is considered, a high percentage of total female workforces are engaged in the primary sector than in the secondary and tertiary sectors.

**Question 13:** Compared to the 1970s, there has hardly been any change in the distribution of workforce across various industries. Comment.

**Answer:** India being an agrarian economy has majority of population dependent on the agricultural sector to earn their livelihood. Although, the developmental strategies in India have aimed at the reduction of population dependent on agriculture, yet the reduction in the population engaged in agricultural sector has not been significant. In 1972-73, about 74 % of the workforce was engaged in primary sector which reduced to 60% in 1999-00. On the other hand, the shares of secondary and tertiary sectors in employment rose from 11 % to 16 % and 15 %) to 24 % respectively. The workforce distribution indicates that over the last three decades i.e. from 1972-2000, people have moved from self-employment and regular salaried employment to casual wage worker. This particular pattern of moving from self employment and regular salaried employment to casual wage work is termed as casualisation of work force. Thus, it can be concluded that although changes in the distribution of workforce have taken place, yet industrial and tertiary sector need to increase their share in the workforce distribution by generating more employment opportunities and absorbing excess labour from the agricultural sector.

**Question 14:** Do you think that in the last 50 years, employment generated in the country is commensurate with the growth of GDP in India? How?

**Answer:** Economic growth implies growth in the GDP, i.e. growth in the aggregate output produced during an accounting period within the domestic territory of an economy. The increased output level is achieved by generating more employment opportunities and through employing better technology. During the recent past, India has witnessed jobless economic growth that raised the aggregate output level without the proportionate rise in the employment opportunities and, consequently, unemployment continued to exist. The reason is that the rise — is caused 1)\ by employing modern and improved technology that substituted labour for machines. This
failed to generate new employment opportunities in the industrial and the tertiary sectors. Thus, the industrial and the tertiary sectors failed to absorb the excess labour from the agricultural sector. As a result, disguised unemployment in the agricultural sector continued along levels of productivity and massive poverty. In addition to this, MNCs that played an important role in India's economic growth provided employment only to the educated and specialised workforce. These MNCs aimed at achieving higher output levels by employing better technology rather than generating greater employment opportunities. Thus, employment generated in the country does not commensurate with the growth of GDP in India.

**Question 15:** Is it necessary to generate employment in the formal sector rather than in the informal sector? Why?

**Answer:** Formal Sector refers to the organised sector of the economy. It includes government departments, public enterprises and private establishments that hire 10 or more workers. Workers of the formal sectors enjoy social security benefits and also they remain protected by the labour laws. On the other hand, the informal sector is an unorganised sector of the economy. People engaged in this sector do not enjoy any social security benefits and do not have any trade unions and, consequently, have low bargaining power. This makes them more vulnerable to the uncertainties of the market. Creating more jobs in the formal sector will not only absorb workforce from the informal sector but also helps in reducing poverty and income inequalities. Thus, in order to safeguard the interests of the informal sector and to utilise this portion of the workforce for achieving economic growth, it is very important to generate more employment opportuniy in the formal sector rather than in the informal sector.

**Question 16:** Victor is able to get work only for NVO hours in a day. Rest of the day, he is looking for work. Is he unemployed? Why? What kind of jobs could persons like Victor is doing?

**Answer:** Yes, Victor is an unemployed worker. He works for two hours a day but a major portion of the day he is looking for work and is unemployed. This implies that he is an underemployed worker. The situation of underemployment refers to a situation in which a person gets work less-lesser time than the time he actually can and wants to work. According to the
National Sample Survey Statistics, a person who is employed for less than 28 hours in a week is called underemployed. Victor could do jobs that are part-time in nature like dropping newspapers, working in a restaurant, delivering couriers, bank tellers, etc.

**Question 17: Who is a casual wage labourer?**

**Answer:** Casual workers refer to those workers who do not work throughout the year. They on! work for few months. Casual workers are not hired by employers on a regular basis. They do not enjoy social security benefits like provident fund, gratuity, etc. They are generally unskilled workers. For example: workers working at a construction site.

**Question 18: How will you know whether a worker is working in the informal sector?**

**Answer:** The following features help to recognise a worker working in the informal sector:

1. A worker working in an enterprise (other than the public sector establishments and the private sector establishments) hiring 10 or less than 10 workers.
2. This sector includes millions of farmers, agricultural labourers, owners of small enterprises and self-employed. These sections of people are not hired worker.
3. A worker working in informal sector does not enjoy social security benefits such as provident kind, gratuity, pension, etc.
4. The economic interest of the workers working in the informal sector is not protected by an Labour Laws other than Minimum Wages Act. Therefore, workers in the informal sector are high exposed to the uncertainties of the market and have low bargaining power.
UNIT-VII
CHAPTER-8
INFRASTRUCTURE

Infrastructure can be defined as the supporting structure that provide different kinds of services to the main areas of production such as agricultural production, industrial production, trade and commerce.

Types of Infrastructure

- Economical Infrastructure
  - Power
  - Communication
  - Transport

- Social Infrastructure
  - Education
  - Health
  - Facilities to Citizen

Economical and social infrastructure together helps in the overall development of the economy. Both are supplementary and compulsory to each other.

- **Importance of Infrastructure**
  1) Facilitates functioning of the economy
  2) Agricultural development
  3) Better quality of life
  4) Provide employment
  5) Facilitates Outsourcing

- **State of Infrastructure in India**
  1) As per census 2001, only 56% of the rural households has electricity connection.
  2) Top water availability is limited to only 24% rural household and the remaining household make use of water from open sources.
  3) India invests only 5% of its GDP on infrastructure which is for below that of China and Indonesia.
• **Energy**
  It plays a crucial role in the development of an economy. There exist a positive correlation between economic growth and demand for energy.

• **Source of energy**
  1) **Commercial energy** – Commercial energy refer to those sources of energy which command a price and the users have to pay a price for them.
  2) **Non-commercial energy** – It consists of those source of energy which generally do not command a price.
  3) **Conventional sources** – These sources are beings used since long. These source of energy are limited.
  4) **Non-Conventional Sources** – These are the new sources of energy. These sources of energy are in abundance.

• **Sectoral Pattern of Consumption of Commercial Energy**
  1) Industrial sector has the largest share of 45% of total consumption of commercial energy. But the share of industries in the total utilisation of power has come down from 62.6% in 1950-51 to 45% in 2012-13.
  2) There has been continuous increase in the share of household sector (22%) and agriculture sector (18%)
  3) Commercial energy consumption make up about 65% of the total energy consumed in India. This includes coal with the largest share of 55% followed by oil at 31% natural gas at 11% and hydro energy at 3%.

• **Power**
  Power is the most critical component of infrastructure.
• **Emerging challenges in the power sector.**
  1) Inadequate generation of electricity
  2) Low plant load factor
  3) Losses of electricity boards
  4) Slow progress in the development of nuclear power
  5) Shortage of inputs
  6) Uncertain role of private players
  7) Lack of public cooperation

• **Suggested measures to meet power crisis**
  1) Improvement in plant load factor
  2) Increase in production capacity
  3) Effective control over transmission and distribution losses
  4) Encourage privatisation and FDI in power generation
  5) Uses of renewable resources

• **Health**

  Health is a state of complete physical, mental and social well-beings and not merely the absence of disease or infirmity.

• **Status of Health Infrastructure**
  1) The union through the central council of health and family welfare.
  2) At the village level, a variety of hospitals have been set up by the government.
  3) Expansion of health infrastructure has resulted in the eradication of deadly diseases like small pox and the near eradication of polio and leprosy.

• **Role of Private Sector**
  1) More than 70% of the hospital in India are run by the private sector.
  2) Nearly 60% of dispensaries are run by the private sector.

  The role of government in providing healthcare is still very important as poor people can depend only on government hospitals, due to huge expenses in private health services.
• **Community and non-profit organisation in healthcare**
  One of the important aspects of a good healthcare system is community participation.
  For example:–
  i) SEWA (Self Employed Women Association) in Ahmedabad
  ii) ACORD (Action for Community Organisation Rehabilitation and Development) in Nilgiri

• **Medical Tourism In India**
  Health services are cheaper in India as compared to cost of similar health care services in other countries. As a result foreigners come to India for surgeries, Liver transplants etc. India needs to upgrade its health infrastructure to attract more foreigners to India.

• **Indicators of Health And Health Infrastructure**
  1) Expenditure on health sector is just 4.8% of total GDP.
  2) India has about 7% of the worlds population but it bears a frightening 20% of the global burden of diseases.
  3) Every year, around 5 lakh children die of water-borne diseases.

• **Rural Urban Divide**
  1) India's 70% of population live in rural areas, but only 20% of total hospitals and 50% of total dispensaries are located in rural areas.
  2) The PHCs located in rural areas do not even offer X-ray or blood testing facilities which constitutes basic health care. There is a sharp divide between the urban and rural healthcare in India.

• **Women Health**
  2) More than 50% of married women between the age group of 15 and 49 have anaemia and nutritional anaemia, caused by iron deficiency, which has contributed to 19% of maternal deaths.
    Public Private Partnership can effectively ensure reliability, quality and affordability of both drugs and medicare.
**QUESTION BANK**

**ONE (1) MARK QUESTIONS :-**

1) Define infrastructure.

2) Define conventional source of energy.

3) What is commercial source of energy.

4) Which constitutes the maximum share in power generation.
   a) Thermal Power       b) Hydro Power
   c) Atomic Power       d) All the above have equal share

5) Name two sources of non conventional energy.

6) Define plant load factor.

7) Which of the following is a commercial source of energy ?
   a) Firewood       b) Agricultural waster
   c) Coal          d) Dried dung

**THREE & FOUR (3&4) MARK QUESTIONS :-**

1) Distinguish between economic and social infrastructure.

2) Distinguish between commercial and non-commercial energy.

3) Short note on medical tourism in India.

4) Discuss the participation of non-profit organisation in healthcare.

5) Distinguish between conventional and non-conventional source of energy.

6) Discuss two main drawbacks of our health care system.

7) Discuss the importance of infrastructure for a economy.

8) What do you mean by transmission and distribution losses ? How could they be reduced ?

**SIX (6) MARK QUESTIONS :-**

1) Discuss the challenges that India's power sector is facing.

2) Discuss the importance of infrastructure.

3) Discuss the role of private sector in providing health service in India ?
ANSWERS OF ONE (1) MARK QUESTIONS

1) It is the supporting system which accelerate the path of growth.
2) These saunas are beings used since long time.
3) These saunas which command the price.
4) Thermal power.
5) Solar energy, wind energy.
6) It means the operational efficiency of thermal power.
7) Coal.
SOLUTIONS OF QUESTIONS (NCERT BOOK)

Question 1: Explain the term infrastructure.

Answer: The term infrastructure refers to the underlying tangible and organisational structures that are essential for the smooth and prosperous functioning of an economy. In other words, infrastructure is regarded as a core support system that enables an economy to grow and develop. Generally, the term infrastructure means technical structure such as roads, transport, communication, bridges, dams, power, public institutions like schools, hospitals, etc. These structures not only serve as basic input for various economic activities like production, ill\ cstment. but also enable an economy to break the shackles of traditional and primitive social structures and customs. The difference between a developed country and an underdeveloped country can he mainly attributed to the lack of sufficient and technically advanced infrastructure in the latter. Infrastructure has two-fold benefits- as an input and as a support system. Infrastructure as 1111 input (roads, bank and power) facilitates the production process and attracts investment from domestic as well as from foreign investors. Infrastructure as u suppori .sy.svem (such as schools, hospital) develops the quality of human capital by imparting quality and technical education and health facilities. This raises the standard and quality of living and helps the economy to eradicate major economic problems like poverty, unemployment and inequality. Hence, it can be concluded that the presence of quality and sufficient infrastructure is a necessary and sufficient condition for accomplishing economic growth and development.

Question 2: Explain the two categories into which infrastructure are divided. How are both interdependent?

Answer: Infrastructure is broadly classified under two categories:

a.) Economic infrastructure
b.) Social infrastructure

a.) Economic Infrastructure refers to the elements of economic change that aid in the process of production and distribution. It improves the quality of economic resources and, thus, raises the productivity of the economy as a whole. In this way, it serves as a support system to economic growth. Energy, transportation, communication, banking and financial institutions
are some of the examples of economic infrastructure. Greater the economic infrastructure, greater will be the production and more generation of employment opportunities.

b.) Social Infrastructure refers to all those facilities and institutions that enhance the quality of human capital. Educational institutions, hospitals, nursing homes, housing facilities etc. are some of the examples of social infrastructures. The availability of such infrastructures raises the human productivity, thereby, improves the quality of standard of living. Unlike, economic infrastructure, social infrastructure indirectly increase the productivity and production of goods and services.

Both economic and social infrastructures are interdependent on and complementary to each other. While economic infrastructure fosters economic growth, social infrastructure enhances the quality of standard of living and thereby leads to the welfare of the economy as a whole. The combined effect of these two infrastructures contributes to the prosperity of the economy. Thus, one infrastructure supports the other.

**Question 3: How do infrastructure facilities boost production?**

**Answer:** Infrastructure-social and economic, facilitates production. The role of infrastructure in economic production can be understood with the help of an example. If agriculture is devoid of irrigation facilities, then it would entirely depend on the monsoon that may hamper its production and productivity. As irrigation is essential to enhance productivity of agricultural sector, in the same manner, infrastructure is essential for smooth and efficient production of all sectors of the economy. Similarly, industrial production in the absence of proper means of transportation may lead to delays in the movement of raw materials, capital goods and finished goods. This, in turn, leads to delays in the production process and, thereby, hampers industrial production. Thus, infrastructure is the necessary condition for higher productivity and higher production.

**Question 4: Infrastructure contributes to the economic development of a country. Do you agree? Explain.**

**Answer:** Yes, infrastructure acts as a support system for production activity in the economy and, thereby, contributes to economic development. The following points will further explain the role of infrastructure in the economic development of a country:
I. Infrastructure Increases Productivity: Infrastructure-social and economic facilitates productivity and production. Infrastructure ensures efficiency and reduce inefficiencies.

ii. Infrastructure Encourages Investment: Infrastructure i.e availability of facilities provides an environment conducive to investment.

iii. Infrastructure Generates Linkages in Production: Infrastructure promotes economic development by way of various linkages—forward and backward linkages. The process of economic growth becomes a dynamic process in the presence of sufficient infrastructure. This can be explained with the help of a forward linkage.

iv. Infrastructure Enhances Size of the Market: Infrastructure widens the size of the market. The fast and cost-effective movement of raw materials and finished goods in bulk enables a producer to offer his products across the country and even across international boundaries.

**Question 5: What is the state of rural infrastructure in India?**

**Answer:** During the colonial rule, the British aimed at developing infrastructure to facilitate their trade affairs. At the time of independence, Indian government found lack of sound infrastructure to realise their dream of economic development and growth. Most of the infrastructural development concentrated in the urban areas. The infrastructural development in the rural areas is still very meagre as compared to the size of the rural population. The women in the rural areas are still making use of bio fuels like cow-dung and fuel wood to meet their energy needs. The census of 2001 states that only 56% of the households has electricity connection, whereas, 43% still use kerosene. About 90% of the rural households use bio fuels for cooking. Tap water is used by only 24% of the rural households and improved sanitation is available to only 20%. As the infrastructure is an essential element of economic growth, so, it becomes a need of the hour to address the problem of infrastructure. The government of India invested only small proportion of GDP on infrastructure i.e. only 5% that is lesser than that of China and Indonesia. The economists see India as the third biggest economy in the world. For that to happen, India will have to boost its infrastructure, especially rural infrastructure. This will not only promote economic development of our country but also enhance economic welfare.
**Question 6:** What is the significance of energy? Different hite between commercial and non-commercial sources of energy.

**Answer:** Energy is the most important component of economic infrastructure. It is essential for industries as no commodity is produced without using energy. Nov a days, energy is used even in the agricultural sector. We cannot even think of a day without electricity and other sources of energy like petrol, LPG, etc. So, we can say that energy is lifeline of the entire production activity.

**Question 7:** What are the three basic sources of generating power?

**Answer:** The three basic sources of generating power are (hernal, hydro-electric, and nuclear power. The thermal power uses heat energy as its base for the production of electricity. Hydro-electric power involves production of electricity through the use of kinetic force of falling water. And the nuclear power involves the use of sustained nuclear fission to generate electricity. The thermal sources, hydro-electric sources and nuclear power accounts for 70%, 28% and 2% of the power generation capacity respectively in India.

**Question 8:** What do you mean by transmission and distribution losses? How can they be reduced?

**Answer:** Electric power transmission and distribution losses refer to the losses that occur in transmission between the sources of supply and points of distribution. In other words, the loss of power that arises due to the inherent resistance and transformation inefficiencies in the electrical conductors and distribution transformers respectively are called transmission and distribution losses. The following measures should be taken to reduce power transmission and distribution losses:

i. Improved technology of transmission and distribution should be used.

ii. Electricity distribution network should be privatised. This will infuse efficiency, thereby, eliminating wastages.

iii. Theft cases of electricity should be handled strictly by the trustworthy employees. Strict imposition of fines and penalties should be imposed.

