

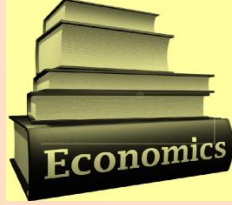


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KENDRIYA VIDYALAYA SANGATHAN, NEW DELHI
शिक्षा मंत्रालय, भारत सरकार के अधीन एक स्वायत्त निकाय
AN OUTNOMOUS BODY UNDER MINISTRY OF EDUCATION, GOVERNMENT OF INDIA



क्षेत्रीय कार्यालय, भोपाल / REGIONAL OFFICE, BHOPAL

अध्ययन सामग्री



STUDY MATERIAL

कक्षा: बारहवीं / CLASS XII



अर्थशास्त्र ECONOMICS

सत्र- २०२४-२५ / SESSION- 2024-25

संरक्षक / *Patrons*



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Guide & Coordinator

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POST GRADUATE TEACHERS (ECONOMICS), KVS, REGIONAL OFFICE, BHOPAL

समष्टि अर्थशास्त्र संकलन कार्य: श्री योगेश अकोदिया स्नातकोत्तर शिक्षक के.वि.देवास

COMPILATION OF MACRO ECONOMICS WORK: MR.YOGESH AKODIYA, PGT K.V.DEWAS

भारतीय अर्थव्यवस्था का विकास: श्री दीपेन्द्र सिंह ठाकुर स्नातकोत्तर शिक्षक के.वि. बेतूल

COMPILATION OF INDIAN ECONOMIC DEVELOPMENT WORK: MR.DEEPENDRA SINGH THAKUR, PGT K.V.BETUL



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फ140350/02/2024/केवि.स/भोपाल /

दिनांक 18.07.2024

MESSAGE FROM DEPUTY COMMISSIONER

It gives me immense pleasure to publish the study material for Class XII Economics, I am sure that the support material will definitely be great help to the Class XII Students of all Kendriya Vidyalayas of our region.

This students' Support Maternal has been prepared to improve their academic performance. This is a product of the combined efforts of a team of dedicated and experienced teachers with expertise in their subjects. This material is designed to supplement the NCERT text book.

The support material contains all the important aspects required by the students. Care has been taken to include the latest syllabus, summary of all the chapters, important formula, sample question papers, problem solving and case-based questions. It covers all essential components that are required for quick and effective revision of the subject.

I would like to express my sincere gratitude to the in-charge Principal and all the teachers who have persistently striven for the preparation of this study maternal. Their selfless contribution in making this project successful is commendable.

"An ounce of practice is worth tons of Knowledge. Students will make use of the material meticulously to reap the best out of this effort.

With Best Wishes.

(Dr.R SENTHIL KUMAR)

DEPUTY COMMISSIONER

ECONOMICS (Code No. 030) Curriculum
(2024-25)

CLASS- XII

Theory: 80 Marks

3

Hours Project: 20 Marks

Unit		Marks	Period
Part A	Introductory Macroeconomics		
	National Income and Related Aggregates	10	30
	Money and Banking	6	15
	Determination of Income and Employment	12	30
	Government Budget and the Economy	6	17
	Balance of Payments	6	18
	TOTAL	40	
Part B	Indian Economic Development		
	Development Experience (1947-90) and Economic Reforms since 1991	12	28
	Current Challenges facing Indian Economy	20	50
	Development Experience of India – A Comparison with Neighbours	08	12
	TOTAL	40	
	Theory Paper (40+40 = 80 Marks)		
			200
Part C	PROJECT WORK	20	20

Part A: Introductory Macroeconomics

Unit 1: National Income and Related Aggregates

30 Periods

What is Macroeconomics?

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

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

Aggregates related to National Income: Gross National Product (GNP), Net National Product (NNP), Gross Domestic Product (GDP) and Net Domestic Product (NDP) - at market price, at factor cost; Real and Nominal GDP

GDP Deflator, GDP and Welfare

Unit 2: Money and Banking

15 Periods

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

Money creation by the commercial banking system.

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

Unit 3: Determination of Income and Employment

30 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

17 Periods Government

budget - meaning, objectives and components.

Classification of receipts - revenue receipts and capital receipts;

Classification of expenditure – revenue expenditure and capital expenditure.

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

Unit 5: Balance of Payments

18 Periods Balance of

payments account - meaning and components;

Balance of payments – Surplus and Deficit

Foreign exchange rate - meaning of fixed and flexible rates and managed floating.

Determination of exchange rate in a free market, Merits and demerits of flexible and fixed exchange rate.

Managed Floating exchange rate system.

Part B: Indian Economic Development

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

28 Periods A brief

introduction of the state of Indian economy on the eve of independence. Indian economic system and common goals of Five Year Plans.

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

Economic Reforms since 1991: Features and appraisals of liberalisation, globalisation and privatisation (LPG policy); Concepts of demonetization and GST

Unit 7: Current challenges facing Indian Economy

60 Periods **Human Capital**

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

Rural development: Key issues - credit and marketing - role of cooperatives; agricultural diversification; alternative farming - organic farming

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

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

Unit 8: Development Experience of India:

12 Periods A comparison

with neighbours

India and Pakistan

India and China

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

Part C: Project in Economics

20 Periods

Prescribed Books:

1. Statistics for Economics, NCERT
2. Indian Economic Development, NCERT
3. Introductory Microeconomics, NCERT
4. Macroeconomics, NCERT
5. Supplementary Reading Material in Economics,

CBSE Note: The above publications are also available in Hindi Medium.

Note: All the students are advised to read Indian Economic Development from NCERT book. It is very important and most of the questions asking in board examination from this book

PART A- INTRODUCTORY MACROECONOMICS

UNIT 1 NATIONAL INCOME AND RELATED AGGREGATES 10 MARKS

Macro Economics: - It is that branch of economics which studies the aggregates of an economy or the larger units of an economy. The main objective of Macroeconomic study is 'how the income & employment of an economy is determined?' This branch of economics deals with the fuller utilization of resources.

National Income: - It can be defined as the net value of all final goods & services produced by the normal residents in the 'domestic territory of a country in an accounting year (NVAFC), and adding net factor income from abroad (NFIA). $NI = NVAFC + NFIA$

Depreciation or Consumption of Fixed Capital (CFC): - It refers to the loss of value of fixed assets due to normal wear & tear.

Normal Residents: - This refers to those individuals & institutions who normally reside in a country for more than one year, and whose centre of economic interest lies in that country.

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

Net Indirect Tax: - It refers to the difference between Indirect Tax paid by the enterprises to the Govt. & the Subsidies paid by the Govt. to some of the enterprises.

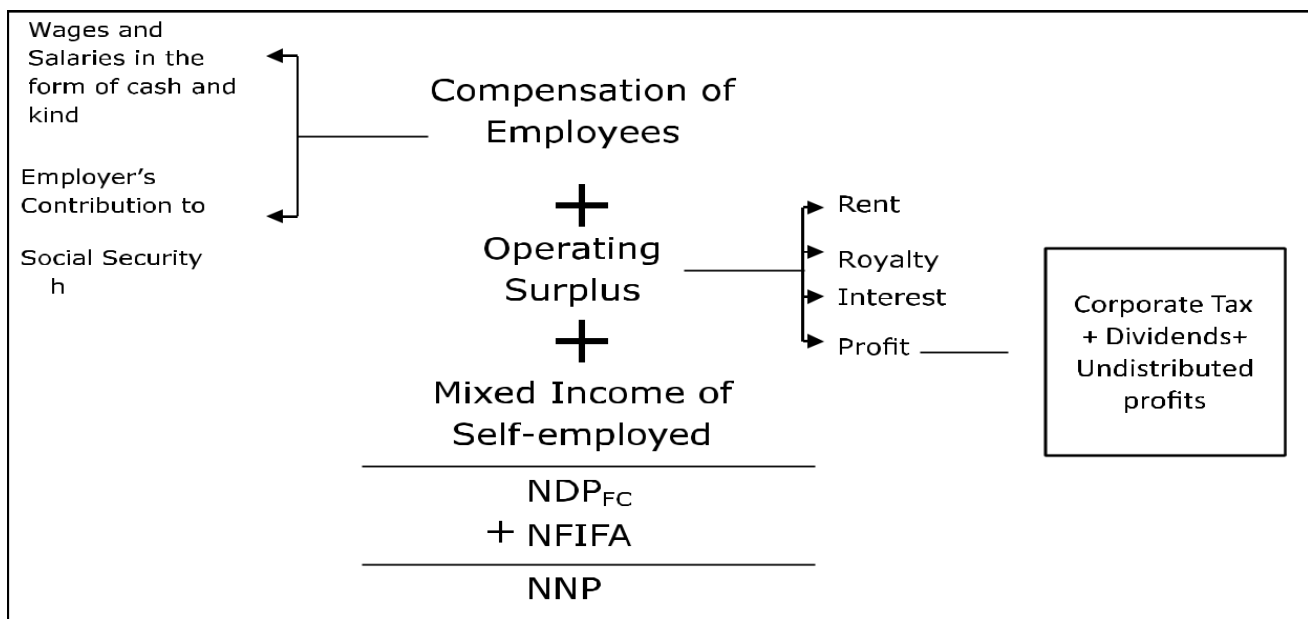
Operating Surplus (OS): Operating Surplus is defined as the sum of Income from property & Income from entrepreneurship.

Mixed Income of Self Employed: - it refers to the profits & dividends earned by the unincorporated & household enterprises, & the income earned by the self-employed viz. Doctors, Architects, Engineers, Professors, Teachers & other professionals.

Real Flow: it is the flow of goods and services between firms and households.

Money flow: it is the flow of money between firms and households.

INCOME METHOD



EXPENDITURE METHOD :

Personal Final Consumption Expenditure
+

Government Final Consumption Expenditure
+

Investment
Expenditure

- Inventory Investment
- Residential Construction Investment
- Public Investment

Net Exports

GDP_{MP}

- Depreciation

NDP_{MP}
- Net Indirect Taxes

NDP_{FC}

+ NFIFA
NNP_{FC}

Value added (Product Method) Value of Output in Sector - Intermediate Consumption = value add in sector

Value-Added By Primary Sector
+
Value-Added by Secondary Sector
+
Value-Added by Tertiary Sector

GDP_{MP} (GVA_{mp})
- Depreciation
NDP_{MP}
- Net Indirect Taxes
NDP_{FC}
+NFIFA

=NNP_{fc}

Assertion and Reasoning Based Questions. Select the correct alternative from the following:

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

Q1. Assertion (A): The sum of final expenditures in the economy must be equal to the incomes received by all the factors of production taken together (final expenditure is the spending on final goods, it does not include spending on intermediate goods).

Reasoning(R): The revenues earned by all the firms put together must be distributed among the factors of production as salaries, wages, profits, interest earnings and rents.

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

Q2 Assertion (A) Car purchased by taxi driver is to use a taxi is a consumer good

Reason (R) Consumer good are those which directly satisfying the wants of consumers

Ans. D) Assertion is false but Reason is true

Q3. Assertion (A): In a two-sector model of circular flow of income, both real flow and money flow exist as a result of one another.

Reason (R): The export earnings of an economy form a part of the real flow in 2-sector circular flow of income.

Ans. C) Assertion is true but Reason is false

Q4. Assertion (A): Savings is one the best way of capital formation and it helps a great deal in the economic growth of a country.

Reason (R): Investment is also known as capital formation.

Ans. B) Both Assertion and Reason are true and Reason is not the correct explanation of assertion

Q5. Assertion (A): The goods which are used either for resale or for further production in the same year are Intermediate goods.

Reason (R): Intermediate goods are included in National Income

Ans. C) Assertion is true but Reason is false

Q6. Assertion (A): Goods that meant for final use and will not pass through any more stages for production or transformation is called a final good.

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

Ans. A) Both Assertion and Reason are true and Reason is the correct explanation of assertion

Q7. Assertion (A): Domestic income is equal to National Income in case of a closed economy. Reason (R): Closed economy has no economic relationship with rest of the world.

A) Both Assertion and Reason are true and Reason is the correct explanation of assertion

Q8. Assertion (A) : Leisure-time activity does not contribute to GDP.

Reason (R) : It does not involve rendering of any factor service.

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

Q9. Assertion (A): Unexpected obsolescence is a part of depreciation.

Reason (R): Loss of value of fixed assets owing to unexpected obsolescence is called capital loss.

Ans.d) Assertion is false but Reason is true

Q10. Assertion (A): The stock variable does not have a time dimension.

Reason (R): The stock variable is measured over a period of time.

Ans. C) Assertion is true but Reason is false

Q11. Assertion: With every increase in the level of GDP, social welfare definitely increases in the economy.

Reason (R): GDP is not a true indicator of welfare of the economy.

Ans.d) Assertion is false but Reason is true

Q12. Assertion (A): Income from illegal activities like smuggling, theft, gambling, etc., should not be included.

Reason (R): Including illegal activities will cause the problem of double counting.

Ans.c) C) Assertion is true but Reason is false

Q13. Identify the following as Normal Resident of India:

- a) Indian officials working in India Embassy in China
- b) An American tourist who stays in India for 2 months
- c) Indian going to Australia for watching the cricket match
- d) Indian employees working in WHO , located in India

Ans. a) Indian officials working in India Embassy in China

Q14. The net value added at factor cost of a producing unit is equal to

Sum of factor payments

Sum of intermediate consumption

Sum of intermediate and final consumption

Sum of final Consumption

Ans. a) Sum of factor payments

Q15 The difference between indirect tax and subsidy is known as _____.

- (a) Net Factor Income from Abroad
- (b) Capital Consumption Allowances
- (c) Depreciation
- (d) Net Indirect Tax

Ans. d) Net Indirect Tax

Q16. Reeta's Mother is a teacher. She also teaches Reeta. How will you treat this act of teaching Reeta while calculating National Income and Domestic Income?

- a. It will be included in the National Income but not in Domestic Income
- b. It will not be included in the National Income but in Domestic Income
- c. It will be included both in the National Income and Domestic Income
- d. It will neither be included in the National Income and nor in Domestic Income

Ans. d).It will neither be included in the National Income and nor in Domestic Income

17. Mohan is a farmer. He produces wheat and sells for Rs 750 to a miller who grinds it into flour and sells it to baker for Rs 1360. The baker sells bread to the consumers for Rs 1795. Calculate the value of total value added.

- a. 750
- b. 1350
- c. 1795
- d. 3900

Ans. c) 1795

18 Which of the following is an example of normal residents of India?

- a. Foreign worker working in WHO located in India
- b. The German working as director in IMF office located in India
- c. Ambassador in India from rest of the world
- d. Ambassador of India in rest of the World

Ans. d. Ambassador of India in rest of the world

19. In an economy, the value of Net Factor Income from Abroad is Rs. 300 crores and the value of Factor Income to abroad be Rs. 50 crores, identify the value of Factor Income from Abroad.

- a. Rs. 250 crores
- b. Rs. 350 crores
- c. Rs. 360 crores
- d. Rs. 300 Crores

Ans b).Rs. 350 crores

20. Assertion (A): The flour purchased by a baker is considered an intermediate good.

Reason (R): The flour is used for the production of bread, cakes and biscuits to be sold to the consumer.

Ans.a) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct

Q21. Problem of double counting can be avoided by using:

- (a) Final Output method
- (b) Value added method
- (c) Both (a) and (b)
- (d) Neither (a) nor (B)

Ans. (c) Both (a) and (b)

Q22. In an economy GDPMP = 800, NFIA = 50, Subsidies = 15, Consumption of Fixed Capital = 20. What is the value of NDPFC?

- a) 765
- b) 795
- c) 845
- d)815

Ans. b)765

Q23. Which of the given statement is incorrect?

- (a) $GDPMP = GDPFC + NIT$
- (b) $NNPMP = NNPFC + Depreciation$
- (c) $GNPMP = GDPMP + NFIA$
- (d) $NNPFC = National\ income$

Ans. (b) $NNPMP = NNPFC + Depreciation$

Q24. A growing country is one with:

- (a) Rising GNP at constant price
- (b) Constant GNP at constant price
- (c) Rising GNP at current price
- (d) None of these

Ans. (a) Rising GNP at constant price

Q25. Write True or False with a reason: Value addition occurs even when goods do not undergo any material transformation.

Ans. True. Value addition occurs even when goods are purchased for resale, without any material

Q26. Final goods are used by the:

- (a) Consumers
- (b) Producers
- (c) Government
- (d) All of these

ANSWER-(d) All of these

Statement Based Questions.

A Statement 1 is true and statement 2 is false

B Statement 1 is false and statement 2 is true

C Both statement 1 and 2 are true

D Both statement 1 and 2 are false

Answer the following questions based on statements given above.

Q28. Statement 1: Net investment is a stock concept

Statement 1: Capital is a flow Concept

Ans. D Both statement 1 and 2 are false

Q29. Statement 1: Gross investment includes only inventory investment.

Statement 2: Gross investment shows net addition to the existing capital stock.

Ans. (ii) Both the statements are false

Q30. Statement 1: Money received from the sale of second hand goods will be considered while calculation National Income.

Statement 2: Their value is already included and they do not contribute to current flow of goods and services.

Ans. B Statement 1 is false and statement 2 is true

CASE BASED QUESTIONS 31 TO 34

Can the GDP of a country taken as an index of welfare of people of that country? If a person has more income than he or she can buy more goods and services and his or her material being improves. So it may seem reasonable to treat GDP as an indicator of a society's standard of living, but it is only a rough indicator because it does not directly account for leisure, environmental quality, levels of health and education, activities conducted outside the market, changes in inequality of income, increases in variety, increases in technology, or the—positive or negative—value that society may place on certain types of output. There are two types of GDP Real and Nominal. Nominal GDP – the total value of all goods and services produced at current market prices over a time period. Real GDP – a more accurate measure of the sum of all goods and services produced at constant prices.

Q31. What is GDP.

Q32. Which is better measurement of GDP, Real GDP or Nominal GDP? Why?

Q33. Do you think GDP is the Better Indicator of welfare? Explain.

Q34. Is it reasonable to treat one person income as a level of wellbeing?

Ans 31. GDP is the value of final goods and services produced within the territory of a country.

Ans 32. Real GDP because it is measured on constant prices.

Ans33. No, only GDP can't we said as better Indicator of welfare other factors like distribution of income, health and education etc. also matters.

Ans 34. No.

Q35. Match The Following

- | | |
|----------------------|---|
| a) Operating surplus | i) Value of money increase |
| b) Deflation | ii) Income from property and entrepreneurship |
| c) Depreciation | iii) Capital Formation. |
| d) Investment | iv) Consumption of Fixed Capital |

Ans. a) Operating surplus ii) Income from property and entrepreneurship

Ans b) Deflation i) Value of money increases

Ans c) Depreciation iv) Consumption of Fixed Capital

Ans d) Investment iii) Capital Formation.

VERY SHORT ANSWER QUESTIONS

Q. Define the term Macro Economics.

Ans : It is that branch of economics which studies the aggregates of an economy or the larger units of an economy. The main objective of Macroeconomic study is 'how the income & employment of an economy is determined?' This branch of economics deals with the fuller utilization of resources.

Q. Define the term National Income.

Ans : It can be defined as the net value of all final goods & services produced by the normal residents in the domestic territory of a country in an accounting year (NVAFC), and adding net factor income from abroad (NFIA). $NI = NVAFC + NFIA$

Q. Who are Normal Residents?

Ans : This refers to those individuals & institutions who normally reside in a country for more than one year, and whose centre of economic interest lies in that country.

Q. Briefly explain the concept of Depreciation or Consumption of Fixed Capital (CFC).

Ans : It refers to the loss of value of fixed assets due to normal wear & tear.

Q. Define intermediate goods.

Ans : Intermediate goods are those goods which are within the boundary line of production and not ready for use by their final users. These goods are purchase for further sale or are to be used as raw material by the producers.

Q. What is meant by producer goods?

Ans. Producer goods are those goods which are used for further production. These may be used either as raw material (like wood used in making chair) or as fixed assets (like a tractor in farming).

Q. What is meant by capital goods?

Ans. Capital goods are those goods which are used in the process of production for several years and which are of high value. These goods are fixed assets of the producers.

Q. What is fixed investment?

Ans. Fixed investment refers to increase in the stock of fixed assets or capital goods (like plant and machinery) of the producers during an accounting year.

Q. What do you mean by inventory investment?

Ans. Change in inventory stock during the year is called inventory investment of the producer

Q. What is meant by consumption of fixed capital?

Ans. Consumption of fixed capital or depreciation refers to loss of value of fixed assets in use on account of: 1. Normal wear and tear; 2. Normal rate of accidental damage, and 3. Expected or foreseen obsolescence.

Q. Define depreciation reserve fund?

Ans. Depreciation reserve fund is a provision of funds to cope with depreciation losses. These fund are used for the replacement of fixed assets when these are worn-out or when these become obsolete/outdated.

Q. What is Consumption goods?

Ans. Goods like food and clothing, and services like recreation that are consumed when purchased by their ultimate consumers are called consumption goods or consumer goods. (This also includes services which are consumed but for convenience we may refer to them as consumer goods.)

Q. What is meant by transfer payment?

Ans. Transfer payment (or transfer expenditure) are all those unilateral payment corresponding to which there is no value addition in the economy.

SHORT ANSWER QUESTIONS

Q. Briefly explain the concept of Net Indirect Tax.

Ans : It refers to the difference between Indirect Tax paid by the enterprises to the Govt. & the Subsidies paid by the Govt. to some of the enterprises. This concept is used to obtain the national income at factor cost or

factor prices. The NIT is deducted from market price (MP) to get factor cost (FC). **Indirect Tax** is the amount of burden whose impact falls on one person or a group and the incidence falls on other person or group. **Subsidies** refer to the financial assistance or aid provided by the state to the weak & sick units.

Q. Define the term Net Factor Income from Abroad & explain its components.

Ans : It is defined as the difference between income earned by the resident households in abroad & the same earned by the foreign residents in a resident country in an accounting year. In other words, it is the income earned from work, property & entrepreneurship by the resident household of a particular country in the ROW 'less' the same earned by the residents of ROW in a resident country in an year.

Components of NFIA: It contains **three** elements viz:

i) **Net Compensation of Employees:** This refers to the income from work earned by the resident workers in the ROW 'less' the same earned by the resident workers of ROW in a resident country.

ii) **Net Operating Surplus:** This refers to the difference between the income from property & entrepreneurship earned by the residents in ROW & the same earned by the foreign residents in a resident country.

iii) **Net Retained Earnings of Resident Companies in Abroad:** It is the difference between the retained earnings of the resident companies abroad & the same of the foreign companies in a resident country.

Q. Define the following Concepts of Value of Output. 1. Intermediate Cost / Consumption 2. Final sales 3. Change in Stock

Ans : 1. **Intermediate Cost / Consumption** is defined as the expenditure incurred on raw materials, fuel, semi-finished goods & other inputs by the firms to produce final products. It is the sum of purchase of raw materials & fuel purchased in domestic market & abroad (Import of raw materials). This amount has to be deducted from GVO to obtain GDPMP, as the intermediate expenditure is not estimated in the estimation of NI to avoid the problem of double counting.

2. **Final sales** are the sum of domestic sales & sales made in abroad (Exports) & production for self-consumption.

3. **Change in Stock** is defined as the difference between Closing Stock & Opening Stock. Closing stock is the stock of raw materials, semi-finished goods, unsold finished goods been held by the enterprises; strategic materials & food grains held by the govt. agencies; & the livestock held by the animal husbandry, been estimated in the end of an accounting year i.e. 31st of March of year.

Opening stock is the same estimated in the beginning on an accounting year i.e. 1st of April of a year.

LONG ANSWER QUESTIONS

Q. Explain the methods of measuring NI. Also state their precautions.

Ans : There are three methods to measure NI which is based on the principle of equality between income, expenditure & production. These methods are

i) **Value Added or Product or Output method;**

ii) **Income method;**

iii) **Expenditure or Commodity Flow method.**

1. **Value Added Method:** By value added we mean the money value of final products produced by the normal residents in the domestic territory of a country. It is the difference between Value of Output & Intermediate Cost. Thus, $VA = VO - IC$

This method is based on the production of the country in a year. The following **steps** can be enumerated to explain this method:

i) **Firstly** we **identify** the production units **& classify** them into three economic sectors viz.

primary, secondary & tertiary sectors.

- ii) Then **we estimate** the money value of total production in each & every units, we **get GVO**.
- iii) **Thirdly**, we calculate the IC in every unit & deduct IC from VO to obtain VA, & after summing the VA of all the units, we get **GVAMP /GDPMP**.
- iv) Next we **deduct CFC & NIT from GVAMP, we get NVAFC**.
- v) Finally, we **add NFIA to NVAFC to get NI/NNPFC**.