**Question 9:** What are the various non-commercial sources of energy?

**Answer:** The sources of energy that are generally available free to the users and that do not have a recognized market are referred to as non-commercial energy. This form of energy is used for domestic and for consumption
purposes, for example, Firewood, agricultural waste, animal waste (cow dung), etc. These goods neither command a price nor have established market.

Question 10: Justify that energy crisis can be overcome with the use of renewable sources of energy.

Answer: When the resources are extracted at a more rapid pace than its regeneration, then we say that the carrying capacity of the environment reduces. The environment fails to perform its function of sustaining life and this results in an environmental crisis. These environmental crises are the result of a fall in the carrying and absorptive capacity of the environment. In todaya(TMs scenario, the rate of consumption of resources is faster than the rate of their production. Consequently, the resources get exhausted quickly. But on the other hand, renewable resources get renewed or replenished quickly. These are unlimited and are not affected by human activities, such as solar and wind energy. Hence, energy crises can be overcome by the increased use of cost-effective technology of searching the renewable resources of energy.

Question 11: How has the consumption pattern of energy changed over the years?

Answer: The percentage use of different sources of energy is referred to as pattern of energy consumption. It can only be analysed when different sources of energy are converted into a common unit, which is termed as MTOE (Million Tonnes of Oil Equivalent) in India. The pattern of energy consumption has undergone considerable change overtime. The use of primary sources like coal, petroleum and natural gas has undergone a significant change. The non-commercial use of this energy has increased from 36% to 76% during 1953-54 to 2004-05. The percentage of direct final consumption of coal has drastically reduced irrespective of the increase in the total consumption of coal. Its consumption increased from 95 million tonnes in 1980-81 to 355 inillion tonnes in 2008-09. Also, the consumption of oil, for which our country was dependent upon Gulf countries, has increased. The consumption of electricity in the agricultural sector has increased overtime, whereas, it remained the highest in the industrial sector as compared to other sectors.
Question 12: How are the rates of consumption of energy and economic growth connected?
Answer: The rate of consumption of energy is crucial for economic growth or development process of a nation. The consumption of renewable sources of energy is related to sustainable economic development. The renewable sources of energy are free from pollution and health hazard. Also, energy consumption is essential for promoting agriculture and industrial process. Hence, more use of renewable source of energy leads to more sustained economic development.

Question 13: What problems are being faced by the power sector in India?
Answer: The power sector is faced with some critical challenges. These are as follows: i. The installed capacity of India to generate electricity is not sufficient enough to meet an annual economic growth of 7%. ii. The State Electricity Boards (SEBs) that distribute electricity suffered a great loss of more than Rs.500 billion due to transmission and distribution of electricity. iii. The wrong pricing of electricity like supply of electricity at subsidised rates to agricultural sector and theft of electricity has exaggerated the problems of power sector. iv. The high power tariffs and prolonged power cuts is another challenge in the power sector. v. The thermal power station faces the scarcity of the raw materials to generate electricity.

Question 14: What is a global burden of disease?
Answer: Global Burden of Disease (GBD) is an indicator used by the experts to measure the number of people dying prematurely due to a particular disease. This also includes the number of years spent by them in a state of disability due to various diseases. India bears a frightening 20% of the GBD. More than half of the GBD is accounted by communicable diseases such as diarrhea, malaria and tuberculosis.

Question 15: Discuss the main drawbacks of our health care system.
Answer: In recent years, India has embarked upon the development of vast health infrastructure. This is evident from the fall in the death rate, infant mortality rate and rise in life expectancy. But more need to be done in the field of health care. The following are some of the deficiencies in the Indian health care:
a. Unequal Distribution of Health Care Services: The health care
care services are unequally distributed across rural and urban areas. Rural areas that supports 70% of the population, has only one fifth of the hospitals. Further, the doctor-population ratio is as worse as 1:2,000. This implies that for every 2,000 people, there is only one doctor in ndia. Only half of the dispensaries are set up in villages. Most of the health care facilities have been confined mostly to the urban areas.

b. Communicable Diseases: various. communicable diseases like AIDS (Acquired Immune Deficiency Syndrome), HIV (Human Immune Deficiency Syndrome), and SARS (Severe Acute Respiratory Syndrome) have made their way to India. All these deadly diseases pose serious threat to t human capital reserve, thereby,impeding economic growth.

c. Poor Management: The health care centres lack trained and skilled personnel in the rural areas. Therefore, rural people have to rush to the urban health care centres. This becomes worse in the absence of proper roads and other cost-effective means of transportation.

d. Lack of Modern Techniques and Facilities: The government health centres are usually devoid of the basic facilities like blood testing, X-rays, etc. These centres lack modern techniques and medical facilities like, CT-scan, sonography, etc. In order to avail these services, people need to depend on the private hospitals that charge exorbitant fees.

e. Privatisation: The inability of the government to provide sufficient health care centres and other medical facilities paved the way for the private sector to step in. The private sector is governed by price signals, thereby, catering to the need of the higher income group, leaving the low income group and the poor at their own mercy. This is due to the privatisation of the health care sector. The private hospitals are attracting more patients than the government hospitals as the government hospitals are devoid of facilities.

**Question 16:** How has women’s health become a matter of great concern?

**Answer:** Half of the total population in India constitutes women. Women are lagging behind in education, health care, and economic participation as compared to men. The child sex ratio has declined from 945 in 1991 to 927, showing the growing, incidents of female foeticide in the country. The married women population close to 3,00,000 have already given birth to one child.
About 50% of the married women between the age of 15 and 49 suffer from anemia. This resulted in 19% of maternal deaths. The major cause of maternal morbidity and mortality in India is abortions. These factors point towards the women’s health due to which it has become a matter a great concern.

**Question 17:** Describe the meaning of public health. Discuss the major public health measures undertaken by the state in recent years to control diseases.

**Answer:** Public health refers to the act of protecting publics’ health through education, research and development and promotion of healthy lifestyle. It aims at the improvement and well being of the people around the globe. It focuses on the protection and improvement of health of the entire population rather than individual. In the recent years, India has embarked upon the development of vast infrastructure. At the village level, a variety of hospitals were set up by the name of Primary Health Centres (PHCs). The large number of hospitals is run by various voluntary agencies and by the private sector. The hospitals are managed by professionals and by Para Medical professionals trained in medical, pharmacy and nursing colleges. There has been a significant expansion in the provision of health services. The number of hospitals and dispensaries has increased from 93'00 to 43300 and hospital beds from 1.2 to 7.2 million during 1951 to 2000. Also, nursing personnel has increased from 0.18 to 8.7 lakh and allopathic doctors from 0.62 to 5 lakhs during the same period. The provision of various facilities has resulted in the eradication of smallpox, polio, leprosy, and other deadly diseases.

**Question 18:** Differentiate the six systems of Indian medicine.

**Answer:** The following are the six systems of medicines constituted by ISM (Indian Systems of Medicines).

a. Ayurveda
b. Yoga
c. Siddha
d. Naturopathy
e. Unani
f. Homeopathy
Ayurveda is one of the traditional systems of medicine that is still used in India. It is a holistic way to achieve health through body, mind and spirit. The ayurvedic practitioners recommend diet and lifestyle changes along with drug therapy. They have identified a number of medicinal preparations and surgical procedures for curing various ailments and diseases that cannot be completely curable in other medical systems. The methods of ayurveda such as applying herbs and massage can also be applied along with other systems. Yoga as an art originated and was practised in India from thousand years. It has references in Upanishadas and Puranas composed by Indian Aryans in the Vedic period. The main credit for systematising yoga goes to Patanjali who wrotengta Sutra, two thousand years ago. Yoga SHOW is the most important basic text on Yoga. It is through this means that the essential message of yoga is spread throughout the world. It is defined as an art of righteous living or an integrated system for the benefit of the body, mind and inner spirit. S7ddha comes from the word Siddhi which means an object to attain perfection or heaven. This is the oldest among the Indian Medical Systems namely Ayurveda and (Juan). It is also known as Siddha Vaidya in India and also the oldest medical system in the world. As nowadays, people's preference to natural health remedies and herbal health remedies is, increasing day by day, Siddha has emerged as an important and unique system of Indian medicine when compared to other traditional medical systems in existence. Naturopathy deals with the healing power of nature as it assumes that all healing powers are Nwithin our body. This means that within every human organism there is a healing energy. Naturopathy regards that when we go against nature only then we fall ill. Fasting has been described as Nature's way to recover. A thorough rest that includes fasting is the most favorable condition in which an ailing body can purify and recover itself.

Unani has a long and impressive record in India. It was introduced in India around 10th century A.D. with the spread of Islamic civilisation. Now Unanipathy has become an important part of Indian Systems of Medicine. India is one of the leading countries in terms of its popularity. It is very much similar to our Ayurveda. Unalli established that disease is a natural process and that the symptoms are the reactions of the body to the disease.
Homeopathy consists of two words Homeo meaning similar and Pathos meaning suffering or treatment. In this system, a drug and a disease that produce similar symptoms cancels each other. It is popular among the people due to its remarkable healing capacity. Also, its remedies are free from side effects.

**Question 19: How can we increase the effectiveness of health care programmes?**

**Answer:** Health is a public good and a basic human right. Therefore, it should be provided to all and no person should be deprived of health care facilities. These facilities can be provided to all if public health services are decentralised. It implies that the power of providing these services should be delegated from the central to the local authorities. The success of health care depends upon education, spread of knowledge, awareness and efficient health infrastructure. It is crucial to create awareness about health and hygiene among people. The telecom and IT sectors can further aggravate the effectiveness of health care programmes. Further, providing quality medical facilities at nominal costs can promote its 'worthiness and popularity. In order to enhance the effectiveness of health care programmes, the main focus should be on increasing the number of hospitals, modernisation of medical facilities, development of infrastructure, improving the doctor-population ratio and increasing the number of medical colleges in India. The availability and development of medical facilities in the rural areas is still a far cry. Further, there must be some regulation to check the exorbitant fops charged by the private medical centres to make health care facilities accessible and affordable to all.
UNIT-VII
CHAPTER - 9
SUSTAINABLE ECONOMIC DEVELOPMENT

- **Sustainable economic development (SED)** is defined as the development that meets the needs and aspirations of the present without compromising the ability of future generations to meet their own needs. Thus, sustainable development is the organizing principle for sustaining finite resources necessary to provide for the needs of future generations of life on the earth.

- **Meaning**: Sustainable development has been described in terms of three pillars. These are seen as "economic, environmental and social" or "Ecology, Economy and Equity (EEE)". This has been expanded by some authors to include a fourth pillar of culture.

- **Effects of economic development on resources**
  (i) Economics development creates a systemic collapse of natural resources.
  (ii) Economics development creates exploitation of natural resources.
  (iii) Continuous high economic growth creates unsustainable and depleted resources.
  (iv) Economic development through technological advance improve resource availability.
  (v) Economic development creates resource substitution.

- **Effects of economic development on environment**
  (i) Economic development and fast growth can create negative externalities e.g. noise pollution and lower air quality arising from air pollution and road congesting.
  (ii) Economic development leads to environmental damage may lower the sustainable growth.
  (iii) Destruction of rain forest through deforestation.
  (iv) The over-exploitation of fish stocks.
  (v) Loss of natural habitat and bio-diversity from the construction of new road, hotels, malls and industrial estates.
Global warming

Global warming is the increase of Earth’s average surface temperature due to effect of greenhouse gases, such as carbon dioxide emissions from burning fossil fuels or from deforestation. The increased volumes of carbon dioxide and other greenhouse gases released by the burning of fossil fuels, land clearing, agriculture, and other human activities, are believed to be the primary sources of the global warming.

Changes resulting from global warming may included rising sea levels due to the melting of the polar ice caps, as well as an increases in occurrence and severity of storms and other server weather events.

**QUESTION BANK**

**ONE (1) MARK QUESTIONS :-**

1) What is meant by Sustainable Development ?
2) What do you mean by global warming.

**THREE & FOUR (3&4) MARK QUESTIONS :-**

1) Keeping in view your locality, describe any four strategies of sustainable development.
2) What are the factors contributing to environmental degradation in India ?
3) Give two examples of
   a) Overuse of environmental resources.
   b) Misuse of environmental resources.

**SIX (6) MARK QUESTIONS :-**

1) Explain the relevance of intergenerational equity in the definition of sustainable development.
2) Explain the supply-demand reversal of environmental resources.
3) Highlight any two serious adverse environmental
consequence of development in India?

4) Outline the steps involved in attaining sustainable development in India.

**ANSWERS OF ONE (1) MARK QUESTIONS**

1) It is that process of development which meets the needs of present generation without reducing the ability of future generation to meet their own need.

2) Global warming is a gradual increase in the average temperature of the earth.
SOLUTIONS OF QUESTIONS, (NCERT BOOK)

Question 1: What is meant by environment?
Answer: Environment refers to all the surroundings which have an impact on human lives. It is the sum total of the surroundings and resources that effect our existence and quality of life. It includes all the biotic and abiotic factors. Biotic factors include all the living creatures like plants, animals, forests, etc. while abiotic factors include all non-living things like air, water, land, etc. that are provided free of cost by nature. Biotic and abiotic both make up our surroundings and impact our existence and quality of life. In other words, environment encompasses the r the biotic and abiotic components and their relations.

Question 2: What happens when the rate of resource extraction exceeds that of their regeneration?
Answer: Environment performs several functions, but its essential function of sustaining life carries much significance. Environment provides us with life supporting elements like Sun light, soil, water and air. On extracting resources at a more rapid pace than its regeneration, the carrying capacity of the environment reduces, leading to a failure in its life sustaining function. This results in environmental crises, one of the common problems faced by almost all the countries of the world.

Question 3: Classify the following into renewable and non-renewable resources (i) trees (ii) fish (iii) petroleum (iv) coal (v) iron-ore (vi) water
Answer: Renewable resources are those inexhaustible resources capable of being replenished easily. Water, trees and fish are the renewable resources. Non-renewable resources are those resources that are likely to be exhausted or depleted on use. Petroleum, coal and iron ore are non-renewable resources. The pace of re-occurrence of these resources is slower than that of their exploitation.

Question 4: Two major environmental issues facing the world today are
Answer: Two major environmental issues facing the world today are global warming and ozone depletion. Global warming refers to the phenomenon of sustained increase in global temperature due to environmental pollution and deforestation. It is caused by the emission of Green House Gases,
particularly, carbon dioxide. The increase in the level of carbon dioxide raises the temperature of the earth surface, accelerating the melting of polar ice. This leads to the rise in the sea level. Thus, the disturbed ecological balance leads to increasing natural calamities, posing a threat to human survival. Ozone acts as a cover for the earth surface that is very essential for the sustenance of life. It prevents the harmful ultra violet radiations from penetrating the earth surface. But its depletion is becoming a global concern these days. This is due to the excessive use of cooling substances in the air conditioners and the refrigerators. As ozone depletes, the possibility of ultra violet radiations penetrating to the earth surface increases, posing a threat to the life on earth.

**Question 5:** How do the following factors contribute to the environmental crisis in India?

**What problem do they pose for the government?**

(i) Rising population  
(ii) Air pollution  
(iii) Water contamination  
(iv) Affluent consumption standards  
(v) Illiteracy  
(vi) Industrialization  
(vii) Urbanization  
(viii) Reduction of forest coverage.  
(ix) Poaching  
(x) Global warming.

**Answer:**

(i) **Rising Population**: Rising population has exerted an excessive burden on the environment in terms of two basic aspects. The intensive and extensive extraction of both renewable and non-renewable resources has led to exhaustion of the vital resources. Also, the explosive population size has triggered excessive demand for housing, thereby, resulting in widespread deforestation and fast depletion of other natural resources leading to ecological imbalances. Therefore, it is high time for the Indian government to take preventive measures to control population explosion.

(ii) **Air Pollution**: Air consists of oxygen that supports life. Air pollution implies
contamination of air, i.e. absence of fresh air (oxygen) to breathe. Various pollutants like CO₃, CO, SO2, SO, etc. pollutes air. Air pollution causes hypertension, asthma, respiratory and cardio-vascular problems. Thus, the Indian government should take various steps to control air pollution, avoid deforestation, increase health investment and also search for new alternative pollution free technology such as CNG, etc.

(iii) **Water Contamination Contamination**: of water or pollution of water is posing a serious threat to human life. It is one of the principal causes of all deadly diseases such as diarrhea, hepatitis, cholera, etc. It occurs due to dumping of industrial waste, agricultural waste and sewerage into the water bodies. Thus, the Indian government should put a -check on wastewater disposal. This calls for high capital investment for installation and maintenance of purifier machines.