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

- i) The **value of intermediate goods** should not be included, rather the value of only the final products to be included. Otherwise, the problem of double counting may arise.
- ii) The **value of second hand goods** is not to be included since the value of this goods have been already valued in the NI of those years when these goods have been manufactured & sold.
- iii) The **value of illegal goods** to be excluded because these goods have no legal sanction or authority to be produced or sold.
- iv) The **value of leisure items & non market goods** not to be included because it is difficult to keep accountability of these goods, & moreover, these goods are produced with not the motive of earning income.
- v) The **value of transfer payments** are to be excluded because these transactions do not contribute in the flow of income & product, rather these are transfer of ownerships.

2. Income Method: According to this method, the factor incomes have to be estimated, & then, after adding the total factor incomes generated in the domestic territory, we get domestic income. The domestic income is then has to be added to NFIA, we obtain NI. The following **steps** can be followed to measure NI by this method:

- i) Firstly, the factor incomes have to be identified & then classify them into CE, OS & MISE.
- ii) Then we add the total factor incomes generated in the domestic territory i.e. CE + OS + MISE, we get domestic income (NVAFC).
- iii) Finally we add the domestic income to the NFIA, we get NI.

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

- a) The **transfer incomes** are not to be included because these transactions do not contribute to the flow of national production. For e.g., tax, gifts, donations, scholarships etc.
- b) The **incomes derived from illegal sources** are not to be included since the illegal activities are not backed by the legal sanction. For e.g., gambling, smuggling, theft & loot etc.
- c) The **incomes received after selling second hand goods** are not to be included but the **commission** earned by the broker is to be included because it is a factor income.
- d) The **income derived from leisure time activities** is not to be included because it is difficult to determine the actual price of leisure time goods.
- e) The **income earned by selling shares** is also not to be included since this is considered as the transfer income because these transactions are mere transfer of ownership of assets.

3. Expenditure Method: According to this method, NI is evaluated by estimating the final expenditure incurred by different economic units' viz. household, govt. & the enterprises. The following **steps** are to be followed:

- i) At first, the sources of final expenditure have to identified & classify them into Private Final Consumption Expenditure (**PFCE**), Govt. Final Consumption Expenditure (**GFCE**), Gross Domestic Capital Formation (**GDCF**), & Net Exports (**X- M**).
- ii) Then we estimate the above four components of final expenditure incurred in the domestic territory in a year & add all the four components, we get GDPMP.

- iii) Next, we deduct CFC & NIT from GDPMP, we get NDPFC.
- iv) Finally, we add NFIA to NDPFC, we get NI.

Precautions: The following precautions are to be taken:

- a). The **expenditure on intermediate goods** are not to be estimated, otherwise it may lead to problem of double counting. We must make sure that we are not including the intermediate expenditure.
- b). The **expenditure on second hand goods & scraps** is not to be included because it is already been included in the year when these goods have been manufactured, but the expenditure made on broker's service as commission is to be included.
- c). The **expenditure on transfer payments** is not to be included because this expenditure does not lead to production of goods & services in the economy.
- d). The **expenditure on illegal goods** is also not to be included because these goods are not been legally sanctioned.
- e). The **expenditure on products produced through leisure time activities & non market activities** is not to be included.

Q. Differentiate between Real & Nominal GDP.

Ans : Nominal GDP is estimated at current price i.e. the market values of the prevailing year, while Real GDP is estimated at constant(base)price. Nominal GDP is helpful to measure the price fluctuations while Real GDP helps to measure & compare the economic growth & performance. The nominal GDP is so called because it reflects the growth of output in monetary terms as it includes price effect, whereas real GDP reflect the growth of output in real/physical terms & does not include the price effect.

Q. Which one is a better indicator?

Ans : Real GDP as it does not include the price effect on the growth of output.

Q. What is meant by economic welfare? What is its indicator?

Ans : The term welfare means the sense of wellbeing. The economic welfare means the sense of wellbeing which are affected by the non-economic factors viz. NI, consumption expenditure etc. which can be expressed in monetary terms. Wellbeing of the people is also affected by various non-economic factors viz. pollution, liberty etc. The economic welfare is indicated by Per Capita Real GDP.

Q. Explain the limitations of Per Capita Real GDP as Indicator of Economic Welfare. OR "The economic growth of a country is rising but most of the people are still poor & there is a huge environmental pollution." Explain.

It has been found in many economies that despite of a faster growth in GDP, there are many such problems still exist in those countries like starvation, corruption, environmental degradation & ecological imbalance etc. This reflects the fact that Real Per Capita GDP has certain limitations as a good indicator of economic welfare. These are:

1. **The growth in GDP does not reflect the fact about the distribution of income** among the people. It may so happen that few of the individuals are becoming richer while the rest are remaining poorer. This leads to widening of gap between the rich & poor. This finally hampers the economic growth & development.
2. **The composition of goods & services** is not reflected in the growth of GDP. There may be rise in GDP but it is not certain that what kind of products have shown rise in production, whether war time goods or peace time goods, harmful products like liquor & tobacco or useful products like food grains etc. The economic welfare do not depends upon only the volume of production but also its composition. But the irony is that GDP reflects only the money value of volume but not the composition.
3. **Non-monetary transactions:** viz services of housewives & other members rendered to the other members of the family etc. are not estimated in GDP due to lack of adequate data & difficulty in their valuation. Whereas, these services contribute to economic welfare in many ways, & thus it remains

underestimated.

4. The Externalities are not taken into account while estimating GDP. The economic activities leads to various kinds of benefits as well as harms to human being. The benefits are referred to as positive externalities while the harms are referred to as negative externalities. For example, construction of a highway or flyover reduces transport costs & journey time to those who have not contributed towards the cost of construction. This is not reflected in GDP, & thus welfare is underestimated. Similarly, the negative externality is also associated viz. pollution & global warming etc. The construction of flyover & highways do not pay anything for this harm caused to the people of that vicinity. Here, welfare is less than what is indicated by GDP.

Q. How Real GDP is derived?

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

Q. Explain the circular flow of Income & Product (two sector model).

Ans : Circular flow refers to the cyclical transactions of income & expenditure (money flow) & goods & services (real flow) among the economic sectors viz. Household, enterprises, Govt. & foreign sector.

Q. Differentiate between stock &flow.

Ans : Stock refers to those variables which are measurable at a given point of time while flow refers to those variables which are measurable during a given a period of time. In this way, stock is static while flow is dynamic. Stock has no time dimension while flow has. For e.g. Wealth is stock while income is flow, capital is stock while capital formation is flow.

Q. Describe the great depression of 1929.

Answer: The great depression of 1929 affected the developed economies like USA, Europe etc. During this period, the output and employment fell by huge amount. The aggregate demand was low, many factories were lying idle, workers were thrown out of jobs. Income levels were falling, there was widespread unemployment. In USA from 1929 to 1933, unemployment rate rose from 3% to 25% and output fell by about 33%.

Q. Define production boundary.

Answer: Production boundary is the imaginary line around the production process. All good and services which cross this line are considered as final goods. Goods within the production boundary are treated as intermediate goods which need value addition.

Q: Why are transfer payments not included in the estimation of National Income? Do we arrive at the value that these are not important for the economy?

Answer: Transfer payments are not included in National Income as these do not lead to corresponding flow of goods and services. These are not included because of limitation of being one sided. These are very important for growth and welfare of economy like donations, old age pension, unemployment allowance, tax payments. These do promote social and economic justice of those who receive the payments.

Q. How will you treat the following in the calculation of gross domestic product of India? Give reasons for your answers.

(i) Profit earned by a branch of foreign Bank in India.

(ii) Salaries of Indian employees working in embassy of Japan in India

(iii) Salaries of residents of Japan working in Indian embassy of Japan

ANS. (i) Yes, it will be included in the gross domestic product of India as profits are earned within the domestic territory of India.

(ii) No, it will be not included in the gross domestic product of the India as the embassy of

japan is not the part of domestic territory of India.

(iii) Yes, it will be included in the gross domestic product of India as the India embassy is the part of domestic territory of India.

Q. Classify the following expenditures as intermediates consumption expenditures and finals consumption expenditures.

- (i) Expenditure on research and development by TATA on Nano car.
- (ii) Insurance premium paid by a firm to an insurance company.
- (iii) Insurance premium paid by households to an insurance company.
- (iv) Expenditure on repairs and maintenance of plant and machinery.
- (v) Expenditure incurred by a firm on purchase of equipment.
- (vi) Advertising expenditure incurred by Airtel on promotion of its product.

Ans: Intermediates consumption expenditure: (i), (ii), (iv), (vi); final consumption expenditure: (iii), (v).

TRUE & FALSE

1. Nominal GDP can never be less than real GDP.

FALSE: nominal GDP can be less than the real GDP, if price in the current year are less than the price in the base year.

2. Good produced for self-consumption will be included in national income.

TRUE: such goods contribute to the current output and their imputed value will be included in national income.

3. Increase in stock of goods held by a consumer will contribute to capital formation.

FALSE: any increase in goods of stock held by consumers does not contribute to capital formation as it is assumed that such goods are consumed, the moment are purchased.

4. Gross domestic capital formation is always greater than gross fixed capital formation.

FALSE: gross domestic capital formation can be less than gross fixed capital formation if Change in stock is negative.

5. Productions of services for self-consumption are not included in national income. TRUE:

Such services are not included in national income as it is difficult to ascertain their market value and they are not rendered for earning income.

Q. From the information given below, calculate:

- 1. Value added by firm A and firm B;
- 2. GDP mp;
- 3. NVA fc

Particulars	in crores	
i. Sales by firm B to general government	100	
ii. Sales by firm A		500
iii. Sales by firm B to households	350	
iv. Change in stock of firm A	20	
v. Closing stock of firm B	40	
vi. Opening stock of firm B	30	
vii. Purchases by firm A	320	
viii. Indirect Taxes paid by both the firms	75	
ix. Consumption of fixed capital	120	
x. Sales by firm A to B	200	

Solution: Value added by firm A

= Sales by firm A + Change in stock of firm A – Purchases by firm A from firm C

= 500 + 20 – 320; = 200 crores Answer

Value added by firm B=Sales by firm B to general government + sales by firm B to households + (Closing stock of firm B – Opening stock of firm B) – Purchases by firm B from firm A

= 100 + 350 + (40-30) -200; = 260 crores Answer

Gross Domestic product at market price

= value added by firm A + Value added by firm B; = 200 + 260; = 460 crores Answer

Net value added at factor cost

= GDPmp – CFC – Indirect Taxes paid by both the firms; = 460 – 120 -75; = 265 crores Answer

Q: Calculate National Income by Income and Expenditure method.

Particulars	in crores
i. Final Consumption Expenditure	
Private Sector	350
Government Sector	100
ii. Mixed income of self-employed	35
iii. Gross domestic fixed capital formation	70
iv. Opening stock	15
v. Compensation of employees	250
vi. Closing stock	25
vii. Imports	20
viii. Rent	75
ix. Consumption of fixed capital	10
x. Net indirect taxes	25
xi. Interest	25
xii. Net factor income from abroad	-5
xiii. Exports	10
xiv. Profit	100

Solution:

National Income by Income method

= Mixed income of self-employed + Compensation of employees + Rent +Interest +Profit + Net factor income from abroad

=35 + 250 + 75 + 25 + 100 + (-5)= 480crores

National income by Expenditure method

= Final consumption expenditure of Private sector + Final consumption expenditure of government sector + Gross domestic fixed capital formation + (Closing stock – Opening stock) + Net Exports – Consumption of fixed capital + Net Factor Income from abroad - Net Indirect Tax

=350 + 100 + 70 + (25 - 15) + (10 - 20) -10 + (-5) -25; = 480 crores

KEY CONCEPTS

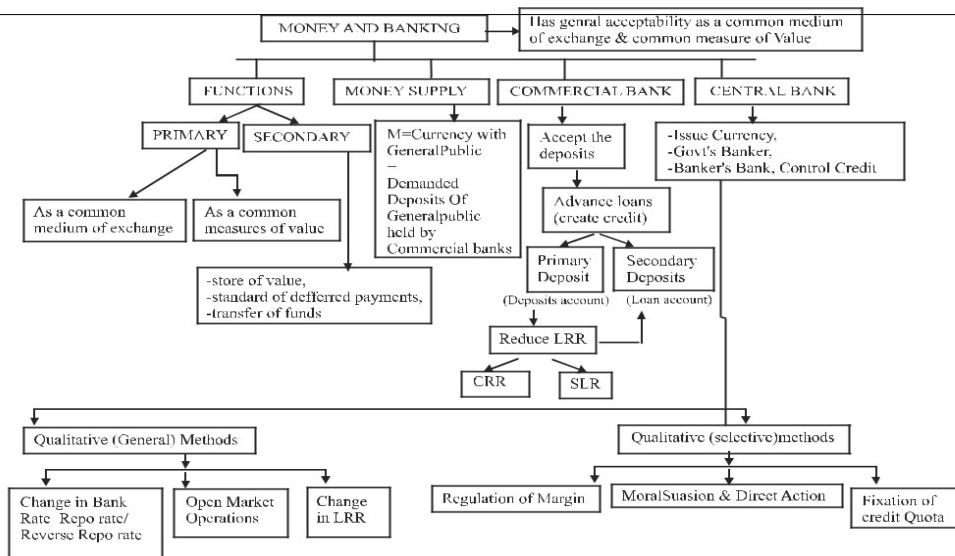
Money: - Money is anything that has the general acceptability as a common medium of exchange and as a common measure of the value of the commodities.

Barter system: - It refers to the exchange of goods for goods. In other words, it refers to the direct exchange of goods & services with another.

Money Supply: - It refers to the total volume of money held by public at a particular point of time in an economy. $M = C + DD$ (money supply= Currency held by the public+ Demand deposits of the banks).

High powered money: it is produced by the RBI and government. It consist two things: currency held by the public, cash reserve with the bank.

Commercial bank: - A Commercial bank is a financial institution which performs the function of accepting deposits from the public & advancing loans and making investment with the aim of earning profit.



Short Answer Questions

Q. What is Money?

Money is anything that has the general acceptability as a common medium of exchange & as a common measure of the value of the commodities.

Q. What is Barter system?

It refers to the exchange of goods for goods. In other words, it refers to the direct exchange of goods & services with another.

Q. Define the term Money Supply & state its constituents.

It refers to the total stock of money in an economy at any point of time, held by the general public i.e. the private individuals and business firms (money is in disposable form). In other words, it is the amount of money which is in circulation in an economy at a given point of time. The two constituents of money supply are currency held by the general public & demand deposits of general public held by the Commercial Banks.

Thus, $M1 = C + DD + O$

(Money supply is a stock concept, i.e. it is concerned with the particular point of time.)

Q. What is ideal supply of money?

It is that amount of money supply which keeps the aggregate demand of money or the total purchasing power in the state of balance with aggregate supply of money. It is called ideal supply of money because it protects the economy from inflationary and deflationary pressures.

Q. Define the term Commercial bank.

A commercial bank is a financial institution which performs the function of accepting deposits from the public & advancing loans and making investment with the aim of earning profit.

Q. What are main functions of money?

Medium of exchange - first and foremost role of money is that it acts as a medium of exchange. Barter exchanges become extremely difficult in a large economy because of the high costs people would have to incur looking for suitable persons to exchange their surpluses.

Unit of account - Money also acts as a convenient unit of account. The value of all goods and services can be expressed in monetary units

Store of value- Money is used as a store of value. Or, money is used as an instrument of saving

Measure of value - Money is used as a measure of value. Value of goods and services is expressed in terms of money. Standard for deferred payments - Money is used as a standard for deferred payments (deferred payments are those payments which are made sometimes in the future).

Long Answer type questions

Q: Define the term Central Bank & explain its functions.

A Central Bank is an apex institution which directs, control, regulates & supervises the monetary system of a country. Central bank is the monetary authority which leads all banking & non – banking institutions. The name of the Central bank in India is Reserve bank of India (RBI) which was established in 1935. The RBI occupies the highest position in the money & capital market.

Functions

1. ***It has the monopoly of issuing currency notes (Bank of Issue).*** Central bank has the sole authority for issue of currency in the country. In India, RBI has the sole right of issuing the currency notes (except one rupee note and coin, which are issued by the ministry of finance).

Advantage of the sole authority of note issues with the RBI:

>it leads to the uniformity of the currency throughout the nation.

> It gives the central bank the power to influence money supply because currency with the public is the part of money supply.

> It enables the government to have the supervision and control over the central bank with respect to issue of notes.

> It ensures the public faith in the currency system.

>it helps in the stabilization of internal and external value of currency.

2. ***It acts as a banker of the Govt.*** It performs the following functions as the Bankers to the government.

>*Carrying out all banking businesses of the government:* Government keeps its cash balance on current account with the central bank. It accepts receipts, deposits, make payments, carries out exchange, remittance and other banking operations.

> Granting loan and advances: The central bank provides short term credit (against securities like Treasury bill) to the government so that the government can meet any shortfalls in receipts over disbursements.

>*Managing public debt:* it means that the central bank

A-manages all new issues of government loans.

b- Services the public debt outstanding.

c -Nurtures the market for government securities.

>Advisor: The central bank advises the government on economic banking and financial matters, particularly in the field of resource mobilization and planning. It also advises on the matter of international finance.

>Agent to the government: It collects taxes and other payments on behalf of government.

3. ***It acts as a banker's bank.:*** As a banker's bank, RBI performs the following functions:

> ***Custodian of cash reserve:*** Hold a part of cash reserve of banks because commercial bank is supposed to deposit CRR with the central bank (as a measure of credit control).

> ***clearing House Function:*** provide centralized clearing and remittance facilities. The central bank holds

excess reserve of banks to meet any Clearing drains due to settlement with other banks. The claims of one bank against other are conveniently settled by simple transfers from and to their accounts from these cash reserves, (debit and credit transactions to settle claims of banks with each other through reserve Bank of India).

>**lender of the last resort**: as a lender of the last resort, it makes short term credit available to them i.e. it gives financial accommodations(loans) to commercial bank against approved securities.

4. **As a supervisor**

>Central Bank supervisors, regulates and control the commercial banks.

>the regulation may be related to their licensing, branch expansions, liquidity of assets management, amalgamation and liquidations.

> It also includes periodic inspection of banks.

5. It acts as a custodian of gold reserves & the nation's stock of foreign exchange reserves. The purchase & sale of Gold & foreign exchange at the global level is done by RBI only. As a custodian, RBI is responsible for maintaining the stock of gold & forex reserves & the determination of their prices.

6. ***It acts as a controller of credit*** which is one of the most important functions. Since it is an apex institution, therefore can play an effective role to combat or correct the inflationary or deflationary pressures of an economy. The RBI controls credit by using Quantitative (General) & Qualitative (Selective) credit control methods. The tools under quantitative methods are Bank/Repo rate, Reserve repo rate, CRR & SLR, Open market operations. Under selective methods, RBI uses Margin requirement, credit quota & rationing, moral suasion & direct action etc.

7. ***It promotes the economic growth & development*** of the country by erecting the financial institutions in the rural areas, providing direct loans to the farmers, framing the policies in favour of trade & industry, collect the economic information's & publish through its various journals which further helps the govt. & other institutions to adopt the correct policies etc.

Q. Explain how a Commercial Bank creates credit (money supply).

Credit creation by the banks is determined by (i) the amount of initial deposits and (ii) the legal reserve ratio (LRR). It is assumed that all the money that goes out of banks is redeposit into the banks.

A Commercial Bank accepts deposits from general public & creates a primary account deposit. This creates liability for the bank & asset for the depositor. It is also referred to as active deposit. From the active deposits the banks deduct the legal reserves to be kept in Central Bank (RBI), & the rest (excess reserves) are used in loans & investment. When a bank gives loans & advances, it creates another deposit known as derivative deposits or secondary account deposits on the name of debtor. This leads to creation of new primary account, & thus the new primary deposits keep on increasing until the credit multiplier stops working. Greater the LRR, smaller the amount of total final deposits, & vice versa.

An Illustration to explain the process of credit creation:

Let the LRR be 20% and there is a Fresh/Primary/Initial/Deposit Account of Rs 10000. The banks keep 20%

ROUNDS	INITIAL DEPOSIT	LRR	SECONDARY DEPOSIT
1	10000	2000	8000
2	8000	1600	6400
-	-	-	-
-	-	-	-
-	-	-	-
TOTAL	50000	10000	40000

i.e. Rs 2000 as cash and lend the remaining Rs 8000 to a borrower by opening a new account,

called as Loan/Secondary/Derived Account.

Here we assume that all the banking transactions will be through monetary instruments viz cheques etc.

As assumed, the amount of Rs 8000 will come back to the banks as fresh deposit from which once again the bank will keep 20% i.e. Rs.1600 as LRR and rest Rs 6400 will be lend to some other borrower. The bank now creates another secondary account which will once again become a primary account. This process continues, and the money goes on multiplying till the sum of LRR and the fresh deposit amount is same, or the new deposit becomes nil. Finally, when we add the total money creation, we get Rs 50000 as the total deposit creation.

Total credit creation = Initial deposit X 1/LRR = 10000 X 1/20% = 10000 X 100/20 = Rs 50000.

Define the terms Bank Rate, CRR, SLR, Repo & Reverse Repo rate, Open Market Operations, Margin Requirement.

Bank Rate: Bank rate is the rate at which the central bank of a country (RBI in case of India) lends money to commercial bank to meet their long term needs.

Cash Reserve Ratio: It refers to the minimum percentage of net demand and time liabilities, to be kept by the commercial bank with the central bank.

Statutory Liquidity Ratio: It refers to that portion of total deposits which have to be maintained by the Banks themselves in the form of liquid cash assets against the securities of Govt. & RBI.

Repo rate i.e. Repurchase rate: Repo rate is the rate at which the central bank of a country (RBI in case of India) lends money to commercial bank to meet their short-term needs. By changing Repo rate, RBI can regulate the money supply. It is different to Bank Rate in a way that Bank rate is charged against the loans taken by commercial banks for long term needs.

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

Open Market Operation: Open Market operation refers to buying and selling of government securities by the central bank from/to the public and commercial bank.

Margin Requirement: Margin is the difference between the amount of loan and market value of the securities offered by the borrower against the loan.

HOTS QUESTIONS

Q. What do you mean by double coincidence of wants?

Ans. Double coincidence of wants means simultaneous fulfillments of mutual wants of buyers and sellers.

Q. Define credit multiplier.

Ans. Credit multiplier refers to the ratio between change in demand deposit and change in cash reserves of the commercial banks with the RBI.

Credit multiplier = Change in demand deposit of the Commercial banks/ change in cash reserves of the commercial banks with the RBI.

Q. How is quantitative credit control different from qualitative credit control?

Ans. Quantitative credit control refers to overall credit control in the economy, affecting all sectors of the economy equally and without discrimination. Qualitative credit control refers to selective credit control that focuses on allocation of credit to different sector of economy. Flow of credit is encouraged to the priority sectors, while it is discouraged to the non-priority sectors. (This portion is deleted for session 2020- 21).

Q. How improvement in banking habits of the people pushes up credit availability from the commercial bank?

Ans. When banking habits of the people improve, they start holding less money as cash-in-hand. Instead more and more money is deposited with the commercial bank. Accordingly, cash reserves of the commercial bank start rising. Higher cash reserve of the bank enables them to deposit more funds with the RBI as CRR – deposits. If CRR remains constant higher CRR- deposits with the RBI gives the commercial bank the legal authority to create more credit by way of loans/credit. Accordingly, availability of credit from the commercial bank is increased.

Q. How can 'Jan-Dhan Yojana' used as an instrument to increase supply of money by the commercial banks?

Ans. A large section of the population in India does not have their bank accounts. 'Jan- Dhan Yojana' prompts people to open their bank accounts. When more and more accounts are open then some of the cash balances with the people (or idle cash lying with the people) are bound to reach the banking system as cash deposits or primary deposits. This increase enables commercial banks to increase their cash reserves with the central banks. If additional cash reserves with RBI= Rs10,000 and if CRR=4% then the additional demand deposit the bank can create = $1/4\% * 10,000 = \text{Rs } 2,50,000$. This is how 'Jan-Dhan Yojana' may be used as an instrument to increase the supply of money by the commercial banks.

Q. Why has the government in India failed to combat inflation even when a series of monetary measures are available in the textbook of macroeconomics?

Ans. Monetary measures of combating/ controlling inflation focus largely on moderating/ lowering the demand for goods and services by making the availability of credit costlier and difficult. It does not address supply side of the problem. While the fact of the matter is that in India inflation has often been triggered by the low market supplies. Unless supplies are boosted (particularly the supply of farm output) we shall continue to wrestle with inflation without training it.

Q. How in your opinion, credit creation by the commercial banks accelerates the pace of economic growth? Write two observations.

Ans. Following observations may be noted in this regard:

Observation 1: Credit creation accelerates the process of growth by expanding the availability of credit for purpose of investment.

Observation 2: Credit creation contributes to the process of growth by expanding size of the market (or aggregate demand), as the availability of credit for the purchase of consumer durables increases.

UNIT 3 DETERMINATION OF INCOME AND EMPLOYMENT 12 MARKS

GIST OF THE LESSON:

- * Determination of income, output and employment is the core of the subject matter of macroeconomics.
- * AD and AS together determine the level of income, output and employment.
- * **Aggregate demand (AD):** is the total demand of goods and service in the economy.