(iv) **Affluent Consumption**: Standards Affluent Consumption Standards have placed a huge stress on the environment in terms of resources supply and assimilation of waste. The resources have become extinct and wastes generated are beyond the absorptive capacity of the environment leading to environmental crises. The government is compelled to spend huge amounts on research and development to explore alternative environment friendly resources. Also, upgradation of environmental quality entails huge cost

(v) **Illiteracy Man**: if illiterate will not use the resources judiciously that will ultimately lead to overuse or misuse of the scarce resources. The resources can be judiciously and efficiently exploited (with minimum waste) only when people are aware of and skillful in utilising the resources. Otherwise lack of knowledge and skills may lead to excessive extraction of resources and, thereby, its misuse. Thus, the government should take measures to create awareness and spread technical knowledge among people about various efficient and economising methods.

(vi) **Industrialisation**: Industrialisation, on one hand, enhances our living standards but, on the other hand, it causes deforestation, depletion of natural resources. In the blind rage to achieve economic development, industrialisation acts as a catalyst. In order to speed up the process of industrialisation, natural resources are exploited at a rapid pace. More trees are being felled and, increasing volume of toxics and industrial wastes are
clumped into the water bodies. All these culminate to ecological imbalances posing threat to sustainable economic development. Thus, the government should take measures to check undue and unnecessary industrial growth in order to restore ecological balance.

(vii) Urbanisation: Urbanisation, on the one hand, infuses modernisation of lifestyle but, on the other hand, it leads to deforestation. In order to meet the growing demand for houses, more trees are to be felled, decreasing the land-per-man ratio. Rapid urbanisation puts an excess burden on the natural resources, causing depletion. Urbanisation also reduces the availability of land for farming purpose and lowers farm outputs. Hence, the government should take measures to mitigate the impact of urbanisation by promoting small and cottage rural industries, rural infrastructural development, thereby, reducing the rural-urban Migration. Further, the government should also promote afforestation and most importantly, adopt measures to arrest population explosion.

(viii) Reduction of forest coverage: The need for reduction of forest coverage or deforestation arises due to the growing demand for land, wood, rise in population and river valley projects. Deforestation leads to reduction in oxygen level in air, soil erosion, climate change and global warming due to rise in the CO-level. Thus, measures are needed to promote afforestation, opening up of sanctuaries and national park such as Jim Corbett National Park.

(ix) Poaching Poaching: is the illegal capturing, killing and hunting of animals. Due to this, many animals are on the verge of extinction. The excessive hunting and killing of animals result in serious ecological imbalances. Thus, in order to save the rare species such as Tiger, Asian Elephants, Grevy’s Zebra, etc. more sanctuaries and national parks are to be set up. There is also need for various environmental legislations like Endangered Species Act in the USA that imposes strict penalties on the law breakers.

(x) Global warming: Global warming refers to the plidnomenon of sustained increase in ‘global temperature due to environmental pollution and deforestation. It is caused by the emission of Green House Gases that include, particularly, carbon dioikide. The increase in the level of carbon
dioxide raises the temperature of the earth surface. This risen temperature accelerates the melting of polar ice that further leads to the rise in the sea level. Thus, the incidence of natural calamities rises due to disturbed ecological balance, thereby posing a threat to human life.

**Question 6: What are the functions of the environment?**

**Answer:** The environment performs the following four dynamic functions: I. Offer Production Resources: Environment provides us with wide tangible resources like minerals, water and soil. These are the gifts of nature. These resources act as an input for converting natural resources into productive and useful things. In other words, environment provides input for production that ephemerizes human life qualitatively. 2. Sustains Life: Environment provides us with vital ingredients like sun: Soil, Water and air that are necessary for the survival of life. Absence of these essential elements implies absence of life. It supports biodiversity. 3. Assimilates Waste: The activities of production and consumption generate waste. This waste in the form of garbage is absorbed by the environment automatically. 4. Enhances Quality of Life: Environment includes surroundings such as rivers, oceans, mountains and deserts. It provides scenic beauty that man admires in life and adds to the quality of human life.

**Question 7: Identify six factors contributing to land degradation in India.**

**Answer:** Degradation of land refers to the gradual but consistent loss of fertility. This is emerging as a serious concern in the context of environmental issues in India. The following are the factors that contribute to land degradation in India:

- **a. Soil Erosion:** The removal of upper layer of the soil caused by agents like strong winds or floods is termed as soil erosion. The top most layer of the soil carries major and essential nutrients like nitrogen, phosphorous and potassium. Consequently, the loss of this layer deteriorates the quality and productivity of land.

- **b. Alkalinity and Salinity of Soil:** The salinity and alkalinity is caused by the problem of water logging. Water logged on the top layer of soil absorbs all the nutrients present in the soil, thereby, reducing its fertility.

- **c. Deforestation:** The growing population along with their ever growing demand lead to large scale destruction of forest cover. The reduction of forest coverage leads to soil erosion that in turn causes climate change.
d. Shifting Cultivation: The practice of shifting cultivation and subsistence farming carried by the small and the marginal farmers result in the replenishment of soil nutrients and, hence, its fertility. e. Excessive use of Fertilisers: The excessive use of chemical fertilisers, insecticides and pesticides lowers the quality and fertility of soil. f. Desertification: The spread of deserts in arid and semi arid areas is referred to as desertification. It occurs due to overgrazing of the animals. This results in the reduction of lush green areas that in turn leads to replenishment of soil fertility.

**Question 8:** Explain how the opportunity costs of negative environmental impact are high.

**Answer:** Opportunity cost is the cost that is foregone when we make a choice or a decision. A piece of land is to be used for wheat production then the production of say, rice, is to be sacrificed. The loss of rice production is the opportunity cost of producing wheat. In the similar way, the cost of negative environment is the opportunity cost of huge expenditure incurred on health and searching new alternatives. This is explained elaborately in the following paragraph: When the resources are extracted at a more rapid pace than its regeneration, then we say that the carrying capacity of the environment reduces. In such situation, environment fails to perform its function of sustaining life, thereby, resulting in environmental crises. In other words, environmental crises are an aggregate outcome of excessive exploitation of natural resources and excessive generation of wastes. Therefore, there arises a need for exploration of new alternative eco-friendly resources to avoid environmental crisis. Moreover, environmental crises lead to greater incidence of respiratory and miter borne diseases, necessitating higher health expenditures and investments. The costs involved in searching new alternative resources together with the greater health expenditures constitute the opportunity costs of negative environmental impact. Such opportunity costs are very high and require voluminous financial commitments by the government. Therefore, the opportunity costs of negative environmental impact are high.

**Question 9:** Outline the steps involved in attaining sustainable development in India.

**Answer:** Sustainable development refers to the achievement of economic
development by careful and judicial utilisation of the natural resources so that the present generations' needs are fulfilled without compromising that of the future generations'. It becomes our moral responsibility to hand over earth in good order to the future generation. Aligned with the view of a leading environmental economist, Herman Daly, India has taken the following steps to achieve the aim of sustainable development: i. Population Control Measures India has promoted various measures to arrest population explosion. The various population control measures include spread of awareness and knowledge of birth control measures and literacy. ii. Use of Environment Supportive Fuel As the fuels such as petrol and diesel emit huge amount of carbon dioxide that leads to global warming, so, the Indian government has promoted the use of CNC; and LPG. These are clean, eco-friendly fuels that emit lesser smoke. iii. Use of Solar and Wind Energy India being a moderate country is enriched with sunlight and wind power. These are two free gills of nature that is non-exhaustible. It solves the problem of economic growth with due focus on sustainable development. iv. Recycling and Ban on Plastic Bags The industrial and household wastes are accumulated on daily basis. There is a need to develop the habit of recycling of waste products in order to sustain the environment. House, hold waste can he used as manure for organic farming. A very recent step taken by the Indian government is banning the use of plastic bags. This is a very good step as plastic bags do not get decomposed easily and leads to pollution while recycling. v. Pollution Tax and Fines Indian government has taken many steps to control pollution. Some of the measures are regular vehicle checkups, levying pollution tax on the industries emitting smoke. These measures are coupled with huge fines and even imprisonment for the law breakers. vi. Use of the Input Efficient Technology The input efficient methods have been devised that not only increases the production and productivity but also efficiency with which the inputs are used. The efficient use of input, on one hand, leads to lesser exploitation of the natural resources and, on the other hand, enhances the future economic growth prospects of India.

**Question 10:** India has abundant natural resources — substantiate the statement.
Answer: India is fortunate enough to have abundant natural resources. It comprises of rich and Fertile soil, plenty of rivers and tributaries, green forests, mineral deposits, mountains, etc. the Indo-Gangetic plains are the most fertile, densely populated and cultivated plains in the world. It stretches from the Arabian Sea to the Bay of Bengal. The black soil of the Deccan Plateau is suitable for the cultivation of cotton in the country. IndianETMs lush green forests serve as a natural cover for the majority of the population. India holds more than 20 % of the worldETMs total iron ore reserves. There are mountain ranges that facilitate the operation of the mini hydel plants. It also has vast variety of flora of 15,000 species of plants. The country is also endowed with numerous minerals that are found under the earthETMs surface like coal, natural gas, copper, diamonds. etc.

**Question 11:** Is environmental crisis a recent phenomenon? If so, why?

**Answer:** Yes, the environmental crisis is a very recent phenomenon; the sparks of such crisis were never visible in the past. In the early, centuries before industrialisation, the population growth was on a tight rein. The demand of the environmental resources was much lower than its supply. Environment supported the worldETMs population in the past a the rate of usage of the resources was lesser. Also, the rate of regeneration of resources exceeded the rate with which the resources were exploited. In other words, the threat of environment crisis was never felt in the past as the exploitation of natural resources was within the carrying capacity of the environment. I3ut, toda, due to heavy industrialisation, urbanisation, man has started exploiting nature to its maximum. Nuclear and industrial wastes being dumped into the water bodies, pollution of land and air has affected the environment in three-fold manner. Now, the rate of exploitation of natural resources is lagging behind the rate of regeneration of the natural resources. Consequently, the mounting pressure on the carrying capacity of the environment is paving the way for environmental crises.

**Question 12:** Give two instances of
(a) Overuse of environmental resources (b) Misuse of environmental resources.

**Answer:** (a) Overuse of environmental resources
I. Drying up of Rivers:
The increasing irrigation and construction of flood storage reservoirs
arc resulting in the drying up of rivers.

ii. Excessive Deforestation: The growing population and their ever growing demand are resulting in large scale deforestation. This, leads to soil erosion, making the soil infertile.

(b) Misuse of environmental resources.

1. Use of Rivers to Discharge the Waste: Water is essential for life. The misuse of water as a resource is responsible for its pollution and contamination. The factors responsible for water pollution are the discharge of domestic sewerage, industrial waste, and thermal power plants into the rivers.

ii. Use of Wood for Cooking Food: Wood is a non-renewable source of energy. It is obtained from trees. Using wood instead of eco friendly alternative fuels for cooking purposes brings about deforestation.

Question 13: State any four pressing environmental concerns of India. Correction for environmental damages involves opportunity costs. Explain.

Answer: Air pollution, water contamination, soil erosion, deforestation and wild life extinction are some of the most pressing environmental concerns for India. But the priority issues include global warming, land degradation, ozone depletion and management of fresh water. Opportunity cost is the cost that is foregone when we make a choice or a decision. If a piece of land is to be used for wheat production then the production of say, rice, is to be sacrificed. The loss of rice production is the opportunity cost of producing wheat. In the similar way, the opportunity cost of correction for environmental damages refers to the huge amount of expenditure incurred on searching for new efficient alternatives. The heavy intensive and extensive extraction of both renewable and non-renewable resources demands expenditure for exploring new alternative resources in order to avoid an environmental crisis. The discovery of such resources requires heavy investment by the government. Also, implementation and maintenance of these alternative resources involve very high cost. The best example is the advent of CNG in order to reduce the rising problem of pollution in Delhi. The government has incurred heavy investment to popularise CNG and to make the consumers aware regarding its uses. Therefore, the correction for environmental damages involves opportunity cost that is very high.
**Question 14:** Explain the supply-demand reversal of environmental resources.

**Answer:** From the very inception of civilisation till the advent of industrialisation, the rate of extraction of the natural resources was far behind the rate of their regeneration. That is, in other words, the demand for resources falls short of the supply of the resources. The exploitation of nature by man was within the absorptive capacity of the environment. But, in todayacm's scenario with population explosion and industrial revolution, the demand for resources for both production and distribution has risen at a much more rapid rate. However, the rate of regeneration of these resources is relatively much lower than the rate of their extraction. In other words, the rate of consumption (demand) of the natural resources exceeds that of their supply. This is beyond the absorptive capacity of the environment and has made environmental crisis more probable. This reversal in the demand and supply relationship is referred to as the supply-demand reversal of the environmental resources.

**Question 15:** Account for the current environmental crisis.

**Answer:** The population explosion and affluent consumption have placed an undue and excess burden on the environment. The resources are increasingly exhausted day by day, but the regeneration of resources is constant. So, when the resources are extracted at a rapid pace than its regeneration, then the carrying capacity of the environment reduces. Then environment fails to perform its function of sustaining life, consequently, resulting in an environmental crisis. The current environmental crises include two major global issues, namely, global warming and ozone depletion. Global warming is the result of rising temperature globally due to the emission of green house gases, especially, carbon dioxide. The rise in temperature accelerates the melting of polar ice leading to the rise of water level in the sea. This leads to ecological imbalances. Ozone depletion is another major concern that is caused due to the excessive use of chlorofluorocarbon (C.l'ICs) in the air conditioners and refrigerators. As ozone depletes, the possibility of ultra violet radiations penetrating into earth surface increases, posing a threat to the living organisms. The culminated effect of these two accounts for major concern of environmental crisis in the present time.
**Question 16:** Highlight any two serious adverse environmental consequences of development in India. India's environmental problems pose a dichotomy—they are poverty induced and, at the same time, due to affluence in living standards. Is this true?

**Answer:** The two serious issues or consequences of development in India are land degradation and biodiversity loss. The developmental activities in India exerted tremendous pressure on the natural resources and also affected human health and well being. Land Degradation: The gradual but consistent loss of fertility of land is referred to as degradation of land. This is emerging as a serious concern in the context of environmental issues in India. The following are the factors that contribute to land degradation in India:

a. Soil Erosion: The removal of upper layer of the soil caused either by the strong winds or floods is termed as soil erosion. This top most layer of the soil carries major nutrients like nitrogen, phosphorous and potassium that are essential for the growth of plants. Therefore, the loss of this layer reduces the productivity of the land. b. Alkalinity and Salinity of Soil: The salinity and alkalinity is caused by the problem of water logging. The water logged on the top layer of soil absorbs all the nutrients present in the soil leading to the deterioration of fertility of land. c. Deforestation: The growing population and their ever growing demand leads to a large scale destruction of forest cover. The removal of forest cover affects the ecological balance by reducing the level of oxygen in the air. This leads to increase in the pollutants that cause various health hazards. d. Shifting Cultivation: The practice of shifting cultivation along with the subsistence farming carried by small and marginal farmers resulted in the replenishment of soil nutrients and fertility. The environmental problems points to the paradoxical situation in the country. Deforestation in India is a rapid consequence of population explosion and widespread poverty. The poor people in the rural areas are compelled to fell trees for earning their livelihood. The growing demand for natural resources to carry out production activity in the urban areas is also equally responsible for the present environmental degradation. There are two different opinions on the effect of environmental activities. One opinion advocates for India's prosperity by resorting to industrial production, while,
the other opinion highlights the threat of pollution due to rapidly growinP, industrial sector. This can be understood as in the wake of rapid urbanisation, the expansion of vehicular traffic generates pollution of noise and air.

**Question 17: What is sustainable development?**

**Answer:** Meeting the basic needs of all that requires distribution of resources is our moral responsibility. It becomes a moral obligation to hand over the earth to the future generation in good order. But, it is realised that if the resources (non renewable) are utilised fully then these' will deplete so fast that it will not meet the production capacity of the future generation. The economic development achieved today in such manner cannot be sustained for a long time as the production capacity of the future generations in absence of productive resources reduces. Therefore, sustainable development is the process of economic development that aims at meeting the needs of the present generation without comprising the needs of the future generations. Sustainable development maximises welfare of both present and future generations. In other words, it is that process of economic growth that is sustained over a long period of time without causing any fall in quality of life of the future generations.