AD represents the total expenditure on goods and services in an economy

The main components of AD are-

1. House hold consumption demand(C).
2. Investment demand (I).
3. Government demand (G).
4. Net export (X-M).

$$AD = C + I + G + X-M$$

- Household consumption expenditure (C), is the expenditure incurred by the household on the purchase of goods and services to satisfy their wants.
- Investment expenditure (I) refers to the expenditure incurred by the private firms and government on the purchase of capital goods such as plant, machinery and equipment.
- Government consumption expenditure (G) refers to the expenditure incurred by the general government on the purchase of goods and services, to provide to the people either freely or at a nominal price.
- Net export (X-M), refers to the difference between export and import.

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

In a two sector economy $AD = C + I$.

Aggregate supply (AS): is the total supply of goods and services in the economy.

It is also the value of total output available in an economy during a given period of time.

It is the sum total of consumption expenditure and saving.

$$AS = C + S$$

Aggregate supply represents the national income of the country.

$$AS = Y \text{ (National Income)}$$

CONSUMPTION FUNCTION AND PROPENSITY TO CONSUME

The relationship between consumption and income is called propensity to consume or consumption function. $C=f(Y)$.

* Consumption function may be represented by an equation $C = C_0 + b(Y)$

C =consumption, C_0 =consumption at zero level of income b =MPC (slope of the consumption curve) Y =income. The consumption equation shows the level of consumption for various level of income.

* Propensity to consume has two aspects:

A) Average propensity to consume (APC)

B) Marginal propensity to consume (MPC).

* APC = ratio of total consumption to total income.

$$APC = C/Y.$$

$$MPC = \Delta C / \Delta Y.$$

Propensity to save- It indicates the tendency of the households to save at a given level of income. It shows the relation between saving and income.

Propensity to save has two aspects:

A. Average propensity to save (APS)= S/Y .

B. Marginal propensity to save. $(MPS) = \Delta S / \Delta Y$.

Average propensity to save is the ratio of saving to income.

Marginal propensity to save is the ratio of change in saving to change in income

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

There is relationship between APC and APS.

$$APC + APS = 1$$

$$APC = 1 - APS.$$

There is relationship between MPC and MPS.

$$MPC + MPS = 1$$

$$1 - MPC = MPS.$$

Meaning of involuntary unemployment and full employment.

Involuntary unemployment refers to a situation in which people are ready to work at prevailing wage rate, but do not find work.

Full employment refers to a situation in which no one is unemployed i.e....there is no involuntary unemployment.

According to Keynes, full employment signifies a level of employment where increase in aggregate demand does not lead to an increase in the level of output and employment.

Increase in demand beyond full employment causes prices to go up.

The determination of income and employment in the Keynesian theory depends on the level of AD and AS. Equilibrium level of income and output is determined where,

1) $AD = AS$

2) Planned saving = planned investment ($S = I$).

In a two sector economy $AD = C + I$, $AS = C + S$, $Y = C + I$.

Suppose that $C = 40 + 0.75Y$ (CONSUMPTION FUNCTION) and $I = Rs.60$ (investment function), then the equilibrium level of income is obtained as:

$$Y=C+I$$

$$Y=40+0.75Y+60$$

$$0.75Y=100$$

$$0.25Y=100$$

$$Y=10000/25$$

$$Y=400 \text{ crores.}$$

Investment multipliers and its working.

- Investment multiplier explains the relationship between increase in investment and the resultant increase in income.
- Investment multiplier is the ratio of change in income to change in investment.
- Multiplier (k) = $\Delta y / \Delta I$.
- The value of multiplier depends on the value of marginal propensity to consume

(MPC).

- There is direct relationship between k and MPC.
- Multiplier also depends on the marginal propensity to save
- There is inverse relationship between multiplier and MPS.

IMPORTANT FORMULAE.

- $AD=C+I$ (two sector economy).
- $APC=C/Y$.
- $APS=S/Y$.
- $APC+APS=1$
- $MPC=\Delta C/\Delta Y$
- $MPS=\Delta S/\Delta Y$
- $MPS+MPC=1$ AND $1-MPC=MPS$
- Multiplier $K=\Delta Y/\Delta I$ or $K=1/MPS$ or $K=1/1-MPC$
- $C= C_0 + b(Y)$
- $S= - C_0 + (1-b)Y$
- C_0 = autonomous consumption
- $b= MPC$
- $- C_0$ = negative saving
- $(1-b) = MPS$

EXCESS DEMAND AND DEFICIENT DEMAND

- When AD is more than AS at full employment level, the situation is called excess demand.
- The difference between AD and AS at full employment level in a situation of excess demand is called inflationary gap.
- When AD is less than AS at full employment level, the situation is termed as deficient demand. The difference between AD and AS at full employment level in a situation of deficient demand is termed as deflationary gap.

Multiple Choice Questions

Q.1 which of the following fact is correct about MPC?

- Value of MPC varies between 0 and 1
- MPC of poor is more than that of rich
- MPC falls with successive increase in income
- All of these

Ans. D

Q.2 .If investment falls to zero, national income does not fall to zero because of:

- Autonomous consumption
- Induced investment
- Autonomous investment
- Multiplier

Ans. A

Q.3 The maximum value of multiplier is _____ when the value of MPC is _____

- Infinity zero
- Infinity one
- One infinity
- None of these

Ans. D

Q.4 Investment which is independent of the level of income is called:

- autonomous investment
- induced investment
- fixed investment
- inventory investment

Ans. A

Q.5 The slope of S-line is indicated by:

- MPC
- MPS
- $1 - MPC$
- both second and third option

Ans. B

Q.6 The size of the multiplier varies:

- Directly with the size of the MPC
- Inversely with the size of MPC
- Proportionately with the size of the MPC
- Slowly with the size of the MPC

Ans. A

Q.7 When aggregate demand > aggregate supply, inventories

- (a) Fall (b) Rise (c) Do not change (d) First fall, then rise

Ans. A

Q.8 Is equal to the difference between 'AD beyond full employment and AD at full employment'.

- a) Recession b) Inflationary gap c) \deflationary gap d) None of these

Ans. B

Q.9 What is the value of MPC, when $MPS = 0$?

- a) 0 b) 4 c) 3 d) 1

Ans. D

Q.10 The gap by which actual aggregate demand exceeds the aggregate Demand required to establish full employment equilibrium is known as _____.

- a) Deficit demand b) Deflationary gap c) Inflation gap d) Excess demand

Ans. C

Q.11 Deficit demand indicates

- a) Under employment equilibrium b) Over full employment equilibrium
c) Full employment equilibrium d) None of these

Ans. A

Q.12 Which of the following is a reason for surplus demand?

- (a) Increase in Public Expenditure (b) Increase in Money Supply
(c) Fall in Taxes (d) All the above

Ans. D

Q.13 If Marginal propensity to save (MPS) is 0.25 and initial change in investment is ₹ 250 crores. Then the final change in income would be.

- (a) ₹ 1000 crores (b) ₹ 1200 crores (c) ₹ 5000 crores (d) ₹ 4000 crores

Ans. A

Q.14 If the value of average propensity to consume (APC) is 0.8 and national income is ₹ 5000 crores. The value of saving will be.

- (a) ₹ 1000 crores (b) ₹ 800 crores (c) ₹ 600 crores (d) ₹ 500 crores

Ans. A

Q.15 In determination of equilibrium level of income by AD-AS approach, AD is represented by:

- (a) $C + S$ (b) $C + I$ (c) $S + I$ (d) $C + Y$

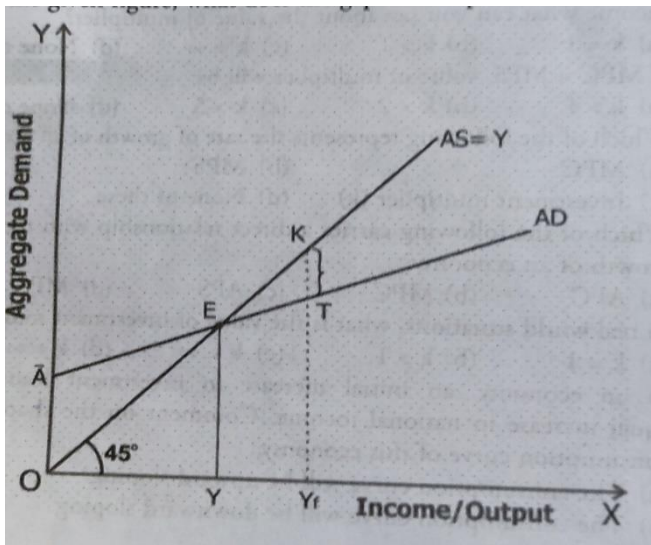
Ans. B

Q.16 In an economy, $MPC = 0.75$. As a result of multiplier mechanism, national income increased by ₹ 300 crore caused by an additional investment of

- (a) 400 crore (b) 225 crore (c) 1200 crore (d) 75 crore

Ans. D

Q.17 In the given figure, what does the gap 'KT' represent.



- (a) A situation of Deficit demand.
- (b) A situation of Excess demand.
- (c) Full employment equilibrium.
- (d) None of these.

Ans. A

Q.18 A fiscal policy measure to combat deflationary gap is (Choose the correct alternative)

- (a) Increase in tax rates
- (b) Increase in government expenditure
- (c) Increase in price level
- (d) Decrease in government expenditure

Ans. B

Statement/ Assertion Reasoning Type

Q. 19 Statement I : In an economy, the consumption curve is parallel to X axis. The value of investment multiplier will be zero.

Statement II : In an economy, the saving curve is parallel to X axis, the value of Investment multiplier will be infinity.

- (a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement I is true, Statement II is false.
- (d) Statement II is true, Statement I is false.

Ans. D

Q. 20 Statement I : Marginal requirement is rise by the central bank to control the situation of excess demand. Statement II To reduce inflation, The Centre Bank should reduce Case Reserve ratio CRR

- (a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement I is true, Statement II is false.
- (d) Statement II is true, Statement I is false.

Ans. C

Q.21 Statement I : Break- even point is the point at which the level of consumption is equal to the income.

Statement II : When the consumption curve lies below the 45 degree line $APC < 1$.

- a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement I is true, Statement II is false.
- (d) Statement II is true, Statement I is false.

Ans. A

Q.22 Statement I : APC can not be negative.

Statement II : The sum of the APC and MPC is always equal to one.

- (a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement I is true, Statement II is false.
- (d) Statement II is true, Statement I is false.

Ans. B

Q.23 ASSERTION (A): Full employment is that situation in the economy when $AS = AD$ along with fuller utilization of the resources. But it does not mean a situation of zero unemployment in the Economy.

REASONING (R): Full employment means absence of unemployment in the economy.

Alternatives:

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

Ans. C

Q.24 Assertion: The rate at which consumption increases often lags behind the rate at which Y increases.

Reason: There is always some minimum level of consumption, even when income is zero

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

Ans. B

Q.25 Assertion: Value of Marginal Propensity to consume cannot be greater than one.

Reason: Change in the consumption cannot be more than the total income.

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

Ans. C

Q.26 Assertion (A): Higher the value of Marginal Propensity to Consume, higher the value of multiplier and more chances of economic growth and increase in National Income. This happens when marginal propensity to save falls and marginal propensity to consume rises.

Reason(R): Investment generates income and this additional income causes a change in consumption. Additional consumption expenditure generates additional income for

producers of goods and services. This process keeps repeating till the total increase in income equals the product of multiplier and change in investment: $\Delta Y = K \times \Delta I$

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

Ans. A

Q.27 Assertion (A) During deflationary gap, actual aggregate demand is more than potential aggregate demand to maintain full employment.

Reason(R) Recession in an economy leads to fall in demand as compared with supply.

Alternatives:

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

Ans. D

Q.28 Assertion (A) Deflationary gaps reflect presence of unemployment in an economy.

Reason(R) Full employment doesn't ensure zero unemployment during a period of time.

Alternatives:

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

Ans. B

Q.29 Assertion (A) Excess demand refers to the situation when aggregate demand is in excess of aggregate supply corresponding to full employment in the economy i.e., $AD > AS$, corresponding to full employment.

Reason(R) To correct inflationary gap, Bank rate, Repo rate, Reverse Repo rate and legal reserve ratio is increased by the Central Bank to reduce supply of money so that purchasing power of people can be curtailed and inflationary gap can be controlled.

Alternatives:

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

Ans. B

Q.30 Assertion (A) Fiscal policy refers to the budgetary policy of the government with a view to correct the situation of excess demand or deficient demand.

Reason(R) Government uses low Bank rate to control excess supply of money.