**Question 18: Keeping in view your locality, describe any four strategies of sustainable development.**

**Answer:** Sustainable development means a judicious or optimum utilisation of resources in such a manner that the pace of economic growth sustains with inter-generational equity. The following are the four strategies of attaining sustainable development: 1. Use of Environment Friendly Fuel The growing use offuel such as petrol and diesel emits huge amount of carbon dioxide that adds to the Green House impact. In order to control pollution, the use of CNG and LPG should be promoted. These fuels are cleaner fuels, smokeless and eco-friendly. 2. Use of Renewable Resources India is well enriched with sunlight, water and wind energy. These are the free gift of nature that are non-exhaustible and pollution free. Thus, attempts should be made to harness solar and wind energy by employing different technologies: It not only solves the problem of economic growth but also the problem of sustainable economic development. 3. Recycling The industrial
and household wastes should be accumulated on daily basis. These wastes should be distinguished as Ho-degradable and non-biodegradable wastes. The bio-degradable wastes are those wastes that can be decomposed and can be used as manure for organic farming. The non-biodegradable wastes like plastic, etc. can be recycled and re-used. 4. Use of the Input Efficient Technology The input efficient methods and techniques should be devised so that more production is possible at per unit of input. This efficient utilisation of the natural resources leads to lesser exploitation of the natural resources.

**Question 19: Explain the relevance of intergenerational equity in the definition of sustainable development.**

**Answer:** Meeting the basic needs of all that requires the distribution of resources is our moral obligation. It becomes obligatory to hand over the earth to the future generation in a good order. But, it is realised that if the resources (non renewable) are utilised fully, then these will deplete so fast that it will reduce the production capacity of the future generations. The economic development achieved today in such manner cannot be sustained for a long time as the production capacity of the future generations in absence of productive! resources reduces. Therefore, sustainable development is the process of economic development that aims at meeting the needs of the present generation without comprising the needs of the future generations. Sustainable development maximises the welfare of both present and future generations. "his development does not mean a check on the existing pace of economic growth. It only means a judicious or optimum utilisation of resources in such a manner that pace of economic 'growth sustains with inter generational equity.
UNIT-VIII
CHAPTER-10
DEVELOPMENT EXPERIENCE OF INDIA
A COMPARISON WITH NEIGHBOURS

• Development Path Of India, Pakistan And China
  (i) All the three countries started their development path at the same time India and Pakistan got independence in 1947 and people's Republic of China was established in 1949.
  (ii) All the three countries have started planning their development strategies in similar ways. India announced its First Five Year Plan in 1951, Pakistan announced in 1956 and China in 1953.
  (iii) India and Pakistan adopted similar strategies, such as creating a large public sector and raising public expenditure on social development.
  (iv) Both India and Pakistan had adopted 'mixed economy' model but China had adopted 'Command Economy' model of economic growth.
  (v) Till 1980s, all the three countries had similar growth rates and per capita incomes.
  (vi) Economic Reforms were implemented in China in 1978, in Pakistan in 1988 and in India in 1991.

• Development Strategy:
  A. China
     (i) After the establishment of people's Republic of China under one party rule, all the critical sectors of the economy, enterprises and land owned and operated by individuals, were brought under government control.
     (ii) A programme named 'The great Leap Forward (GLF) campaign was initiated in 1958, which aimed at industrializing the country on a massive scale. Under this programme, people were encouraged to set up industries in their backyards.
(iii) 1965, Mao Tse lung introduced the 'Great Proletarian Cultural Revolution (1966-1976)', under which students and professionals were sent to work and learn from the countryside (rural areas).

(iv) In rural areas, commune system was started, under which people collectively cultivated lands.

(v) Reforms were introduced in China in phases.

(vi) In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors. In the later phase, reforms were initiated in the industrial sector.

(vii) The reforms process also involved dual pricing. This means fixing the prices in two ways; farmers and industrial units were required to by and sell fixed quantities of raw materials and products on the basis of prices fixed by the government and rest were purchases and sold at market prices.

(viii) In order to attract foreign investors, Special Economics Zones (SEZ) were set up, SEZ is a geographical region that has economic laws different from a country’s typical economic laws. Usually the goal is to increase foreign investment.

B. Pakistan

(i) Pakistan followed the mixed economy model with co-existence of public and private sectors.

(ii) Pakistan introduced tariff protection for manufacturing of consumer goods, together with direct import controls on competing imports.

(iii) The introduction of Green Revolution and increase in public investment in infrastructure in select areas, led to a rise in the production of food grains.

(iv) In 1970’s, Capital goods industries.

(v) In 1988, structural reforms were implemented. Major thrust areas were denationalization and encouragement to private sector.

(vi) Pakistan also received financial support from western nations and remittances from emigrants to the Middle countries. This helped the country in stimulating economic growth.
COMPARATIVE STUDY
INDIA, PAKISTAN AND CHINA

1. Demographic Indicators:
   – The population of Pakistan is very small and accounts for roughly about one-tenth of China and India.
   – Though China is the largest nation geographically among the three, its density is the lowest.
   – Population growth is highest in Pakistan followed by India and China. One child non 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, that is the proportion of females per 1000 males.
   – The sex ratio is low and biased against females in all the three countries.
   – There is strong son-preference prevailing in all these countries as the reason.
   – The Fertility rate is low in China and very high in Pakistan.
   – Urbanization is high in both China and Pakistan- with India having 28 percent of its people living in urban areas.

2. Gross Domestic Product (GDP) and Sectors:
   – China has the second largest GDP (PPP) of $9.4 trillion (approx) in 2013 where as India's GDP (PPP) and Pakistan GDP (PPP) are $1.877 trillion (approx) and $232.3 Billion (approx) respectively.
   – On this path of Development china's average growth rate is about 9.5% while India's and Pakistan's average growth rate is about 5.8% and 4.1% respectively.
   – In China, in the year 2011. with 37 percent of its workforce engaged in agriculture, its contribution to GDP is 9 percent (approx). While in India and Pakistan the contribution of agricultural sector in GDP is about 14% and 25% respectively. In India about 43% are engaged in agricultural sector, while in Pakistan this figure is about 49%.
– In China, manufacturing contributes the highest to GDP at 53 percent whereas in India and Pakistan, it is the service sector which contributes the highest (more than 50 percent of GDP).

– Though China has followed the classical development pattern of gradual shift from agriculture to manufacturing and then to services, India and Pakistan’s shift has been directly from agriculture to service sector.

– In the 1980s, India, China and Pakistan employed 17, 12 and 27 percent of its workforce in the service sector respectively. In 2011, it reached the level of 37, 37 and 35 percent respectively (approx.).

– China’s growth is mainly contributed by the manufacturing sector where as in both India and Pakistan, the service sector is emerging as a major player of development.

3. **Human Development Indicators**:

– In most areas of human development, China has performed better than India and Pakistan. This is true for many indicators-per Capita GDP or proportion of population below poverty line, health indicators such as mortality rates, access to sanitation, literacy, life expectancy or malnourishment etc.

– Pakistan is ahead of India in reducing proportion of people below the poverty line and also its performance in transferring labour force from agricultural sector to industrial sector and access to water is better than India.

– Contrary to it, India is ahead of Pakistan is education sector and providing health services.

– India and Pakistan are ahead of China in providing improved water sources

A **India performed moderately as is clear from**

– A majority of its people still depend on agriculture.

– Infrastructure is lacking in many parts of the country.

– It is yet to raise the level of living of more than 22% of its population that lives below the poverty line.
Pakistan has performed poorly. The reasons for the slowdown of growth and re-emergence of poverty in Pakistan's economy are:

(i) Political instability.
(ii) Volatile performance of agriculture sector.
(iii) Over dependence on remittances.
(iv) Growing dependence on foreign loans on the one hand and increasing difficulty in paying back the loans on the other.

China has performed comparatively the best as is clear from:

- Success in raising the level of growth along with alleviation of poverty.
- It used the market mechanism to create additional social and economic opportunities without political commitment.
- By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas.
- Public intervention in providing social infrastructure has brought about positive results in human development indicators in China.
**SOLUTIONS OF QUESTIONS (NCEBT BOOK)**

**Question 1:** Why are regional and economic groupings formed?

**Answer:** With the objective of understanding various means and strategies to strengthen the economies, different nations of the world are motivated to form regional and global economic groups like SAARC, European Union, ASEAN, etc. The formation of such regional and economic groups helps the member countries to know the development strategies and measures adopted by other member countries. This enables them to analyse their strength and weakness and thereby, formulate policies to accelerate social progress and cultural development among its member countries. Secondly, another important purpose behind setting up of these groups is maintenance of peace and stability of the member countries. In addition to this, these groups provide a common platform to raise their voice in a unified manner on common issues to safeguard their common interests.

**Question 2:** What are the various means by which countries are trying to strengthen their own domestic economies?

**Answer:** The following are the various means through which the nations are trying to strengthen their own domestic economies: 1. Nations are forming various regional and economic groupings like SAARC, European Union, G-8, G-20, ASEAN etc. in order to strengthen their economies. These groups provide a common platform to the member countries to raise their voice in a unified manner on common issues to safeguard their common interests. 2. Further, they are also interested in knowing the developmental process adopted by their neighbouring nations, so as to analyse their strengths and weaknesses. Accordingly, they formulate policies to accelerate social progress and cultural development among the member countries. 3. Moreover, nations also resort to liberalising their economies. This minimises the government interference in economic activities. The economy is governed by market forces. i.e. demand and supply forces. 4. Nations also resort to the process of globalisation to open up their economies to provide wide-international market to their domestic producers.

**Question 3:** What similar developmental strategies have India and Pakistan followed for their respective developmental paths?

**Answer:** India and Pakistan both have followed a similar developmental path.
strategy. The main similarities between the developmental strategies can be summed up as: i. India and Pakistan both have started their developmental programmes based on economic planning soon after their independence in 1947. ii. Both the countries relied on the public sector for initiating the process of growth and development. iii. Both of them have followed the path of mixed economic structure involving the participation of both the state as well as the private sector. iv. Both of them introduced economic reforms at the same time to strengthen their economies.

**Question 4: Explain the Great Leap Forward campaign of China as initiated in 1958.**

**Answer:** The Great Leap Forward (GLF) was a campaign initiated in 1958 in China. The aims of this campaign are as follows: 1. The aim of the campaign was to initiate large scale industrialisation in the country concentrating not only in the urban areas but also in the rural ones. The people in the urban areas were motivated to set up industries in their backyards. 3 in the rural areas, Commune System was implemented. Under this system, people were engaged in collective farmitag.

**Question 5: China’s rapid industrial growth can be traced Wick to its reformis in 1978. Do you agree? Elucidate.**

**Answer:** Yes, it cannot be denied that China's rapid industrial growth is an aggregate outcome of the various economic reforms that were introduced in phases since 1978. In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors. The system of collective farming known as Commune System was implemented. Under this system, land was divided into small plots that were allocated to the individual households. These households were allowed to keep the remaining income from land after paying the taxes to the government. In the later phase, reforms were initiated in the industrial sector. During this phase, the private firms and village and township enterprises were allowed to produce goods and services and to compete with the State Owned Enterprises. The reforms also included dual pricing. The dual pricing implies that the farmers and the industrial units were required to buy and sell a fixed quantity of inputs and output at the price fixed by the government and the remaining quantities were traded at the market price. Gradually, with the rapid increase in the aggregate production in the later years, the quantities traded in the market
increased by many folds. The reforms also included setting up of Special Economic Zones to attract foreign investors. Therefore, China's rapid industrial growth is attributable to the success of different phases of its economic reforms.

**Question 6: Describe the path of developmental initiatives taken by Pakistan for its economic development.**

**Answer:**

a) With the aim of economic development, -Pakistan adopted the pattern of mixed economy where both private and public sectors coexist
b) Pakistan introduced a variety of regulated policy framework for import substitution, industrialisation during 1950s and 1960s. This implies producing goods domestically to substitute imports, thereby, discouraging imports and simultaneously encouraging and developing domestic industries.

c) In order to protect domestic industries producing consumer goods, policy measure was initiated to create tariff barriers.

d) The introduction of Green Revolution mechanised agriculture leading to the increase in the production of food grains.

e) The mechanisation of agriculture was followed by the nationalisation of capital goods industries in 1970s.

f) In the late 1970s and early 1980s, Pakistan shifted its policy orientation by denationalising the thrust areas, thereby, encouraging the private sector.

g) All these above measures created an environment conducive to initiate the economic reforms that were ultimately initiated in 1988.

**Question 7: What is the important implication of the one child norm in China?**

**Answer:** The important implication of the one-child norm in China is the low population growth. This measure also led to the fall of the sex ratio in China, i.e. the proportion of females per thousand males. However, the country believes that in the coming decades there will be more elderly people in proportion to the young people. This will oblige the country to provide social security measures with fewer workers.

**Question 8: Mention the various indicators of human development.**

**Answer:** The indicators of human development are:

i. Life Expectancy.

ii. Adult Literacy Rate.

iii. Infant Mortality Rate.

iv. Percentage of the population below poverty line.

v. GDP per capita
vi. Percentage of the population having access to improved sanitation
vii. Percentage of the population having access to improved water sources.

**Question 9:** Define liberty indicator. Give some examples of liberty indicators.

**Answer:** Liberty Indicator may be defined as the measure of the extent of demographic participation in the social and political decision making. In other words, it is an index used to measure the participation of the people in taking decisions. Some examples of liberty indicators are the measures of the extent of the Constitutional Protection Rights given to the citizens and the extent of the Constitutional Protection of the independence of the Judiciary and Rule of Law.

**Question 10:** Evaluate the various factors that led to the rapid growth in economic development in China.

**Answer:** China’s rapid economic development is an aggregate outcome of the introduction of the reforms in phases since 1978. The following are the various factors that led to the rapid growth in the economic development in China: In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors. The system of collective farming known as Commune System was implemented. Under this system, land was divided into small plots that were allocated to the individual households. These households were allowed to keep the remaining income from land after paying the taxes to the government. 2. In the later phase, reforms were initiated in the industrial sector. During this phase, the private firms, village and township enterprises were allowed to produce goods and services and to compete with the State Owned Enterprises. 3. The dual pricing were implemented. This implies that the farmers and the industrial units were required to buy and sell a fixed quantity of inputs and output at the price fixed by the government and the remaining quantities were traded at the market price. Gradually, with rapid increase in aggregate production in the later years, the quantities traded in the market increased by many folds. 4. The reforms also included setting up of Special Economic Zones to attract foreign investors and to encourage its exports. Therefore, the aggregate focus of all these economic reforms resulted in rapid industrial growth and economic development in China.
Question 11: Group the following features pertaining to the economies of India, China and Pakistan under three heads

- One-child norm
- Low fertility rate
- High degree of urbanisation
- Mixed economy
- Very high fertility rate
- Large population
- High density of population
- Growth due to manufacturing sector
- Growth due to service sector

<table>
<thead>
<tr>
<th>India</th>
<th>China</th>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mixed economy</td>
<td>One-child norm</td>
<td>Mixed economy</td>
</tr>
<tr>
<td>High density of population</td>
<td>Low fertility rate</td>
<td>Very high fertility rate</td>
</tr>
<tr>
<td>Growth due to service sector</td>
<td>High degree of urbanisation Growth due to manufacturing sector</td>
<td>Large population</td>
</tr>
</tbody>
</table>

Question 12: Give reasons for the slow growth and re-emergence of poverty in Pakistan.

Answer: The following are the main reasons for the slow growth and re-emergence of poverty in Pakistan:

1. Greater Dependency on the Public Sector Enterprises: The main cause behind the slow economic growth in Pakistan is the greater dependence on Public Sector Enterprises. Pakistan relied largely on the policy of protection by assigning central role to the Public Sector Enterprises. The operational inefficiencies of Public Sector Enterprises along with the misallocation of scarce resources resulted in dormant economic growth rate.

2. Traditional Agricultural Practices: The agricultural practices in Pakistan relied heavily on traditional methods and the vagaries of climatic conditions resulting in low productivity. Consequently, the agricultural sector was not able to flourish to the extent it was thought of.
3. Undeveloped Manufacturing Sector: The major portion of the foreign exchange earnings of Pakistan was in the form of remittances from Pakistani workers in the Middle-east and exports of highly volatile agricultural products. This can be regarded as one of the reasons for the slow economic growth. This is because the inflow of foreign exchange in the form of remittances substituted the need for development of manufacturing sector to earn foreign exchange by exporting manufactured goods.

4. Increasing Dependence on Foreign Loans: There was an increasing dependence on foreign loans for meeting foreign exchange requirements. Pakistan faced increasing difficulty in repaying these loans along with the mounting interest obligations in the years of agricultural failure. The increasing burden of huge foreign loans impeded the economic growth prospects of Pakistan.

5. Lack of Political Stability: The lack of political stability demanded huge public expenditure for maintaining lays/ and order in the country. This huge public expenditure acted as a drain on the counties economic resources.

6. Insufficient Foreign Investment: Pakistan also failed to attract sufficient foreign investment due to lack of political stability, low degree of international credibility and lack of well developed infrastructure.

**Question 13:** Compare and contrast the development of India, China and Pakistan with respect to some salient human development indicators.

**Answer:** The following are the indicators of human development: i. Life Expectancy ii. Adult Literacy Rate iii. Infant Mortality Rate iv. Percentage of the population below poverty line v. GDP per capita vi. Percentage of the population having access to improved sanitation vii. Percentage of the population having access to improved water sources. On the basis of individual indices of these parameters, a Human Development Index (HDI) as constructed. The higher the value of HDI, higher will be the level of growth and development in a country. The rankings are accorded to the countries as per their HDI. China ranked 81. India 128'1' and Pakistan 1361h. High ranking of China is due to the higher GDP per capita. Moreo'er, the one-child norm led to sustained rise in the GDP, consequently, China was ranked higher than India and Pakistan in HD1.
Question 14: Comment on the growth rate trends witnessed in China and India in the last two decades.

Answer: India, with democratic institutions, performed moderately, but the majority of its people still depend on agriculture. Infrastructure is lacking in many parts of the country. It is yet to raise the Standard of living of more than one-fourth of its population that lives below the poverty line. On the other hand, the lack of political freedom and its implications in China are the major concern in the last two decades. The country used the market system without losing political commitment and succeeded in raising the level of growth along with poverty alleviation. China used the market mechanism to create additional social and economic opportunities. The country has also ensured social security in the rural areas by retaining collective farming known as Commune System.

Public intervention in social infrastructure prior to the introduction of the economic reforms has brought positive results in the human development indicators of China.

Question 15:

a) First Five Year Plan of ______ commenced in the year 1956. (Pakistan/China)
b) Maternal mortality rate is high in ____ (China/Pakistan)
c) Proportion of people below poverty line is more in ____ (India/Pakistan)
d) Reforms in ______ were introduced in 1978. (China/Pakistan) ____

Answer: (a) First Five Year Plan of Pakistan commenced in the year 1956.
b) Maternal mortality rate is high in Pakistan.
c) Proportion of people below poverty line is more in India.
d) Reforms in China were introduced in 1978.
### Blue Print

<table>
<thead>
<tr>
<th>Unit name</th>
<th>1 mark</th>
<th>3 Marks</th>
<th>4 Marks</th>
<th>6 Marks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Income</td>
<td>1 (R)</td>
<td>1 (U)</td>
<td>1(A)</td>
<td>1 (U)</td>
<td>12</td>
</tr>
<tr>
<td>Money and Banking</td>
<td>1(U), 1(A)</td>
<td>1(U)</td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Income determination</td>
<td>1(R), 1(U), 1(E)</td>
<td>1(A),</td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Government Budget</td>
<td>1(U), 1(E)</td>
<td>1(R)</td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Balance of Payment</td>
<td>1(A), 1(E)</td>
<td>1(E)</td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Section A</td>
<td>10*1=10</td>
<td>2*3=6</td>
<td>2*3=6</td>
<td>2*6=12</td>
<td>40</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Section-B Indian Economic Development</th>
<th>1 mark</th>
<th>3 Marks</th>
<th>4 Marks</th>
<th>6 Marks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Experience and Economic Reforms</td>
<td>1 (R), 1(U), 1(A), 1(E)</td>
<td></td>
<td>1 (R), 1(U)</td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Current Challenges facing Indian Economy</td>
<td>1 (R), 1(U), 1(A), 1(E)</td>
<td>1(U), 1(A)</td>
<td></td>
<td></td>
<td>22</td>
</tr>
<tr>
<td>Development Experience of India</td>
<td>1(U), 1(E)</td>
<td></td>
<td>(A)</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Section B</td>
<td>10*1=10</td>
<td>2*3=6</td>
<td>3*4=12</td>
<td>2*6=12</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>20*1=20</td>
<td>4*3=12</td>
<td>6*4=24</td>
<td>4*6=24</td>
<td>80</td>
</tr>
</tbody>
</table>

Creative Answer Type Questions: Q. No. -29, 32, 34

Change in Question:

<table>
<thead>
<tr>
<th>Marks Category</th>
<th>2018-19</th>
<th>2019-20</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 marks</td>
<td>8</td>
<td>20</td>
<td>Increased by 12</td>
</tr>
<tr>
<td>3 marks</td>
<td>4</td>
<td>4</td>
<td>No change</td>
</tr>
<tr>
<td>4 marks</td>
<td>6</td>
<td>6</td>
<td>No change</td>
</tr>
<tr>
<td>6 marks</td>
<td>6</td>
<td>4</td>
<td>Decreased by 2</td>
</tr>
<tr>
<td></td>
<td>24</td>
<td>34</td>
<td></td>
</tr>
</tbody>
</table>
SAMPLE QUESTION PAPER (2019-20)
ECONOMICS (030)

Time allowed: 3 hours
Maximum Marks: 80

General instructions:

i. All the questions in both the sections are compulsory. Marks for questions are indicated against each question.

ii. Question number 1 - 10 and 18 - 27 are very short-answer questions carrying 1 mark each. They are required to be answered in one word or one sentence each.

iii. Question number 11 - 12 and 28 - 29 are short-answer questions carrying 3 marks each. Answers to them should not normally exceed 60-80 words each.

iv. Question number 13 - 15 and 30 - 32 are also short-answer questions carrying 4 marks each. Answers to them should not normally exceed 80-100 words each.

v. Question number 16 - 17 and 33 - 34 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100-150 words each.

vi. Answer should be brief and to the point and the above word limit be adhered to as far as possible.

SECTION - A (Macro Economics)

<table>
<thead>
<tr>
<th>Q. No</th>
<th>QUESTION</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Value of Money Multiplier... (increases/decreases/remains unchanged) with an increase in Cash Reserve Ratio. (Fill up the blank with correct alternative)</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Define an intermediate good.</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>Average Propensity to Consume can never be........................................... (choose the correct alternative) a) positive b) zero c) more than one d) less than one</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>Name any two quantitative tools to control credit creation in an economy. Or What are demand deposits?</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>The monetary policy generally targets to ensure....................... (Choose the correct alternative) a) price stability in the economy b) employment generation in the country c) stable foreign relations d) greater tax collections for the government.</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>In an economy, break-even point and equilibrium point may lie at the same level of income, if ex-ante investments are....................... (Fill up the blank with correct answer)</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>State whether the given statement in true or false: ‘Managed Floating Exchange Rate is decided by market forces but remains within a specific range as decide by central bank’.</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>The formula to calculate Primary deficit is ....................... (Fill up the blank with correct answer)</td>
<td>1</td>
</tr>
</tbody>
</table>
From the set of statements given in Column I and Column II, choose the correct pair of statements:

<table>
<thead>
<tr>
<th>Column I</th>
<th>Column II</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Export of software to France</td>
<td>(i) Debit side of current account</td>
</tr>
<tr>
<td>b) Import of Machinery from China</td>
<td>(ii) Capital Account of Balance of Payments</td>
</tr>
<tr>
<td>c) Remittances to relative staying abroad</td>
<td>(iii) Debit side of Current Account of Balance of Payments</td>
</tr>
<tr>
<td>d) Investment by Apple phones firm in India</td>
<td>(iv) Credit side of Current Account of Balance of Payments</td>
</tr>
</tbody>
</table>

10 Government expenditure on Mid-Day Meal scheme running in government (state run) schools is a type of ................... expenditure in government budget. (Fill up the blank with correct answer)

11 "India’s GDP is expected to expand 7.5% in 2019-20: World Bank”  
   - The Economic Times.

   Does the given statement mean that welfare of people of India increase at the same rate? Comment with reason.

12 Calculate the value of Marginal Propensity to Consume (MPC), if in an economy, autonomous consumption is ₹ 500 crores, ex-ante investments are ₹ 4000 crores and equilibrium level of income of the economy is ₹ 18,000 crores.  
   Or

   Suppose in a hypothetical economy, the savings increase by ₹ 20 crores when national income increases by ₹ 100 crores. Compute the additional investments needed to attain an increase in national income by ₹ 6,000 crores?

13 Discuss any one of the following functions of a central bank:  
   a) As government’s bank  
   b) Open market operations.

14 "Foreign Institutional Investors (FIIs) remained net seller in the Indian capital markets over the last few weeks”.  
   - The Economic Times.

   State and discuss the likely effects of the given statement on foreign exchange rate with reference to the Indian Economy.  
   Or

   'Many large Multinational Corporations (MNCs) have recently shifted their investments from China and have started their production in India, thereby boosting the Make in India plans of the Government’.  

   Presuming other factors being constant, discuss the effects of the given statement on Foreign Exchange rates with reference to the Indian Economy.

15 Elaborate the objective of ‘reallocation of resources’ in the government budget.

16 a) ‘Real Gross Domestic Product is a better indicator of economic growth than Nominal Gross Domestic Product’.  
   Do you agree with the given statement? Support your answer with a suitable numerical example.

   b) Calculate ‘Depreciation on Capital Asset’ from the following data
<table>
<thead>
<tr>
<th>S.no</th>
<th>Particulars</th>
<th>Amount (in ₹ crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>Capital value of the asset</td>
<td>1,000</td>
</tr>
<tr>
<td>ii.</td>
<td>Estimated life of the asset</td>
<td>20 years</td>
</tr>
<tr>
<td>iii.</td>
<td>Scrap Value</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Or

a) 'Circular flow of income in a two-sector economy is based on the axiom that one's expenditure is other's income'.
Do you agree with the given statement? Support your answer with valid reasons.

b) Calculate compensation of employees from the following data:

<table>
<thead>
<tr>
<th>S.no</th>
<th>Particulars</th>
<th>Amount (in ₹ crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>Profits after tax</td>
<td>20</td>
</tr>
<tr>
<td>ii.</td>
<td>Interest</td>
<td>45</td>
</tr>
<tr>
<td>iii.</td>
<td>Gross Domestic Product at Market Price</td>
<td>200</td>
</tr>
<tr>
<td>iv.</td>
<td>Goods and Services Tax</td>
<td>10</td>
</tr>
<tr>
<td>v.</td>
<td>Consumption of Fixed Capital</td>
<td>50</td>
</tr>
<tr>
<td>vi.</td>
<td>Rent</td>
<td>25</td>
</tr>
<tr>
<td>vii.</td>
<td>Corporate Tax</td>
<td>5</td>
</tr>
</tbody>
</table>

17 'An economy is operating at under-employment level of income’. What is meant by the given statement? Discuss one fiscal measure and one monetary measure to tackle the situation.

SECTIon-B (Indian Economic Development)

18 Name any two taxes which were subsumed in Goods and Services Tax (GST).

19 State whether the following statement is true or false:
'The latest demonetization of currency was undertaken by the Government of India on November 8, 2016'.

20 Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I:

<table>
<thead>
<tr>
<th>Column – I</th>
<th>Column – II</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Land Ceiling</td>
<td>i. Increase in production of food grain using high yielding variety seeds</td>
</tr>
<tr>
<td>B. Land reforms</td>
<td>ii. Portion of agricultural produce sold in the market</td>
</tr>
<tr>
<td>C. Greco Revolution</td>
<td>iii. Fixing the maximum limit of land holding for an individual.</td>
</tr>
<tr>
<td>D. Marketed Surplus</td>
<td>iv. Change in the ownership of land (land to tillers)</td>
</tr>
</tbody>
</table>

21 Agriculture marketing does not comprise of …………………
(Choose the correct alternative)

a) Transportation of the produce to the market place for sale.
b) Grading of the produce according to the quality.
c) Storage of the produce for sale in future.
d) Credit taken to meet expenditure on agriculture.

22 Under ......................... type of unemployment, marginal product gained by employing one additional unit of labour is zero.

(Fill up the blank with correct answer)

Or

................................. an indicator which is used for analyzing the employment situation of a country.

(Fill up the blank with correct answer)

23 In 1955, Karve committee was constituted for aiming the..................

(Fill up the blank with correct answer)

24 Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I

<table>
<thead>
<tr>
<th>Column - I</th>
<th>Column - II</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Study Group formed by Planning Commission for Poverty</td>
<td>i. 2005</td>
</tr>
<tr>
<td>B. ‘Task Force on Projections of the Minimum Needs and Effective Consumption Demand’</td>
<td>ii. 1962</td>
</tr>
<tr>
<td>C. Mahatma Gandhi National Rural Employment Guarantee Act</td>
<td>iii. 2014</td>
</tr>
<tr>
<td>D. Jan Dhan Yojana</td>
<td>iv. 1979</td>
</tr>
</tbody>
</table>

Choose the correct alternative:

a) ii, iii, iv, i
b) iii, ii, i, iv
c) i, ii, iii, iv
d) ii, iv, i, iii

25 Solar energy can be converted into electricity with the help of ......................... (Photovoltaic cell/Lithium cells).

(Fill up the blank with correct alternative)

26 Arrange the following events of China in chronological order and choose the correct alternative:

i. Great Proletarian Cultural Revolution
ii. Great Leap Forward campaign
iii. Introduction of Economic Reforms
iv. First five year plan

Choose the correct alternative:

a) ii, iv, iii, i
b) iv, ii, i, iii
c) ii, iv, i, iii
d) iv, i, ii, iii

27 Introduction of Economic Reform in Pakistan took place in .............

(Choose the correct alternative)
a) 1978  b) 1980  c) 1988  d) 1991
28. “Recently Indians have drifted away from the traditional knowledge and practices and caused large scale damage to environment”. Explain how, adopting the traditional practices can be helpful in achieving the objective of sustainable development?

Or

29. ‘Power sector in India has major issues with its installed capacity’. Discuss the given statement.

30. ‘Education Commission 1964-66 had recommended that at least 6 per cent of GDP must be spent on education’. How far India has been able to achieve the said goal?

31. ‘The opening up of the Indian Economy has led to a rapid increase in Foreign Direct Investments and Foreign Exchange Reserves of the country’. Defend or refute the given statement.

32. Define the following terms
   a) Disinvestment
   b) Import Substitution

   OR

   Define the following terms
   a) Outsourcing
   b) Quota

33. Answer the following questions on the basis of the following data:
    a) Comment upon the population growth rates among the three countries.
    b) Which country has most skewed in sex ratio?

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated Population (in million)</th>
<th>Annual Growth of Population (in %)</th>
<th>Sex Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>1311</td>
<td>1.2</td>
<td>929</td>
</tr>
<tr>
<td>China</td>
<td>1371</td>
<td>0.5</td>
<td>941</td>
</tr>
<tr>
<td>Pakistan</td>
<td>188</td>
<td>2.1</td>
<td>947</td>
</tr>
</tbody>
</table>


34. “Rural Economic development is essential for Indian Economic development”. Do you agree with the given statement? Support your answer with valid reasons.

Or

35. ‘In spite of the increase in public health expenditure Indian Health System is an ailing system in itself’. Defend the statement citing any three major problems of Health sector in India.

Study the following chart showing the Growth of Employment and Gross Domestic Product and analyse the trend of the two variables from 1990-2012.
Growth of Employment and Gross Domestic Product, 1951-2012 (%)
<table>
<thead>
<tr>
<th>Ques. No.</th>
<th>Description</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Decreases</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>An intermediate good refers to that good which is purchased during the year by a firm from another for the purpose of further production/resale.</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>b) Zero</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>i) CRR, ii) SLR, iii) Bank Rate, iv) Repo rate, v) Reverse repo rate (any two) Or Demand deposits are the deposits which can be withdrawn on demand by the depositors from banks.</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>a) price stability in the economy.</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>Zero</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>True</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>Primary Deficit = Fiscal Deficit - Interest Payments</td>
<td>1</td>
</tr>
<tr>
<td>9</td>
<td>c) Remittances to relative staying abroad - (iii) Debit side of current Account of Balance of Payments</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>Revenue</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>Generally it is considered that an increase in the Gross Domestic Product (GDP) of any economy (India in this case) ensures increase in welfare of the people of the country. However, this may not always be correct. Some of the prime reasons for the same are: a) unequal distribution and composition of GDP, b) non-monetary transactions in the economy which are not accounted for in GDP, and c) occurrence of externalities in the economy (both positive and negative).</td>
<td>3</td>
</tr>
</tbody>
</table>
| 12       | We know that consumption function is: \( C = c + MPC \cdot Y \) At equilibrium level of income in the economy \( Y = C + I \). Given, Autonomous Consumption \( (\bar{C}) \) = ₹ 500 crores and Ex-ante Investments \( (I) \) = ₹ 4000 crores \( 18,000 = 500 + MPC(18,000) + 4,000 \) \( MPC = 18000 - 4500 \) \( MPC = 13,500/18,000 \) \( MPC = 0.75 \) Or MPS = \( \frac{\text{Change in Savings}}{\text{Change in Income}} \) = \( \frac{20}{100} = 0.20 \)
Investment Multiplier \( (K) \) = \( \frac{1}{MPS} = \frac{1}{0.20} = 5 \)
Investment Multiplier \( (K) \) = \( \frac{\text{Change in Income}}{\text{Change in Investment}} \) = \( \frac{\Delta y}{\Delta I} \)
\( 5 = \frac{36,000}{\text{Change in Investment (\( \Delta I \))}} \)
Change in Investment \( (\Delta I) \) = ₹ 1200 crores Increase in investment by ₹ 1200 crores is required to attain additional income of ₹ 6000 crores. | 3     |
Central Bank as government’s bank - The Central Bank acts as a banker to both central as well as state governments. The Central Bank accepts receipts and makes payments for the government and carries out exchange, remittance and other banking operations. It advances credit/loan to the government to meet its requirements in case of crisis. It also acts as an agent to buy and sell government securities & advises the government on various financial matters.