Alternatives:

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

Ans.A

Q.31 Assertion (A) Deficient demand leads to fall in output.

Reason(R) Due to fall in investment and employment in the economy, the output also tends to fall.

Alternatives:

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

Ans. C

Q.32 Assertion: In a situation of excess demand at the full employment level, there is inflation in the economy.

Reason: At the full employment level, even if there is more demand for goods and service, the output cannot be increased.

Alternatives:

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

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

Ans. A

The Reserve Bank of India said on Monday that the second wave of the COVID-19 pandemic in India has had a bigger impact on aggregate demand than on aggregate supply, and it believes the economic slowdown was not as severe as a year ago.

The biggest toll of the second wave is in terms of a demand shock - loss of mobility, discretionary spending and employment, besides inventory accumulation, while the aggregate supply is less impacted, the Reserve Bank of India said in its monthly bulletin. RBI said the impact of the second wave is appearing to be U-shaped with agriculture and technology forming the shoulders of the letter U and most vulnerable being blue collar groups (manual work or workers, particularly in industry) and these will warrant a priority in policy interventions.

Source: The Economic Times (17 May 2021.)

Q33: If $AD < AS$, what will the impact of the situation in an economy?

- (a) Decrease in inventories, income, employment and general price level
- (b) Increase in inventories, income, employment and general price level
- (c) Decrease in income, output, employment and general price level
- (d) No change in output but increase in employment and general price level

Ans. C

Q34: Which of the following is a reason of demotivation for induced investment?

- (a) High aggregate demand
- (b) Availability of labour at low wages
- (c) Easy availability of finance facilities
- (d) Loan on high interest rate

Ans.D

Q.35 $AD < AS$ will cause a situation of:

- (A) Deflation (b) Inflation (c) Over employment (d) None of these

Ans. A

Q.36 Aggregate Demand = Consumption + _____.

- (a) Supply (b) Investment (c) Saving (d) Expenditure

Ans. B

Q.37 If the equilibrium level of output is more than the full employment level, this situation is called the situation of _____. (Fill in the blank)

Ans. excess demand

Q.38 If the equilibrium level of output is less than the full employment level, this situation is called the situation of _____. (Fill in the blank)

Ans. Deficit demand

Q.39 There is unemployment or underemployment in the economy in a situation of _____ (inflationary gap/deflationary gap)

Ans. deflationary gap

Q.40 Identify the correct sequence of alternatives given in Column II by matching them with respective items in Column I:

Column I	Column II
(a) Full employment equilibrium	(i) Inflationary gap in the economy
(b) Structural unemployment	(ii) Underemployment equilibrium
(c) Excess of demand	(iii) Pursued by the central bank of a country

(d) Shortage of demand	(iv) Change in the technique of production
(e) Monetary policy	(v) No excess capacity

- (a) (a)-(v), (b)-(iv), (c)-(i), (d)-(ii), (e)-(iii)
- (b) (a)-(iii), (b)-(iv), (c)-(ii), (d)-(i), (e)-(v)
- (c) (a)-(i), (b)-(iv), (c)-(v), (d)-(iii), (e)-(ii)
- (d) (a)-(iv), (b)-(v), (c)-(i), (d)-(ii), (e)-(iii)

Ans. A

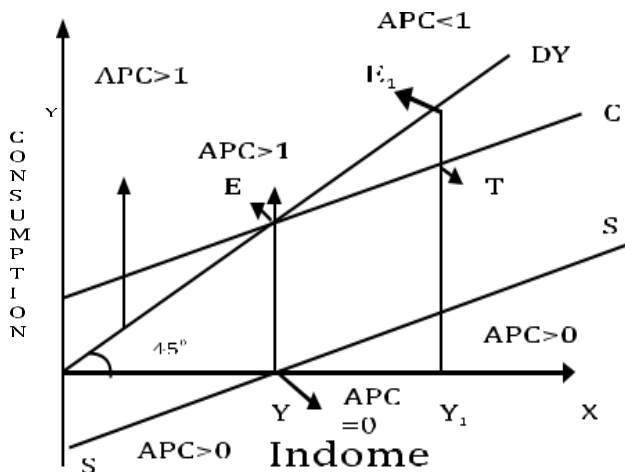
Long answer type questions

Q. Explain the concept of Consumption Function/ Propensity to consume.

It is an expression which establishes the functional relationship between consumption expenditure(C) & the level of income(Y). It describes that how the change in the level of income influence the consumption expenditure of the households. The rise in income level leads to rise in the consumption expenditure, & vice versa. According to Keynes, the rise in the level of income result into the rise in consumption expenditure but the rise is not as much as the rise in income because the rise in income is also accompanied with the rise in the savings of the households. This is also called as Keynes Psychological law of Consumption.

The consumption function or propensity to consume is represented by $C = f(Y)$ Or, $C = a + bY$, where, 'C' stands for Consumption expenditure, 'a' stands for autonomous consumption i.e. the consumption expenditure when the level of income is zero, 'b' for slope of the consumption curve, 'Y' stands for level of income. The consumption equation $C = a + bY$ shows the level of consumption for various levels of income. The consumption curve slopes upward from left to right and it originate from the Y-axis.

Fig: Consumption Function



The above figure shows the consumption function. Income curve is a 45 line originating from the point of origin. The Consumption curve is constantly rising from the point 'a' on the Y- axis which indicates the rise in consumption due to rise in income. The point 'a' refers to autonomous consumption i.e. the

consumption expenditure incurred
when the income is zero. income
curve intersects consumption



Q. Define the term break - even point.

The break-even point is defined as the point at which consumption is equal to income, & saving is zero.

Q. Define the term dissaving.

The saving curve SS intersect X-axis at OY level of income. Before this level the saving is negative, called as dissavings. It is the situation when the consumption is greater than income. The savings are positive when the consumption is less than income.

Q. Define the term Saving Function or propensity to save.

It refers to the functional relationship between saving & level of income, $S = f(Y)$. In other words, it is the tendency of the households to save at a given level of income.

Q. State the relationship between MPC & MPS.

$MPC + MPS = 1$; So, $MPC = 1 - MPS$; &, $MPS = 1 - MPC$

Similarly, the relationship between APC & APS is that, $APC + APS = 1$

Q. Define the term investment/income multiplier & explain its working.

This concept has been developed by J. M. Keynes in 1936. This concept explains the resultant change in the level of income in an economy due to change in the investment. In other words, when an economy raises a certain amount of investment, the level of income rises by a certain amount i.e. the investment generates greater amount of income in the economy. The multiplier indicates by what times the level of income rises due to rise in the investment at a given point of time.

For example, if the investment increases by Rs. 100 crores, & the income rises by Rs. 200 crores, the multiplier will be $200/100 = 2$.

According to Keynes, "Investment multiplier tells us that when there is an increment of aggregate investment; income will increase by an amount which is K times the increment of investment."

$\Delta Y = K\Delta I$; thus, $K = \Delta Y/\Delta I$, where K is the investment multiplier.

The multiplier can be defined as the ratio of change in income to the change in investment.

Working of the Multiplier: Multiplier process can be explained as the change in investment leads to change in income which further leads to change in consumption

expenditure. This again results into further change in income. This process continues till consumption expenditure becomes zero. The resultant increase in income depends upon the existing MPC which determines the value of K. **$K = 1/1-MPC$ or $K = 1/MPS$**

Q. Define the term Aggregate Supply.

It refers to the total production of commodities in the economy at a given point of time which is measured in terms of value added or the total income generated. It also refers to the disposable income which consist of two components viz, consumption & saving. Since $AS = Y$, therefore, **$AS = C + S$**

Q. Define the term Ex-ante savings & investment, & explain how they are different to ex-post savings & investment.

Ex-ante savings refers to the savings planned by the household for the given year, while **ex-ante investment** refers to the amount of investment planned by the producers towards the production of commodities in the given year. **Ex-post savings** refers to the realized or actual savings made by the households in a year, while **ex-post investment** refers to the actual amount of investment made by the producers towards the production of commodities in a year.

Q. Define voluntary & involuntary unemployment.

Voluntary unemployment refers to the situation when people are willing to remain unemployed in the production activities at the current factor prices. **Involuntary unemployment** refers to the situation when the willing & able bodied people remain unutilized in the economy due to lack of employment opportunities.

Q. Explain using aggregate demand-aggregate supply approach the determination of equilibrium level of output and income in an economy.

The Statement

The modern theory of income determination states that income and employment in an economy are in equilibrium at that level at which aggregate demand (**AD**) equals aggregate supply (**AS**).

$$AD = AS, \text{ (Or } Y = C + I)$$

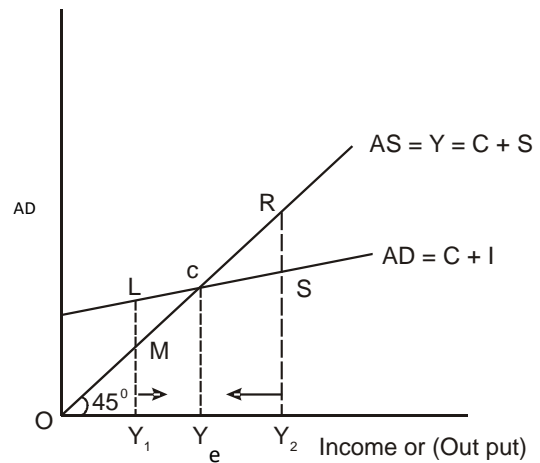
What happens when $AD > AS$?

Suppose, **AD** is greater than **AS**. It means that buyers are planning to buy some goods and services than producer are planning to produce. To bring back the inventories at the desired level producers expand production and hire more workers. This raises the employment level and in turn the income level. The two levels keep on rising till the **AD** and the **AS** once again become equal. This brings the economy back to equilibrium.

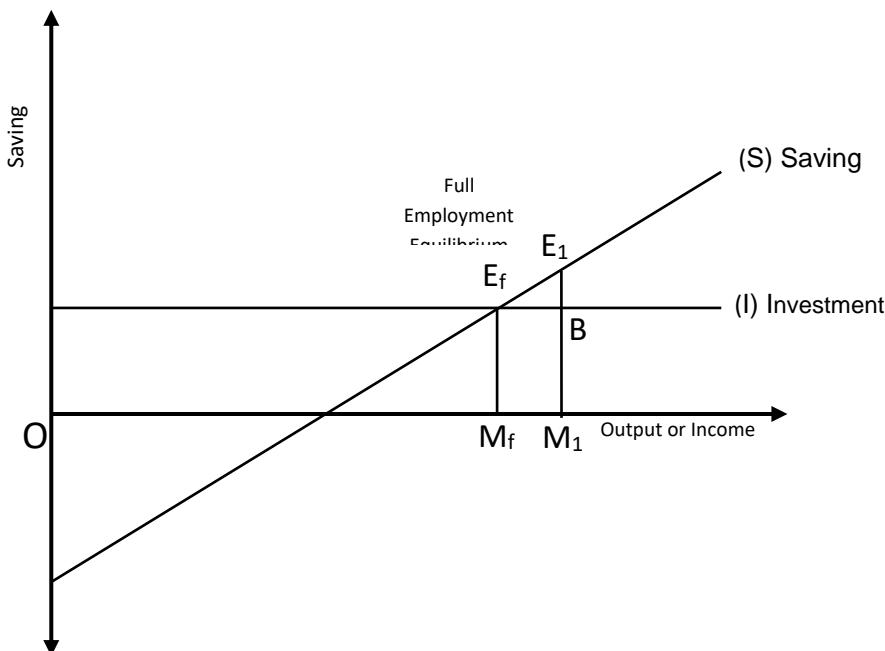
What happens when $AD < AS$?

It means that buyers are planning to buy less than what seller are planning to produce. As a result, inventory level starts rising and moves above the desired level. This leads the producer to cut back on production and lay off workers. This reduces the employment and income levels. The downward trend continues till **AD** and **AS** once again become equal. This brings the economy back to equilibrium.

In diagram Equilibrium occurs at point e in the diagram at income level OYe where, $AD=AS$.
 AD curve intersects AS
 i.e. 45° degree line from origin.



Q. Explain using Saving-Investment approach the determination of equilibrium level of output and income in an economy. What happens when the economy is not in equilibrium and saving exceeds investment?



According to Saving and Investment approach an economy is in equilibrium at a level of income where planned savings equals to planned investment ($S=I$). In the diagram it is clear that planned saving is equal to planned investment at OM_f level of income. Hence economy is in equilibrium at point E_f .