Or

Open Market Operations by Central Bank - Open Market Operations refers to buying and selling of government securities (bonds) by the Central Bank from/to the general public. It is an important step which may be undertaken to control money supply in the economy. The Central Bank may sell government securities to reduce the money supply in the hands of general public and vice-versa.

Selling of securities by Foreign Institutional Investors (FIU’s) in Indian capital market will lead to fall in the supply of foreign currency in the economy. This situation might lead to excess demand of foreign currency at the prevailing foreign exchange rate.

As a result, a new equilibrium rate of foreign exchange will be determined which will be higher than the prevailing foreign exchange rate, leading to depreciation of domestic currency.

Or

Investments by large multinational corporations (MNCs) in India will ensure greater inflow of foreign exchange, leading to an increase in the supply of foreign currency. This situation may result into excess supply of foreign currency in the economy at the prevailing foreign exchange rate.

As a result, a new equilibrium rate of foreign exchange will be determined which will be lower than the prevailing foreign exchange rate, leading to appreciation of domestic currency.

Reallocation of resources - Government through its budgetary policies tries to reallocate resources to ensure fulfillment of various socio-economic objectives. The government may influence the allocation of resources through:

(a) Taxation policy - Heavy taxes may be imposed on harmful products to discourage their production and subsidies may be provided on the production of socially useful products to encourage their production.

b) Government may directly undertake production of certain goods and services in the areas where private sector may not be willing to participate in production activities.

a) The given statement is correct. Real Gross Domestic Product (GDP) is a better indicator of economic growth than Nominal Gross Domestic Product (GDP) as it is not affected by changes in general price level.

Numerical Example:
<table>
<thead>
<tr>
<th>Goods</th>
<th>Price of Current Year (P₁) (in ₹)</th>
<th>Price of Base Year (P₀) (in ₹)</th>
<th>Quantity of Current Year (Q₁) (in units)</th>
<th>Nominal GDP (P₁Q₁)</th>
<th>Real GDP (P₀Q₁)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>20</td>
<td>10</td>
<td>100</td>
<td>2,000</td>
<td>1,000</td>
</tr>
<tr>
<td>B</td>
<td>10</td>
<td>5</td>
<td>200</td>
<td>2,000</td>
<td>1,000</td>
</tr>
<tr>
<td>C</td>
<td>30</td>
<td>20</td>
<td>50</td>
<td>1,500</td>
<td>1,000</td>
</tr>
</tbody>
</table>

\[ \sum PₐQᵢ = 5,500 \]
\[ \sum P₀Qᵢ = 3,000 \]

In the above example the difference between Real GDP (\( \sum P₀Qᵢ \)) and Nominal GDP (\( \sum PₐQᵢ \)) is 5,500-3,000 = ₹2,500.

This is only the monetary difference as the quantity sold in the market remains unchanged and the variation in the value of GDP is merely due to the change in the prices in the economy.

b) Depreciation on capital asset = \( \frac{\text{Cost of the capital asset} - \text{Scrap Value}}{\text{Estimated life of the capital asset}} \)

\[ \text{Depreciation} = \frac{1,000 - 0}{20} \]

\[ \text{Depreciation} = ₹50 \text{ crores} \]

Or

a) Yes, the given statement is correct. In a two sector economy, the firms produce goods and services and make factor payments to the households. The factor income earned by the households will be used to buy the goods and services which would be equal to income of firms. The aggregate consumption expenditure by the households in the economy is equal to the aggregate expenditure on goods and services produced by the firms in the economy (Income of the producers).

b) Compensation of Employees = (iii) - (v) - (iv) - (vi + ii + iv + vii)

\[ = 200 - 50 - 10 - (25 + 45 + 20 + 5) \]

\[ = ₹45 \text{ crores.} \]

An economy is said to be operating at under employment equilibrium level, if the planned aggregate expenditure falls short of available output in the economy, corresponding to the full employment level. It results into excess of output available over the anticipated aggregate demand at full employment level.

To tackle such a situation the aggregate demand has to be increased up to the level that the stocks can be cleared.

Following measures may be taken for the same:

i) Decrease in taxes: The government under its fiscal policy may decrease the rate of taxes (both direct and indirect taxes). This will ensure greater purchasing power in the hands of general public. This will help to increase aggregate demand and remove the deflationary gap.
**ii) Increase in money supply:** Central bank through its expansionary monetary policy can increase the money supply in the economy. Central bank can use tools like bank rate, cash reserve ratio, repo and reverse repo rates etc. to ensure greater money in the hands of general public which would in turn increase the aggregate demand in the economy and be helpful in reducing/removing the deflationary gap.

<table>
<thead>
<tr>
<th>18</th>
</tr>
</thead>
</table>
| Value added tax, service tax, excise duty, sales tax. (any two correct alternatives) | \( \frac{1}{2} + \frac{1}{2} \)

<table>
<thead>
<tr>
<th>19</th>
</tr>
</thead>
<tbody>
<tr>
<td>True</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>b) i, iii, iv, i, i, ii</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>21</th>
</tr>
</thead>
<tbody>
<tr>
<td>d) Credit taken to meet agriculture expenditure</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disguised</td>
</tr>
<tr>
<td>Or</td>
</tr>
<tr>
<td>Work force participation rate</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of small scale industries</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>24</th>
</tr>
</thead>
<tbody>
<tr>
<td>d) i, iv, i, i, iii</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Photovoltaic cell</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>26</th>
</tr>
</thead>
<tbody>
<tr>
<td>b) iv, ii, i, iii</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>27</th>
</tr>
</thead>
<tbody>
<tr>
<td>c) 1988</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>28</th>
</tr>
</thead>
<tbody>
<tr>
<td>The given statement is quite appropriate. Indian traditional practices were environment friendly and worked as complementary to the system and not its controller. The traditional agriculture system, healthcare system, housing, transport etc. were intrinsically environment friendly. The traditional practices used natural products and processes which are more or less free from side effects. For example by adopting medicinal plants/products we can conserve the resources and achieve the objective of sustainable development.</td>
</tr>
</tbody>
</table>

Or

The given statement states about the insufficiency of the installed capacity of production of power in India. If the Indian economy wants to touch the GDP growth rate between 7-8% it must target to produce electricity with a growth rate of 7% which is not possible with the present production capacity in the power sector. Thus, we need to work in two directions to improve installed capacity:

i. increased investments (by both public and private players) in the power generation sector.

ii. better utilization of the present infrastructure.

<table>
<thead>
<tr>
<th>29</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in education system in India has been a woeful failure. The fact of the matter is that, in 1952 we were spending a meager 0.6% of our GDP on education that rose to only 4% in 2014. This has fallen well short of 6% target as proposed by the Education Commission, 1964. Moreover, throughout this period the increase in education expenditure has not been uniform and there has been irregular rise and fall. This shows the apathy of the government towards investment in the education system. One can imagine, if the recommended 6% p.a. of the GDP would have been spent properly the present education system would have reached unforeseen heights.</td>
</tr>
</tbody>
</table>
The given statement is true to its character. The foreign investments, both Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII), have increased from about US $100 million in 1990-91 to US $ 74 billion recently. This has changed the status of India from a ‘begging bowl’ in 1990’s to a ‘self-dependent’ economy in the present ages.

Due to the opening up of the Indian Economy, she has become one of the largest foreign exchange reserve holders in the world. India been able to register an increase in the foreign exchange reserves from about US $ 6 billion in 1990-91 to about US $ 321 billion in 2014-15.

a) Disinvestment: Privatisation of the public sector enterprises (PSEs) by selling off a part/whole of the equity to the general public or any private sector player is known as disinvestment.

b) Outsourcing: Hiring of regular service from external sources, mostly from foreign countries, which was previously provided internally or from within the country is known as outsourcing.

OR

a) Import Substitution: The policy aimed at replacing or substituting imports with domestic production by protecting the domestic industries from foreign competition is known as Import Substitution.

b) Quota: Quantitative restrictions on imports for the protection of the domestic firms from foreign competition. Under this quantity of goods which can be imported is specified by the state.

a) The given data shows that the annual growth rate of population is maximum in Pakistan standing at 2.1%, whereas; the same stands at a meager 0.5% in case of China (might be a direct result of the One Child Policy adopted). The annual population growth rate of India is in the danger zone of more than 1% p.a., India will be overtaking China as the most populous country in the world in near future.

b) Amongst the three countries stated above, India has most skewed data sex ratio (929 female per 1000 male). This is one of the major concerns for the demographers in India.

Mahatma Gandhi had always maintained that the real growth of India lies in the growth of villages. The importance of rural development in India lies in the fact that 2/3rd of the population still (directly or indirectly) depends on agriculture and around 1/3rd of the rural population still lives in abject poverty.

Some of the prime areas for the development of the rural India may be quoted as follows:

- **Infrastructure development** – is the key to any development process. Basic infrastructure requirement like electricity, irrigation, credit availability, transport facilities, construction of village roads and feeder
roads to nearby highways, etc. are the area which still need attention of
the government so as to gain commanding heights.

- **Alleviation of poverty** - poverty in rural India is an area that should be
taken up as a mission for improvement in the living conditions of
particularly those living at the bottom of pyramid. This problem may be
tackled by emphasizing on greater access to productive employment
opportunities.

- **Development of Human Capital** - Rural human capital must be
developed by taking sincere steps in the direction of education and health.

The health system in India has undoubtedly improved over the years but the pace
of improvement has been unreasonably slow and truly we carry an unhealthy
health system.

Following may be the most important concerns ailing Indian health system:

- **Low Public Expenditure** - In India the health expenditure as a
  percentage of GDP is abysmally low as compared to some of the major
developing countries. It stood at around 4.7% of the total GDP in the year

- **Urban Rural Divide** - People living in rural India do not have sufficient
  medical infrastructure. Nearly 70% of the population lives in rural areas
  which have only 20% of the total hospitals of the country.

- **Women and child health issues** - More than 50 per cent of married
  women in the age group of 15–49 years have iron deficiency, which has
  contributed to maternal deaths. Infant Mortality Rate per 1,000 live births
  in India is 34. Malnutrition and inadequate supply of vaccines lead to the
death of millions of children every year.

The period between 1990 to 2012 had been a significant one. Introduction of
Economic Reforms in India has changed everything in India. Variables shown in
the given graph show that GDP growth rate has taken an upwards trend over the
years whereas the situation of Employment growth rate has seen major
fluctuations while going down in overall trend.

GDP growth rate has increased from a meager 3.4% in 1991 to 7.8% in 2012.
However the employment growth rate has shown declining trends from 1.5% in
1991 to 1.12% in 2012. Between the period 1999-2005 the employment
generation rate was at peak since independence i.e. 2.28% p.a. with the
 corresponding GDP growth rate standing at a decent 6.1% p.a.

The gap between the two variables is maximum between the period 2005-10
when the employment growth rate hit the lowest in history of Independent India
i.e. 0.28%. In the same period the GDP growth rate had hit the highest level since
independence to the tune of 8.7% p.a. Indian economy has witnessed the peculiar
phenomena of ‘jobless growth’ over all these years. Learning from the situation
government had put in serious efforts on employment front and brought it to a
level of 1.12% p.a. between the period 2010-12.

In all the period between 1990-2012 has been a real roller coaster ride for the
India economy on the two front of GDP and Employment Growth rate.
PRACTICE QUESTION PAPER-I
CLASS XII
SUBJECT: ECONOMIC

Time: 3 Hours  Max: Marks: 80

General Instruction:
1. All the question in both section are compulsory.
2. Marks are indicated each question.
3. Answer should be brief and to the point.

SECTION -A

One marks question
1. What is meant by double counting ?
2. Define transfer payments ?
3. What is barter exchange ?
4. What are the two components of supply of money ?
5. What is meant by LRR ?

Or

What is meant by repo rate ?
6. What is direct tax? Give an example.
7. Why are borrowing a capital receipts ?
8. What is investment multiplier ?

Or

Give a formula of investment multiplier .
9. Define marginal propensity to save.
10. What is meant by voluntary unemployment ?
**Three Marks question**

11. Reserve bank of India has reduced CRR from 4.25% to 4%. Will the step help in controlling inflation in India?

   Or
   
   Why is only a small percentage of total deposits kept by bank as reserves?

12. What happens when aggregate demand increases beyond the level of its full employment?

**Four marks Question**

13. How will you treat the following while estimating national income of India?

   a. dividends received by a foreigner for investment in shares of an Indian company.
   
   b. Profits earned by a branch of an Indian bank in Canada.

14. Calculate net value added at FC from the following data.

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>12</td>
</tr>
<tr>
<td>Sales</td>
<td>200</td>
</tr>
<tr>
<td>Excise duty</td>
<td>20</td>
</tr>
<tr>
<td>Opening stock</td>
<td>15</td>
</tr>
<tr>
<td>Intermediate consumption</td>
<td>48</td>
</tr>
<tr>
<td>Closing stock</td>
<td>10</td>
</tr>
<tr>
<td>Purchasing of raw material</td>
<td>30</td>
</tr>
</tbody>
</table>

15. Explain 'reduction of inequalities' of income objective of the government budget.

   Or
   
   Explain any one objective of government budget.

**Six Marks questions**
16. How is equilibrium rate of foreign exchange determined? Use diagram. Or what is the effect of increase in national income on foreign exchange rate?

Explain

17. Explain the concept of deflationary gap and role of open market operation in reducing the gap.

Section — B

18. What is meant by commercialization of agriculture?

19. When was the new economy policy announced?

20. What do you mean by liberalization?

21. How does absolute poverty measure in India?

22. Why do we need to invest in human capital?

23. What do you mean by rural development?

24. Define jobless growth.

25. Define commune system in China.

26. What do you mean by great leap forward.

27. When was economic reform established in Pakistan?

28. How would you explain the drain of wealth during the British Rule.

Or

State three main features of Indian economy at the time of independence.

29. Explain how reforms helped China's rapid industrial growth.
30. Explain how educational planning is necessary for human capital formation.

31. Explain occupational structure of workforce?

32. Discuss two main drawbacks of our health care system.

Or

Write short note on medical tourism in India.

33. Outline the steps involved in attaining sustainable development in India.

Or

Explain the supply demand revesal of environmental resources.

34. Were there any positive contributions made by the British in India?

Discuss
PRACTICE QUESTION PAPER- II  
CLASS XII  
SUBJECT: ECONOMIC

Time: 3 Hours  
Max: Marks: 80

General Instruction:
1. All the questions in both sections are compulsory.
2. Marks are indicated for each question.
3. Answers should be brief and to the point.

SECTION - A

One marks question
1. What is meant by nominal counting?
2. Define capital loss?
3. What is money supply?
4. Define primary deposits?
5. What is meant by SRR?

Or
What is meant by reverse repo rate?
6. What is indirect tax? Give an example.
7. Why tax is not a capital receipt?
8. What is meant by equilibrium level of income?

Or
Define marginal propensity to consume.
9. What can be the maximum value of MPS?
10. Write equation of consumption function.
Three Marks question

11. Explain lender of last resort function of central bank. Or
   Explain bank of issue function of central bank?

12. What is aggregate demand? State its component.

Four marks Question

13. How will you treat the following while estimating national income of India? a. Money received from sale of shares. b. Money received from sale of second hand goods.

14. Calculate net value added at FC from the following data.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>100</td>
</tr>
<tr>
<td>Closing stock</td>
<td>20</td>
</tr>
<tr>
<td>Opening stock</td>
<td>50</td>
</tr>
<tr>
<td>Subsidy</td>
<td>40</td>
</tr>
<tr>
<td>Sales</td>
<td>800</td>
</tr>
<tr>
<td>Depreciation</td>
<td>30</td>
</tr>
<tr>
<td>Intermediate...</td>
<td>500</td>
</tr>
</tbody>
</table>

15. Explain how government budget can be used to influence distribution of income?

Or

Explain any one objective of government budget.

Six Marks questions

16. Explain the effect of fall in price of foreign exchange on exports.
Or

Explain the effect of depreciation of domestic currency on exports.
17. What is deficit demand? Explain the role of bank rate in revolving it.

Section — B

One Marks Questions

18. What does the export surplus mean?
19. At the time of independence literacy rate was?
20. What do you mean by globalization?
21. What is market surplus?
22. What do you mean by human capital formation?
23. What do you understand by operation floods?
24. Define economic activity.
25. Define dual price system in China.
26. What do you mean by special economic zone?
27. When was economic reform established in China?