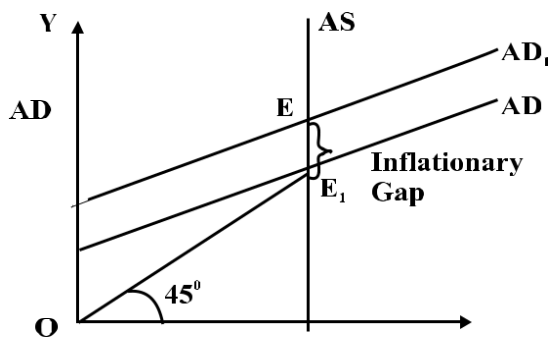
Suppose the level of income is greater than the equilibrium level of income

and it increases from OM_f to OM_1 . In this situation saving function curve lies above the investment function curve which means planned savings (E_1M_1) is greater than the planned investment (BM_1). It creates the situation of excess savings. Hence, there would be unplanned or undesired increase in stock of inventories. Consequently, in order to reduce the stock of unsold inventories firms reduce their output leading to unemployment. Therefore, the output in the economy starts declining and ultimately it becomes equal to the level of equilibrium income (OM_f).

Q. Explain the concept of Excess Demand (Inflationary Gap) & Deficient Demand (Deflationary Gap).

Excess demand refers to that situation in an economy when the AD exceeds the AS at full

employment level at a given point of time. In other words, the Excess demand refers to that situation when the Current (Actual) AD exceeds the required AD to maintain full employment equilibrium.



In the first fig, we see that AD_1 is the planned or actual AD curve & AD is the required AD to maintain full employment equilibrium. Y_1

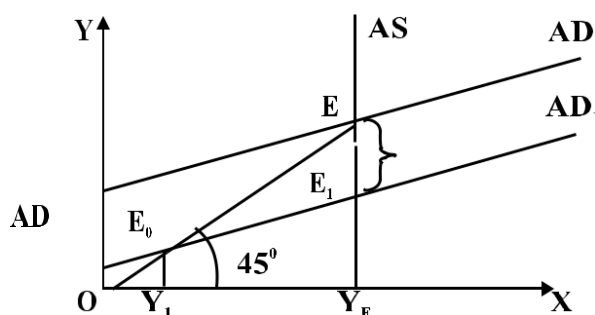
is the full employment level where the AS becomes constant & maximum, and therefore it is a straight line prior to which AS is 45° line indicating proportionate rise in income and employment. The current equilibrium of the economy is at E which exceeds the required one i.e. E_1 to have full employment

equilibrium. **EE refers to the inflationary**

Gap which leads to inflation in the economy

In the second fig, which shows the conventional diagram of excess demand situation, the $AD=AS$ at point E which corresponds to overfull employment level, and at full employment level the AD (DY) Exceeds AS (SY), **Thus ES is the inflationary gap.**

Deficient Demand refers to that situation in an economy when the AD falls short of AS at full employment level at a given unit of time. In other words, it is the situation when the planned or actual aggregate demand falls short of required aggregate demand to maintain full employment equilibrium. This situation is also referred to as underemployment equilibrium because the actual equilibrium in an economy takes place before the level of full employment, and there exist some amount of involuntary unemployment. This situation is more deteriorating in effect, as in this situation there is drastic fall in price level which leads to decline in income, employment & output. In this situation, the economy operates much below to its production capacity due to which many resources remain unutilized or underutilized. This defers the rate of economic growth & development.



In the first fig., we see that AD is the planned or actual AD curve & AD is the

required AD to maintain full employment equilibrium. Y_1 is the full employment level

where the AS becomes constant & maximum, and therefore it is a straight line

prior to which AS is 45° line indicating proportionate

rise in income and employment. The current equilibrium of the economy is at E which fall short of the required one i.e. E to have

full employment

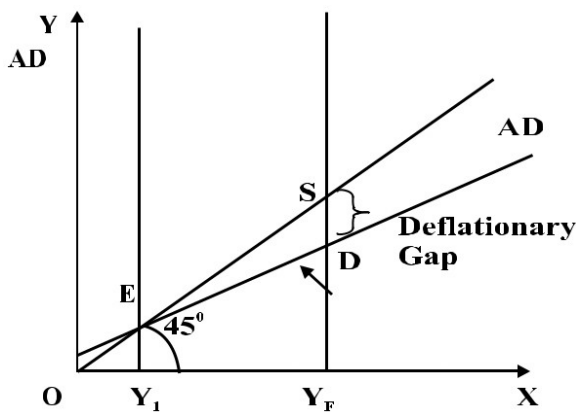
EE refers to the inflationary gap
1

Which leads to infection in the economy.

In the second fig, which shows the conventional diagram of deficient demand situation, the AD=AS at point E which corresponds to under-employment level, and at full employment level the AD (DY_1)

falls short of AS (SY), **Thus ES is the inflationary gap.**

equilibrium.



State the causes of excess demand/inflation.

1. Excess of Money supply due to excess expenditure by the Government & excess credit creation by the Commercial Banks. 2. Excess of Exports over Imports which leads to scarcity in the domestic supply of essential goods. 3. Hoarding & Black marketing of the essential goods by the traders.
2. Tax Evasion by the household & firms. 4. Due to low market rate of interest. 4. Due to Cyclical fluctuations.

Q. State the causes of deficient demand/deflation.

1. Lack of Money supply due to curtailed expenditure by the Government & less credit creation by the Commercial Banks.
2. Excess of imports over exports which leads to excess of availability of essential goods.
3. Excess of production by the enterprises due to improper planning and wrong estimation.
4. Due to high market rate of interest. 5. Due to depression prevailing in the economy.

Q. Explain the Measures to correct excess (inflationary gap) & deficient demand (deflationary gap).

The measures can be classified into two measures viz.

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

1. **Fiscal measures:** These measures are formulated & implemented by the Government to control inflationary or deflationary situation. The following tools are used to control & combat the inflationary & deflationary situation.
- b) **Public Expenditure:** The govt. expenditure has a large impact on the creation of money supply & further on the rise/fall in AD. During the inflationary situation, the Govt. may curtail the unproductive expenditure to check expansion of money supply which may tend to reduce the AD. This will prevent in the inflow of excess money in the economy. During the deflationary situation, the govt. should raise the expenditure on the economy by funding various developmental projects. This will lead to induce the money supply in the economy & the AD too will rise.
2. **Monetary Measures:** These measures are adopted by the Central Bank of a country in order to control inflation or combat deflation. There are two methods or instruments of monetary policy viz.
 - i) ***Quantitative Methods or General methods, which refer to the control of quantity of money supply through credit control.*** The following instruments are used in quantitative method:
 - A) **Bank Rate Policy: It refers to the rate of interest charged by the Central Bank on the loans & advances given to the Commercial Banks.** The Bank Rate is determined by the Central Bank itself. The rise in BR leads to rise in rate of interest which affects the savings & demand for loans. During the excess demand situation, the CB raises the BR which leads to rise in rate of interest. This leads to raise the savings & reduce the demand for loans. Consequently, there is a fall in purchasing power & further fall in AD.

Open Market Operations: It refers to the process to sale & purchase of securities by the CB in the economy. During the excess demand situation, the CB sells the bonds & securities in the market which is purchased by the banks, individuals and other financial institutions of the economy. This helps in wiping out the excess of money supply from the society & further there is a fall in purchasing power of the people. Consequently, the AD falls, this helps in reducing the price level. During the deficient demand situation, the CB purchases the securities of different institutions which induce the inflow of money supply in the economy. This further leads to rise in money supply & thus there is rise in AD.
 - B) **Cash Reserve Ratio: The CRR is an important tool which is used to correct the inflationary & deflationary situation, as the rise in CRR leads to fall in the lending capacity of the banks.** During the excess demand situation, the CB raises the CRR which leads to fall in the lending capacity of the banks. This results in fall in money supply & further fall in AD. The fall in AD leads to fall in price level. During the deflationary situation, the CB reduces the CRR which raises the lending capacity of the banks. The rise in lending capacity leads to rise in money supply & further rise in AD.
 - C) **Repo & Reverse repo rate:** During inflation, the RBI increases the repo rate to make the credit dearer in order to restrict its supply. Similarly, RBI increases the RRR to encourage the commercial banks to park more funds with RBI. This helps in restricting money supply in the economy.

Qualitative Measures:

1. **Regulation of Margin Requirements:** The margin requirements refers to the difference between current value of the security offered for loans and the value of loans granted. In case of inflationary tendencies in an industry, the CB will raise the margin requirement so as to restrict the flow of credit, & vice versa in case of deflationary situation in an industry.
2. **Rationing of Credit:** The fixation of credit quota for different industries is called as rationing of credit. In order to restrict the flow of credit for speculative activities in a

sector, the CB will introduce rationing credit. The quota limits fixed in granting loans by the CB cannot be exceeded by the Commercial Banks.

- Moral Suasion & Direct Action:** In case of inflationary or deflationary situations, the CB may issue directives with a view to control the flow of credit. The advices of the CB are generally accepted by the Commercial Banks for expanding or contracting credit. In case the commercial banks do not comply with the directives, the CB may initiate direct action against the member banks.

Q. Make a schedule to explain that when National Income rises, APC falls & APS rises. This schedule proves that when income level of an economy rises, the APC falls & APS rises. When consumption falls short of income, savings are negative called as dissavings. Let $C = 50 + 0.5Y$

Income	Consumption	Savings	APC	APS
0	50	-50	\square	$-\square$
100	100	0	1	0
200	150	50	0.75	0.25
300	200	100	0.67	0.33
400	250	150	0.62	0.38
500	300	200	0.6	0.4

Make a schedule to explain the Keynesian Theory of Income & Output. Also show a numerical example that how the economy can reach full employment level of income & output.

Let $C = 25 + 0.75Y$, $I_0 = \text{Rs } 50$ crores; Full employment level of income is Rs 400 cr. Here all values are representing Rs crores.

Output	Consumption	Savings	Investment	AD	AS	
0	25	-25	50	75	0	AD > AS Economy expands
100	100	0	50	150	100	
200	175	25	50	225	200	
300	250	50	50	300	300	Equilibrium AD=AS
400	325	75	50	375	400	AD < AS Economy Contracts
500	400	100	50	450	500	

From the above schedule we can say that presently the economy is in equilibrium at Rs 300 crores level of income & output. Now, if economy wants to achieve equilibrium at full employment level ie Rs 400 crores, then it has to increase the autonomous investment in such a manner that the AD also reaches to Rs 400 cr to get in equilibrium. So, if $MPC = 0.75$, $K = 1/1-0.75 = 4$. So, change in investment (ΔI) should be = change in income (ΔY) / $K = 100/4 = \text{Rs } 25$ cr. So, if the economy raise its investment level to 75 cr, the AD will be Rs 400 cr & now it will be equal to AS. Thus, the economy attains full employment equilibrium.

Q. Make a schedule to explain the working of the multiplier.

Let $MPC = 0.5$, investment is Rs 100

Round	Change in investment	Change in income	Change in Consumption	Change in savings
Initial		100	50	50

1	100	50	25	25
2		25	12.5	12.5
3		12.5	6.25	6.25
-		---	---	---
-		---	---	---
Total	100	200	100	100

Here we see that initially the investment made in economy is Rs 100, the immediately income should be Rs 100. Further, half of it is spent by the people & other half is saved since $MPC=0.5$. The amount of Rs 50 spent by one section of society will generate income of Rs 50. This process continues till the leverage effect of multiplier exists. As soon as the effect is over, the working of multiplier stops. Now, if we add the incomes generated at all the rounds, we get Rs 200. This means the fresh investment of Rs 100 crores leads to amplifying the income to Rs 200 crores, as $MPC = 0.5$, so $K = 1/1-0.5 = 2$. So, change in income = $K \times$ fresh investment i.e. 2×100 crores = Rs 200 Crores

UNIT 4 GOVERNMENT BUDGET AND THE ECONOMY

Q.1 In the context of government budget, which of the following statements is correct?

- (a) Budget is a statement of expected annual receipts and expenditures of the government
- (b) It is the detail of actual receipts and expenditures of the government in a financial year
- (c) It offers a detailed description of achievements of the government during the five year plans
- (d) It indicates BOP status of the domestic economy

ANSWER :- (a) Budget is a statement of expected annual receipts and expenditures of the government

Q.2 Primary deficit in a government budget will be zero, when _____

- (a) Revenue deficit is zero
- (b) Fiscal deficit is zero
- (c) Net interest payments are zero
- (d) Fiscal deficit is equal to interest payment

ANSWER :- (d) Fiscal deficit is equal to interest payment

Q.3 Dividends received from public sector undertakings are a part of the government's _____

- (a) Non-tax revenue receipts
- (b) Capital receipts
- (c) Tax receipts
- (d) Direct receipts

ANSWER :- (a) Non-tax revenue receipts

Q.4 Which of the following is a non-tax receipt?