Three marks Questions

28. What are the advantage of organic farming.

Or

Why is agricultural diversification essential for sustainable livelihoods.
29. Discuss the importance of infrastructure for an economy.

Four marks Questions

30. Mention the state of Indian industries on the eve of independence.
31. Explain the problem of small scale industry?
32. Write main demographic indicator of India, Pakistan and China.

Or

Write short note on privatization in India.

Six marks Questions

33. Discuss the role of private sector in providing health services in India.

Or

Discuss the challenges the India’s power sector is facing.
34. Give the critical assessment of poverty alleviation programmes.
SECTION-A

13. Give one example of negative externalities.

14. Credit creation by commercial banks is determined by (Choose the correct alternative)
   
   (a) Cash Reserve Ratio (CRR)
   
   (b) Statutory Liquidity Ratio (SLR)
   
   (c) Initial Deposits
   
   (d) All the above

15. State the two components of $M_1$ measure of Money Supply.

16. Define aggregate supply.

17. Distinguish between stock and flow variables with suitable examples.

OR

What are capital goods? How are they different from consumption goods?

18. Define investment multiplier. How is it related to marginal propensity to consume?
19. What is monetary policy? State any three instruments of monetary policy.

20. Define full employment in an economy. Discuss the situation when aggregate demand is more than aggregate supply at full employment income level.

OR

What are two alternative ways of determining equilibrium level of income? How are these related?

21. What is ex-Ante consumption? Distinguish between autonomous consumption and induced consumption.

22. What is government budget? Explain its major components.

OR

Explain (a) allocation of resources and (b) economic stability as objectives of government budget.

23. Discuss briefly the meanings of:
   (i) Fixed Exchange Rate
   (ii) Flexible Exchange Rate
   (iii) Managed Floating Exchange Rate

24. Calculate (a) Operating Surplus, and (b) Domestic Income
   (i) Compensation of employees
   (ii) Rent and interest
   (iii) Indirect taxes
   (iv) Corporation tax
   (v) Consumption of fixed capital
   (vi) Subsidies
   (vii) Dividend
   (viii) Undistributed profits
   (ix) Net factor income to abroad
   (x) Mixed income
Ans 13. Pollution created by factories/vehicles (or any other relevant example) 1

Ans 14. (d) All of the above 1

Ans 15. Currency held by public and demand deposits held by banks. 1

Ans 16. Aggregate Supply refers to the estimated money value of all the final goods and services planned to be produced in an economy. 1

Ans 17. Any economic variable which is measured at a point of time is known as stock, e.g. capital, etc. 1½

Whereas, any economic variable measured during a period of time is known as flow, e.g. income, etc. 1½ (any other relevant sample)

OR

Capital goods those durable goods which are used in production of goods and services, 1½

Whereas consumption goods are those goods which are used for satisfaction of wants by the consumers. 1½

Ans 18. Investment Multiplier is a measure of the effect of change in initial investment on change in final national income. 1

There exist a direct relation between MPC and multiplier, i.e. higher the value of MPC, higher will be investment multiplier

\[ K = \frac{1}{1 - MPC} \] 2

Ans 19. Policy adopted by the Central Bank of an economy in the direction of credit control or money supply is known as Monetary Policy.

Instruments of Monetary Policy are Bank Rate, Reno Rate, Reverse Repo Rate. Cash Reserve Raou (any these) 1×3 = 3

Ans 20. Full Employment is a situation where those who are able and willing to work are getting work at the prevailing wage rate. 1
When Aggregate Demand is greater than Aggregate Supply at full employment, such a situation is known as Excess Demand or Inflationary-Gap. It is called inflationary because this leads to arise in general price level of the economy. (diagram not necessary) 3

OR

Two alternative ways of determining equilibrium level of income are: 1

i. Aggregate Demand - Aggregate Supply Approach (AD-AS Approach) 1

ii. Saving-Investment Approach (S-I Approach).

Interrelation between the two approaches: 2

\[
AD = AS \quad \text{(AD-AS approach)} \\
I = S \quad \text{(S-I approach)} \
\]

(diagram not required)

Ans 21. Ex-ante consumption refer, to the consumption expenditure planned to be incurred during a period. 1

Autonomous Consumption refers to the consumption expenditure which does not depend upon the level of income, i.e. the consumption at zero level of income. 3

 Whereas, Induced Consumption expenditure is directly determined by the level of income.

Ans 22. Government Budget is defined as a statement of planned; receipts and planned expenditure of the government during a fiscal year Its major components are: 2

i. Revenue Receipts: the receipts which neither create a liability nor lead to reduction in assets.

ii. Capital Receipts: the receipts which either create a liability or lead to reduction in assets.

iii. R. venue Expenditures: the expenditure which does not lead to any creation of assets or reduction in liabilities.
iv. Capital expenditures: the expenditure winch leads to creation of assets or $\times 4 = 4$ reduction in liabilities. $1 \times 4 = 4$

**OR**

**OBJECTIVES OF GOVERNMENT BUDGET:**

**a. Allocation of resources in the economy**

There are many non-profitable economic activities which are not undertaken by the private sector like, water supply, sanitation, etc., but are necessarily undertaken by government in public interest. So Government can undertake these activities in order to create social welfare. In addition, government can encourage the private sector through tax concessions, subsidies, etc., to undertake certain production in public interest.

**b. Economic stability**

Economic stability means absence of large-scale fluctuation in prices. Such fluctuations create uncertainties in the economy. Government can exercise control over these fluctuations through taxes and expenditure.

For example, under inflationary situations, government may discourage spending by increasing taxes or reducing its own expenditure whereas, under deflationary conditions, government may encourage spending by giving tax concession, subsidies, etc.

**Ans**

**Fixed Exchange Rate:** is the exchange rate determined by the government 2 for conversion of domestic currency into foreign currency.

**Flexible Exchange Rate:** is the rate of exchange which is determined by the 2 market forces of demand and supply in the foreign exchange market.

**Managed Floating Exchange Rate:** Floating rate influenced by buying and selling foreign exchange by the central bank in the foreign exchange market.
Ans 24. (a) Operating Surplus = (ii)+ [(iv) + (vii) + (viii)]

= 800+460+940+300
= ₹ 2500 crore

(b) Domestic Income = (i) + Operating Surplus + (x)

= 2,000 + 25C0 + 200
= ₹ 4,700 crores

(Any other correct alternative)
16. The ratio of total deposits that a commercial bank has to keep with Reserve Bank of India is called: (choose the correct alternative)
   (a) Statutory liquidity ratio
   (b) Deposit ratio
   (c) Cash reserve ratio
   (d) Legal reserve ratio

17. Aggregate demand can be increased by: (choose the correct alternative)
   (a) increasing bank rate
   (b) selling government securities by Reserve Bank of India
   (c) increasing cash reserve ratio
   (d) none of the above

18. Give the meaning of involuntary unemployment.

19. What is primary deficit?

20. Give the meaning of balance of payments.

21. Distinguish between final goods and intermediate goods. Give an example of each.

22. Explain the store of value function of money?
    Or
    State the meaning and components of money supply.

23. Explain the basis of classifying taxes into direct and indirect tax. Give examples.

24. Explain ‘banker to the government’ function of the central bank.
    Or
    Explain the role of reverse repo rate in controlling money supply.

25. Explain how government budget can be used to influence distribution of income?

26. An economy is in equilibrium. From the following data about an economy calculate autonomous consumption.
   (i) Income = 5000
   (ii) Marginal propensity to save = 0.2
   (iii) Investment expenditure = 800
27. Why does the demand for foreign currency fall and supply rises when its price rises? Explain.

28. Explain ‘non-monetary exchanges’ as a limitation of using gross domestic product as an index of welfare of a country.

   OR

   How will you treat the following while estimating domestic product of a country? Given reasons for your answer:

   (a) Profits earned by branches of country's bank in other countries

   (b) Gifts given by an employer to his employees on independence day

   (c) Purchase of goods by foreign tourists

29. Calculate (a) net domestic product at factor cost and (b) gross national disposable income:

<table>
<thead>
<tr>
<th></th>
<th>Rs. in crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Private final consumption expenditure</td>
<td>8000</td>
</tr>
<tr>
<td>(ii) Government final consumption expenditure</td>
<td>1000</td>
</tr>
<tr>
<td>(iii) Exports</td>
<td>70</td>
</tr>
<tr>
<td>(iv) Imports</td>
<td>120</td>
</tr>
<tr>
<td>(v) Consumption of fixed capital</td>
<td>60</td>
</tr>
<tr>
<td>(vi) Gross domestic fixed capital formation</td>
<td>500</td>
</tr>
<tr>
<td>(vii) Change in stock</td>
<td>100</td>
</tr>
<tr>
<td>(viii) Factor income to abroad</td>
<td>40</td>
</tr>
<tr>
<td>(ix) Factor income from abroad</td>
<td>90</td>
</tr>
<tr>
<td>(x) Indirect taxes</td>
<td>700</td>
</tr>
<tr>
<td>(XI) Subsidies</td>
<td>50</td>
</tr>
<tr>
<td>(XII) Net current transfers to abroad</td>
<td>(−)30</td>
</tr>
</tbody>
</table>

30. Assuming that increase in investment is Rs. 1000 crore and marginal propensity to consume is 0.9, explain the working of multiplier.
Ans 16. (c) Cash reserve ratio.  
Ans 17. (d) none of the above  
Ans 18. When people who are able and willing to work at the prevailing wage rate, do not get employment, it is a situation of involuntary unemployment.  
Ans 19. it is fiscal deficit net of interest payment.  
Ans 20. BOP is a record of inflows and outflows of foreign exchange.  
Ans 21. • Goods purchased for consumption and investment are final goods.  
   • Example: Machinery purchased by a factory (½  
     (or any other relevant example.)  
   • Good purchased for resale or for using up completely during year are intermediate goods.  
   • Example: Raw materials purchased by a factory (½  
     (or any other relevant example.)  
Ans 22. Money acts as an asset which can be kept for future use and is available in convenient denominations. This is store of value function of money. (3  
OR  
It is the stock of money in the economy at a particular point of time. (1  
Components of money Supply = Currency with public + demand deposits with banks.  
Ans 23. When the burden of a tax and the liability to pay it falls on the same person, then it is a direct tax. When burden of tax and liability to pay it fall on different persons, then it is indirect tax.  
   Example: Direct tax-Income tax etc (Any other example) (½  
   Indirect tax-Service tax, etc (Any other example) (½  
Ans 24. Central bank provides the same banking service to the government as commercial banks provide to people. It accepts deposits of government departments and gives them loans in times of need. (4
OR

'Reverse repo rate' is the rate of interest at which the commercial banks park their surplus funds with the central bank. The central bank can control money supply by changing the reverse repo rate (RRR). Rise in RRR encourages commercial banks to park more funds with the central bank. This reduces funds available for lending to general public by the commercial banks.

Ans 25. Government can impose higher rate of tax on income of the rich and on the goods consumed by the rich. This will bring down disposable income of the rich. The amount so collected can be spent on providing free services, like education, subsidized food to the poor peoples. eg. This will raise disposable income of the poor reducing the gap between rich and poor.

Ans 26. \[ Y = \bar{C} + MPC(Y) + 1 \]

\[ 5000 = \bar{C} + (1-0.2)(5000) + 800 \]

\[ \bar{C} = 5000 - 4000 - 800 \]

\[ = 200 \]

Ans 27. When price of foreign exchange rises, import becomes costlier, demand for imports will fall. As a result demand for foreign currency falls. When price of foreign exchange rises, domestic goods become cheaper for foreign buyers, because they can now buy more from one unit of foreign currency. As a result demand for exports rise, leading to increase in supply of foreign exchange.

Ans 28. Non monetary exchanges include activities like services of family members provided to each other etc. These activities may be left out from estimate of national income due to the non-availability of data. But these activities do contribute to welfare of the people. Since GDP may not account for such activities, it may be underestimated. As a result welfare of the people is also underestimated. This is thus a limitation of GDP as an index of welfare.

OR

(a) Not a part of domestic product as it is not generated in the domestic territory of the country.

(b) Not a part of domestic product as it is a transfer payment.

(c) Part of domestic product as these are exports produced in the domestic territory.
Ans 29.  

a) \[ \text{NDP}_f = i + ii + (vi+vi) + (iii - iv) - V - x + xi \]
\[ = 8000 + 1000 + 500 + 100 + 70 - 120 - 60 - 700 + 50 \]
\[ = \text{Rs. 8840 cr} \]

b) \[ \text{GNDI} = \text{NDPfC} + v + x - xi + ix - viii - xii \]
\[ = 8840 + 60 + 700-50+ 90-40-(-30) \]
\[ = \text{Rs 9630 cr} \]

Ans 30. Given that \( \Delta l = 1000 \) and MPO0.9, increase in income is in the following sequence:

1. Increase in I raises income of those who supply investment goods by Rs 1000 Cr. This is first round increase.

2. Since MPC = 0.9, income earners spend Rs. 900 on consumption leading to second round increase of Rs 900 = 1000 X 0.9

3. The third round increase in the similar way is Rs 900 x 0.9 = Rs 810.

4. In this way income goes on increasing round by round, with each round increase in income equal to 90 percent of the previous round.

5. The total increase in income is:

\[ \Delta Y = \Delta l \frac{1}{1 - \text{MPC}} = 1000 \times \frac{1}{1 - 0.9} \]

\[ = \text{Rs 10,000 crore.} \]

(Working explained on the basis of tabular presentation is also correct)
16. Primary deficit equals: 1
   (Choose the correct alternative)
   (a) Borrowings
   (b) Interest payments
   (c) Borrowings less interest payments
   (d) Borrowings and interest payments both

17. Foreign exchange transactions which are independent of other transactions in the Balance of Payments Account are called: 1
   (Choose the correct alternative)
   (a) Current transactions
   (b) Capital transactions
   (c) Autonomous transactions
   (d) Accommodating transactions

18. Define flows. 1

19. National income is the sum of factor incomes accruing to: 1
    (Choose the correct alternative)
    (a) Nationals
    (b) Economic territory
(c) Residents
(d) Both residents and non-residents

20. What are capital receipts in a government budget. 1

21. What is aggregate demand? State its components. 3

OR

Explain how controlling money supply is helpful in reducing excess demand.

22. An economy is in equilibrium. Find investment expenditure : 3

National Income = 1000

Autonomous Consumption = 100

Marginal propensity to consume = 0.8

23. If real income is ₹ 400 and price index is 105, calculate nominal income. 3

24. Explain the medium of exchange’ function of money. How has it been solved the related problem created by barter? 4

OR

Explain the standard of deferred payment’ function of money. How has it solved the related problem created by barter?

25. Explain the role of Reverse Repo Rate in controlling credit creation. 4

26. Sale of petrol and diesel cars is rising particularly in big cities. Analyse its impact on gross domestic product and welfare. 4

27. Indian investors lend abroad. Answer the following questions : 6

(a) In which sub-account and on which side of the Balance of Payments Account aocli lending is recorded ? Give reasons.

(b) Explain the impact of this lending on market exchange rate.

28. What ia the difference between revenue expenditure and capital expenditure Explain how taxes and government expenditure can be used to influence distribution of income in the society. 6
OR

What is the difference between direct tax and indirect tax? Explain the role of government budget in influencing allocation of resources.

29. Calculate National Income and Personal Disposable Income: 4,2

(₹ crores)

(i) Corporation tax 100
(ii) Private final consumption expenditure 90Q
(iii) Personal Income tax 120
(iv) Government final consumption expenditure 200
(v) Undistributed profits 50
(vi) Change in stocks (−) 20
(vii) Net domestic fixed capital formation 120
(viii) Net imports 10
(ix) Net indirect tax 150
(x) Net factor income from abroad (−) 10
(xi) Private income 1000

30. Given saving curve, derive consumption curve and state the steps in doing so. Use diagram.
Ans 16. (c) Borrowings less interest payments 1

Ans 17. (c) Autonomous transactions. 1

Ans 18. 'Flows' are variables whose magnitude is measured over a period of time. 1

Ans 19. (c) Residents 1

Ans 20. Capital receipts are the receipts which either reduce assets or create liability 1

Ans 21. Abrogate demand refers to the value of final goods and services which all entities of an economy are planning to buy during a year. Components.

(1) Private final consumption expenditure

(2) Government final consumption expenditure

(3) investment expenditure

(4) Net exports 2

OR

Less money supply i.e. stock of money with people leaves less purchasing power in their hands. Therefore, people demand less goods and services. 3

Ans 22. \[ Y = \bar{C} + MPC(Y) + 1 \] 1½

\[ 1000 = 100 + 0.8(1000) + 1 \]

\[ = 1000 - 100 - 800 = 100 \] ½

Ans 23. \[ \text{Real Income} = \frac{\text{Nominal Income}}{\text{Price Index}} \times 100 \] 1½

\[ 400 = \frac{\text{Nominal Income}}{105} \times 100 \]

\[ \text{Nominal Income} = \frac{400 \times 105}{100} = 420 \] ½
Ans 24. Money serves as a medium of exchanging goods and services. People sell goods for money and use the money for buying goods they want. It has removed the problem of double coincidence of wants faced in the barter system.

OR

Deferred payments are postponed payments to be made in future. Such payments arise on account of borrowing and lending activities. It has removed the problem of absence of financial institutions in the better system. It has also removed the problem of trading in wider areas.

Ans 25. Reverse Repo Rate refers to the rate of interest paid by the central bank on deposits made by the commercial banks. When it is raised, commercial banks are encouraged to make more deposits with central bank. As a result, 'imos available for lending with the commercial banks decrease. Their apacity of lending declines and credit creation is less.

(Answer based on fall in Reverse Repo Rate is also correct)

Ans 26. Final sales of cars raises GDP, because final sales are final products. Cars Jimvidt convenience in transportation out at the same time it causes traffic jams and pollution and noise pollution reducing the welfare of the people, pollution has bad effects on the health of the people.

Ans 27. (a) Indians lending abroad is recorded in capital account of BOP account because it leads to creation of foreign exchange assets. It is recorded on the debit side because it leads to outflow of foreign exchange.

(b) Lending abroad increases demand for foreign exchange. Supply of foreign exchange remains unchanged, exchange rate may rise.

Ans 28. Revenue expenditure: is expenditure that neither creates any assets nor reduces any liability while capital expenditure creates either assets or reduces liabilities.

Taxes and expenditure can be used to alter distribution of income. Government can impose higher taxes on incomes of the rich and goods and service consumed by them. The money so collected can be spent
on providing free goods and services to the poorer sections of the society. This will reduce disposable income of the rich and raise that of the poor. This can alter distribution of income.

OR

Direct tax is the tax whose liability to pay and incidence lies on the same ii on whom it is levied indirect tax is the tax whose liability to pay and incidence lie on different persons.

The govt. can influence allocation of resources for production of different foods and services through its budget When the govt wants that more resources be used in the production of some goods, it provides incentives to the producers in the form of tax concessions and subsidies.

Ans 29.  \[ \text{N.I.} = ii + iv + (vii + vi) - viii - ix + x \]
\[ = 900 + 200 + (120 - 20) - 10 - 150 + (-10) \]  
\[ = \text{Rs. 1030 Crore} \]

PDI = xi - i - v - iii
\[ = 1000 - 100 - 50 - 120 \]  
\[ = \text{Rs. 730 Crore} \]

Ans 30. Given saving curve SS'

(1) Draw a 45° line from the origin.
(2) Take OC equal to OS on the Y-axis
(3) Draw a perpendicular line from B to B' on OX-axis which intersect 45° line at point B.
(4) Join C and B and extend it to get consumption curve CC.
For blind Candidates:

Consumption function

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

Derivation of Saving function for consumption;

Subtracting each side from $Y$

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

$$S = Y - \bar{C} - MPC(Y)$$

: $1-MPC = MPS$

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

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

$$= -\bar{C} + MPS(Y)$$
15. What is ‘aggregate supply’ in macroeconomics?

16. The value of multiplier is: (choose the correct alternative)

   (a) $\frac{1}{\text{MPC}}$

   (b) $\frac{1}{\text{MPS}}$

   (c) $\frac{1}{1 - \text{MPS}}$

   (d) $\frac{1}{\text{MPC} - 1}$

17. Borrowing in government budget is: (choose the correct alternative)

   (a) Revenue deficit

   (b) Fiscal deficit

   (c) Primary deficit

   (d) Deficit in taxes

18. The non-tax revenue in the following is: (choose the correct alternative)

   (a) Export duty

   (b) Import duty

   (c) Dividends

   (d) Excise

19. Other things remaining unchanged, when in a country the price of foreign currency rises, national income is: (choose the correct alternative)

   (a) Likely to rise

   (b) Likely to fall

   (c) Likely to rise and fall both

   (d) Not affected
20. If Real GDP is Rs. 200 and Price Index (with base = 100) is 110, calculate Nominal GDP. 3

21. Name the broad categories of transactions recorded in the ‘capital account’ of the Balance of Payments Account. 3

Or

Name the broad categories of transaction recorded in the ‘current account’ of the Balance of Payments Accounts.

22. Where will sale of machinery to abroad be recorded in the Balance of Payments Accounts? Give reasons. 3

23. Explain the 'bank of issue' function of the central bank. 4

Or

Explain ‘Government’s Bank’ function of central bank.

24. Government of India has recently launched ‘Jan-Dhan Yojna’ aimed at every household in the country to have at least one bank account. Explain how deposits made under the plan are going to affect national income of the country. 4

25. An economy is in equilibrium. Calculate national income from the following:

\[ \text{Autonomous consumption} = 100 \] 4

\[ \text{Marginal propensity to save} = 0.2 \]

\[ \text{Investment expenditure} = 200 \]

26. Giving reason explain how should the following be treated in estimation of national income: 6

(i) Expenditure by a firm on payment of fees to a chartered accountant

(ii) Payment of corporate tax by a firm

(iii) Purchase of refrigerator by a firm for own use

27. Explain the concept of Inflationary Gap. Explain the role of Repo Rate in reducing this gap. 6

Or

Explain the concept of Deflationary Gap and the role of ‘Open Market Operations’ in reducing this gap.
28. Explain the role the government can play through the budget in influencing allocation of resources.  

29. Calculate National Income and \( (\text{Rs. crores}) \) 

| (i) | Personal tax | 80  |
| (ii) | Private final consumption expenditure | 600 |
| (iii) | Undistributed profits | 30  |
| (iv) | Private income | 650 |
| (v) | Government final consumption expenditure | 100 |
| (vi) | Corporate tax | 50  |
| (vii) | Net domestic fixed capital formation | 70  |
| (viii) | Net indirect tax | 60  |
| (ix) | Depreciation | 14  |
| (x) | Change in stocks | \((-) 10\) |
| (XI) | Net imports | 20  |
| (xii) | Net factor income to abroad | 10  |
Ans 15. Aggregate supply is the value of total quantity of final goods and services planned to be produced in an economy during a period.

Ans 16. (b) \( \frac{1}{MPS} \)

Ans 17. (b) Fiscal deficit

Ans 18. (c) Dividends

Ans 19. (a) Likely to rise

Ans 20. Real GDP = \( \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100 \)  
\[
200 = \frac{\text{Nominal GDP}}{110} \times 100 \] 
Nominal GDP = \( \frac{200 \times 110}{100} = 220 \)  

Ans 21. (1) Borrowings from and to abroad  
(2) Investments from and to abroad.
(3) Decreases and increases in foreign exchange reserves.

**OR**

(1) Exports and imports of goods
(2) Exports and imports of services
(3) Factor income receipts from abroad and payments to abroad.
(4) Transfers from and to abroad.  
(Any Three)
Ans 22. Sale of machinery to abroad is export of goods and thus recorded in the Current Account. 1½
Sale of machinery to abroad brings in foreign exchange and thus recorded on the credit side. 1½

Ans 23. The central bank is the sole authority for the issue of currency in the country. It promotes efficiency in the financial system. Firstly, because it leads to uniformity in the issue of currency, Secondly, because it gives Central Bank control over money supply. 4

OR

The Central Bank acts as a banker to the government. The central bank accepts receipts and makes payments for the government and carries out exchange, remittance and other normal banking operations for the government. The central bank manages public debt and also lends to government. 4

Ans 24. - Opening more bank accounts means more bank deposits. 4
- More deposits means increase in the lending capacity of the commercial banks.
- More lending by banks means more investment in the country.
- More investment means more national income.

Ans 25. \[ Y = \bar{C} + MPC(Y) + 1 \] 1½
\[ Y = 100 + (1 - 0.2) Y + 200 \]
\[ 0.2Y = 300 \]
\[ Y = 1500 \] ½

Ans 26. (i) Payment of fees to chartered accountant by a firm is intermediate cost to the firm and, therefore not included. 2
(ii) Payment of corporate tax by a firm is a transfer payment and thus not included. 2
(iii) Purchase of a refrigerator by a firm for own use is investment expenditure and thus included. 2
Ans 27. **The Inflationary Gap** is the amount by which the aggregate demand exceeds aggregate supply at the full employment level. It is called inflationary because it leads to rise in price level. 

**Repo Rate** is the rate of interest at which central bank lends to commercial banks for a short period. When central bank raises Repo Rate, the borrowings by the commercial banks become costly. This forces the commercial banks to raise their lending rates. People borrow less, and therefore spend less. This helps in reducing inflationary gap. 

(Diagram not required)

OR

Deflationary Gap is the amount by which the aggregate demand falls short of aggregate supply at the full employment level. It is called deflationary because it leads to a fall in price level.

(Diagram not required)

**Open Market Operations** refer to buying and selling of government securities by the central bank in the open market. Central bank can reduce deflationary gap by buying securities. Those who sell receive payments by cheques from the central bank. The money flows out from Central bank into the commercial banks. This raises lending capacity of commercial banks. Banks lend more. Spending rises which reduces deflationary gap. 

Ans 28. Government can influence allocation of resources by influencing market mechanism through taxes, subsidies and direct participation in production. Heavy taxes can be imposed on production units engaged in producing harmful products like liquor, cigarettes etc. Tax concessions and subsidies can be given to encourage production of products useful for the masses. Government can directly produce goods and services normally ignored by the private sector due to lack of enough profits.
Ans 29. N.I. = ii + v + (vii + x) – xi – viii – xii  
= 600 + 100 + 70 + (-10) – 20 – 60 – 10  
= Rs. 670 Crore.  
PDI = iv – vi – iii – i  
= 650 – 50 – 30 – 80  
= Rs. 490 Crore.
17. What are demand deposits?  
18. What is involuntary unemployment?  
19. Define marginal propensity to consume.  
22. Define externalities. Give an example of negative externality. What is its impact on welfare?  
23. Explain the significance of 'store of value' function of money.  

Or

Explain the significance of 'medium of exchange' function of money.  

24. Is the following revenue expenditure or capital expenditure in the government budget? Give reason.  
   (i) Expenditure on collection of taxes.  
   (ii) Expenditure on purchasing computers.  
25. Explain the meaning of balance of payments deficit.  
26. Recently Government of India has doubled the import duty on gold. What impact is it likely to have on foreign exchange rate and how?  
27. Define money supply and explain its components.  

Or

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

28. Calculate investment expenditure from the following data about an economy which is in equilibrium:  
   National income = 1000  
   Marginal propensity to save = 0.25  
   Autonomous consumption expenditure = 200  
30. Calculate national income and gross national disposable income from the following: (GNDI is out of syllabus now)  

$255$  

*Class XII - Economics*
(Rs. Arab)

(i) Net current transfers to abroad  
   (-) 15
(ii) Private final consumption expenditure  
   600
(iii) Subsidies  
   20
(iv) Government final consumption expenditure  
   100
(v) Indirect tax  
   120
(vi) Net imports  
   20
(vii) Consumption of fixed capital  
   35
(viii) Met change in stocks  
   (-)10
(ix) Net factor income to abroad  
   5
(x) Net domestic capital formation  
   110

31. Giving reason explain how should the following be treated in estimation of domestic product at market price?  
   6
(i) Fees to a mechanic paid by a firm?
(ii) Interest paid by an individual on a car loan taken from a bank.
(iii) Expenditure on purchasing car for use by a firm.

32. Explain national income equilibrium through aggregate demand and aggregate supply using diagram. Also explain the changes that take place in an economy when the economy is not in equilibrium.  
   6
   
   Or
   Outline the steps required to be taken in deriving saving curve from the given consumption curve. Use diagram

**Note**: The following question is for the Blind Candidates only due to Q. No. 32

32. Define aggregate demand Explain national income equilibrium through aggregate demand and aggregate supply. Also explain the changes that take place in the economy when the economy is not in equilibrium.  
   6
   
   Or
   What is saving function? How it is derived from the consumption function? Explain.
2014

SECTION - B

Ans 17. The deposits which can be withdrawn from the banks on demand, through cheques. 1

Ans 18. Involuntary unemployment occurs when those who are able and willing to work at the going wage rate do not get work. 1

Ans 19. MPC is the ratio of 'change in consumption expenditure' to 'change in income. 1

Ans 20. Government budget is an annual financial statement showing estimated receipts and estimated expenditure of government. 1

Ans 21. 'Balance of trade' refers to 'export of goods' less 'import of goods' during a given year. 1

Ans 22. Externalities refer to the benefits (or harms) a firm or an individual causes to another for which it is not paid (or penalised) 1

Example: Polluting river by an oil refinery Or any other relevant example. 1

Impact: Reduces welfare through negative effect on health. 1

Ans 23. The significance of money as a store of value is that money can be stored for use in future. One can use one's present income in future because money comes in convenient denominations and is easily portable. 3

OR

Medium of exchange function has solved the problem of double coincidence of wants. The buyer can pay money to the seller and the seller in turn can buy what he wants to buy. Money facilitates the exchange. 3
Ans 24. (i) Expenditure on collection of taxes is revenue expenditure because it neither creates any asset nor reduces any liability. 1½

(ii) Expenditure on purchasing computers is capital expenditure because it creates assets. 1½

Ans 25. Deficit in the BOP occurs when autonomous foreign exchange receipts fall short of autonomous foreign exchange payments. Autonomous transactions are those which are not influenced by other transactions in the BOP. 3

Ans 26. Increasing import duty on gold will make imports of gold costly. It will reduce demand for import of gold and consequently of foreign exchange. Supply of foreign exchange remaining unchanged, price of foreign exchange is likely to fall. 3

Ans 27. Money supply refers to the stock of money in the country on a particular day. It has two components: Currency with public outside the banks and demand deposits with banks. Demand deposits are deposits which can be withdrawn by writing cheque. Both these are directly usable for carrying out transactions at will. 4

**OR**

Lending of money by the Central Bank to commercial banks in times of emergent need is referred to as the 'lender of last resort' function of the central bank. 4

\[ Y = \bar{C} + MPC(Y) + I \] 1½

1000 = 200 + (1 - .25)1000 + I 1½

I = 1000 - 200 - 750 1

I = 50

Ans 29. Increased expenditure by government on public goods like defence, maintaining law and order etc. increases their availability to the people of the country. For example more expenditure on maintaining law and order raises the sense of security among the people. Any such expenditure raises welfare of the people. 4
Ans 30. \[ NI = i + iv + x - vi - v + iii - ix \]
\[ = 600 + 100 + 110 - 20 - 120 + 20 - 5 \]
\[ = Rs. 685 \text{ Arab.} \]
GNDI is out of syllabus now
\[ GNDI = N.I. + vii + v - iii - i \]
\[ = 685 + 35 + 120 - 20 - (-15) \]
\[ = Rs. 835 \text{ Arab.} \]

Ans 31. (i) Fees paid to mechanic by a firm is not included because it is an intermediate cost of the firm.
(ii) Interest paid by an individual is not included because the loan is taken to meet consumption expenditure and therefore interest paid on such a loan is not a factor payment.
(iii) Expenditure on purchasing car by a firm is included because it is an investment expenditure, a final expenditure.

Ans 32.

The national income is in equilibrium when AD = AS. In the figure the equilibrium is at E, the intersection of the AD curve and the 45° line. The equilibrium income is OM.
When the economy is not in equilibrium AD is not equal to AS. Suppose AD > AS, it will lead total in inventories with the producers. The producers in turn will produce more to the desired level of inventories: This raises AS till it becomes equal to AD.

(Answer based on AD < AS is also correct)

OR

Steps:
(i) $\overline{CC}$, is the given consumption curve on OY axis take $OS_1$ equal to $O\overline{C}$.
(ii) Draw a 45° line from point of origin. It intersects $\overline{CC}$ at B.
(iii) From point B draw a perpendicular on OX which cuts OX at $B_1$.
(iv) Join $S_1$ and $B_1$ by a straight line and extend it to S.
(v) SS$_1$ is the saving curve.

For Blind Candidates in place of Question no. 32

Ans 32. The sum of demand of all goods and services is called aggregate demand.
- Equilibrium level of income is that level of income at which aggregate demand and supply are equal.
- When the economy is not in equilibrium then aggregate demand and supply are not equal. Suppose aggregate demand is greater than aggregate supply. This will reduce inventories. To make up this deflation producers will produce more.

- This will increase aggregate supply and ultimately it will become equal to aggregate demand.

OR

Relation between saving and income is saving function

\[ C = \bar{C} + \text{MPC} (Y) \]

\[ S = Y - C \]

\[ = Y - \bar{C} + \text{MPC} (Y) \]

\[ = - \bar{C} + (1 - \text{MPC})Y \]

This is derivation of saving function from C function.