(a) Gift tax (b) sales tax (c) donations (d) Excise duty

ANSWER :- (c) donations

Q.5 “Free distribution of LPG connection to poor people is a sign of social justice”. Identify the Objective of Government Budget' from the above-mentioned statement.

- (a) Promote Economic Growth (b) Management of public enterprises
- (c) Create equitable distribution of income
- (d) Create fluctuation in revenue of the government

ANSWER :- (c) Create equitable distribution of income

Q.6 Read the following statements –

Assertion (A) and Reason (R): Choose the correct alternative among those given the below: Assertion: In the process of development, construction of dams, new schools, new plants, and repayment of loans is essential.

Reason: Capital expenditure creates the assets of the government and causes reduction in the liabilities of the government.

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

ANSWER :- (a) Both A and R are true and R is the correct explanation of A.

Q.7 Read the following statements –

Assertion (A) and Reason (R): Choose the correct alternative among those given the below:

ASSERTION (A): GST is an indirect tax.

REASON (R): All indirect taxes are imposed on the production and sale of goods and services

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

ANSWER :- (b) Both A and R are true but R is not the correct explanation of A.

Q.8 Read the following statements –

Assertion (A) and Reason (R): Choose the correct alternative among those given the below:

ASSERTION (A): Tax payments to the government do not provide any direct benefit to the tax payer.

REASON (R): Government spends tax receipts for common benefit of the society.

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

ANSWER :- (a) Both A and R are true and R is the correct explanation of A.

Q.9 Government expenditure on mid day meal scheme running in government schools is a expenditure in government budget

- (a) Capital
- (b) Revenue
- (c) Normal
- (d) any of these

ANSWER :- (b) Revenue

Q.10 Read the following statement carefully and choose the correct alternative from the following:

Statement1: Government Budget is a detailed economic statement presented by Finance Minister.

Statement2: Government Budget consists of Financial programmes and policies of the government for the next year.

Alternative:

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

ANSWER :- (a) Both the statement are true

Q.11 Statement 1: Capital Expenditure is estimated expenditure of the government in a fiscal year which does not create assets or causes a reduction in liabilities.

Statement 2 : Revenue expenditure is expenditure refer to the estimated expenditure of the government in a fiscal year which creates assets or causes a reduction in liabilities

Alternative:

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

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

ANSWER :- (b) Both the statement are false

Q.12 Disinvestment is which type of receipt for the Government?

(a) Capital Receipt (b) Revenue Receipt (c) Both a and b (d) None of these

ANSWER :- (a) Capital Receipt

Q.13 From the following items in Column I and Column II choose the correct pair.

Column I

Column II

A Direct Taxes

i Goods and Services tax

B Indirect Tax

ii Income Tax

C Revenue Receipts

iii Disinvestment

D Capital Expenditure

iv Construction of a school

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

ANSWER :- Ans. (d) D- iv

Q.14 The expenditure on education by the government is expressed as a percentage of _____.

(a) Goods & Service Tax (b) Disinvestment

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

ANSWER :- (c) Gross Domestic Product (GDP)

Q.15 Loans to state government are a part of _____

(a) Capital expenditure (b) Revenue expenditure (c) Revenue receipt (d) Capital receipt

ANSWER :- (a) Capital expenditure

Q.16 "In the Annual Budget 2023-24, the Government of India set up disinvestment targets of 65,000 crore".

Such proceeds from disinvestment can be classified as..... receipts in

the Government Budget as it leads to..... of the Government. (Choose the correct alternative)

(a) capital, decrease in assets (b) revenue, increase in assets

(c) capital, increase in liabilities (d) revenue, decrease in liabilities

ANSWER :- (a) capital, decrease in assets

Q.17 'Govt. of India spends 2.5 crore for Olympic medallist Mirabai Chanu in 5 years; This will be categorized as

- (a) Revenue Nature Income (b) Capital Nature Income
(c) Capital Nature Expenditure (d) Revenue Nature Expenditure

ANSWER :- (d) Revenue Nature Expenditure

Q.18 If primary deficit is 3500 and interest payment is 500, then fiscal deficit is .

- (a) 2900 (b) 4000 (c) 4100 (d) 4200

ANSWER :- (b) 4000

Q.19 A large fiscal deficit implies _____

- (a) Very small savings (b) Investment (c) Borrowing requirement (d) No borrowing

ANSWER :- (c) Borrowing requirement

Q.20 Which of the following is an example of a public good?

- (a) Medicines and injections (b) Books and stationary
(c) Houses and furniture (d) Law and order

ANSWER :- (d) Law and order

Q.21 The expenditure on preventive medicine like awareness campaign against dengue, malaria is an example of..... .

- (a) Revenue nature income (b) Capital nature income
(c) Revenue nature expenditure (d) Capital nature expenditure

ANSWER :- (c) Revenue nature expenditure

Q.22 Identify which of the following is not an example of tax revenue for the government?

- (a) Wealth Tax (b) Special Assessments
(c) Income Tax (d) Corporate Tax

ANSWER :- (b) Special Assessments

Q.23 Borrowings are equivalent to _____

- (a) Primary deficit (b) Fiscal deficit (c) Revenue deficit (d) None of these

ANSWER :- (b) Fiscal deficit

Q. 24 Repayment of loan is an example of

- (a) Capital Expenditure (b) Non plan Expenditure
(c) Revenue Expenditure (d) Plan Expenditure

ANSWER :- (a) Capital Expenditure

Q.25 The fee of the government college is a part of revenue receipts because.

- (a) It creates liabilities of the government (b) It increases assets of the government
(c) It neither creates any liability nor reduces any assets of the government
(d) It either creates liability or reduces any assets of the government

ANSWER :- (c) It neither creates any liability nor reduces any assets of the government

Q.26



Identify the budgetary situation in the economy.

- (a) Deficit budget (b) Surplus budget
(c) Balanced budget (d) None of the above.

ANSWER :- (b) Surplus budget

Q.27 In a government budget Primary deficit is Rs. 12000 crore and Interest payments is Rs. 7000 crore.

How much is the Fiscal Deficit?

- (a) Rs. 5000 Crore (b) Rs. 7000 Crore
(c) Rs. 12000 Crore (d) Rs. 19000 Crore

ANSWER :- (d) Rs. 19000 Crore

Q.28 List the following items as revenue and capital expenditure.

- (a) Subsidies
- (b) Purchase of train coaches from South Korea
- (c) Amount borrowed from UK repaid
- (d) Grants given to state government

ANSWER :- (a) Subsidies – Revenue expenditure

(b) Purchase of train coaches from South Korea. – Capital expenditure

(c) Amount borrowed from UK repaid - Capital expenditure

(d) Grants given to state government – Revenue expenditure

Q.29 _____ is a revenue receipt of the government.

- (a) Funds raised by the government by issuing National Saving Certificates
- (b) Sale of 40% shares of a public sector undertaking to a private enterprise
- (c) Profits of LIC, a public enterprise
- (d) Amount borrowed from Japan for construction of Bullet Train

ANSWER :- (c) Profits of LIC, a public enterprise

Q.30 Identify which of the following statements is true?

- (a) Fiscal deficit is difference between planned revenue expenditure and planned revenue receipts.
- (b) Fiscal deficit is difference between total planned expenditure and total planned receipts. (c) Primary deficit is the difference between total planned receipt and interest payments.
- (d) Fiscal deficit is the sum of primary deficit and interest payment.

ANSWER :- (d) Fiscal deficit is the sum of primary deficit and interest payment.

Short Answer type questions.

Q1. Give the meaning of budget.

ANSWER :- A budget is an annual statement of the estimated receipts and estimated expenditure of the government over the fiscal year.

Q.2 Why is payment of interest a revenue expenditure.

ANSWER :- Payment of interest is treated as a revenue expenditure, because it neither reduces liability of the payer nor adds to his assets.

Q.3 Write any three objective of government Budget.

ANSWER :- The objective that are pursued by the government through the budget are

- i) To achieve economic growth.
- ii) To reduce in equalities in income and wealth.
- iii) To achieve economic stability.

Q.4 Explain the types of Government Budget.

ANSWER :- Balanced Budget : When Estimated expenditure are equal to estimated receipts.

Surplus Budget : When estimated receipts are more than estimated expenditure.

Deficit budget : When estimated expenditure are more than estimated receipts.

Q.5 How the government use its budgetary policy in reducing the inequality of income distribution in the country.

ANSWER :- The government the budget can achieve to reduce inequalities in the distribution of income and wealth in two ways:

- (i) By imposing higher taxes on the income of rich and the goods consumed by the rich, which will reduce the disposable income of the rich.
- (ii) Increasing government expenditure by providing free services to the poor like education, medical facilities etc. This will raise the disposable income of the poor. Thus, the gap between rich and poor can be reduced.

Q.6 Write a note on plan and non-plan expenditure of the government with example.

ANSWER :- Plan Expenditure :- Plan expenditure refers to the estimated expenditure which is provided in the budget to be incurred during the year on implementing various projects and programmes included in the plan. Such expenditure is incurred on financing the central plan relating to different sectors of the economy

Non – Plan Expenditure :- This refers to the estimated expenditure provided in the budget for spending during the year on routine functioning of the government. Its examples are expenditure incurred on government administrative services, salaries and pension etc.

Q.7 Does ‘disinvestment’ and ‘loan proceeds from abroad’ constitute revenue receipts of the government? Give reason.

ANSWER :- Disinvestment: No, disinvestments is treated as capital receipts , because it leads to reduction in assets of the government.

Loan proceeds from abroad: NO, loan proceeds from abroad are treated as capital receipts, because it creates liability of the government.

Q.8 Define fiscal deficit and what are its implications.

ANSWER :- FISCAL DEFICIT : It is estimated, accounting for both the revenue as well as capital receipts and expenditure of the government. Fiscal deficit is the excess of total expenditure over total receipts excluding borrowing.

SIGNIFICANCE: It is estimated to know about the extend of borrowings by the government. Significance of fiscal deficit is as follows: Causes inflation, Increase in foreign dependence, Financial burden for future generation, Deficits multiply borrowings.

Q.9 State whether the following statements are true or false. Support your answer with reason.

(a) Taxation is an effective tool to reduce the inequalities of income.

ANSWER :- (a) Taxation is an effective tool to reduce the inequalities of income: True, to correct inequality of income Indian government focuses on the equitable distribution of income pursues the policy of progressive taxation: Tax increases with an increases in income

Q.10 Explain Primary deficit in a government budget what does it indicate ?

ANSWER :- Primary deficit refers to difference between fiscal deficit of the current year and interest payments on the previous borrowings.

Primary Deficit = Fiscal Deficit – Interest payments

Implications: (i) It indicates , how much of the government borrowings are going to meet expenses than the interest payments.

(ii)The difference between fiscal deficit and primary deficit shows the amount of interest payments on the borrowings made in past.

Q.11 Given reasons, classify the following into revenue receipts and capital receipts:

(i) Recovery of loans (ii) Profit of public sector undertaking (iii) Borrowings

ANSWER :- (i)Recovery of loans:- (i) Recovery of loans is a capital receipt . It leads to reduction in assets of the government.

(ii.) Profit of public sector undertaking : Profit of public sector undertaking are revenue receipts because they neither create any liability nor reduce any asset' (neither, nor)For the government .

(iii.) Borrowings and other liabilities: - Borrowing are capital receipts because they creates liability for the government

Q.12 State three sources each of revenue receipts and capital receipts in government budget

ANSWER :- Three sources of revenue receipts in government budget are: Goods and services tax, income taxes, fees, escheat, fines etc

Three sources of capital receipts in government budget are: recovery of loans, borrowing from RBI, disinvestment.

Q.13 Even if Capital receipts creates burden of the government, what is the need to collect revenue form it?

ANSWER :- The source of income of the government is both revenue receipts & capital receipts. The revenue receipt includes both revenue receipt & capital receipt. The revenue receipt is burden free where as the capital receipts create liability for the government. The revenue receipt is not sufficient to meet the expenditure of the government. The revenue receipt cannot balance both revenue & capital expenditure. So the government is collecting the revenue from capital receipts which included borrowings, disinvestment & recovery of loan.

Q.14 Explain the basis of classifying taxes into direct and indirect tax. Give examples.

ANSWER :- Direct Tax:- ‘ A direct tax is really paid by the person on whom is legally imposed’. Which cannot be shifted. For example: Income (Direct) tax really paid by the person on whom is legally imposed’

Indirect Tax:-‘An indirect tax is imposed on one person but paid partly or wholly by another’. Which are paid to Government by one person but their burden shifted to another person. For example: GST paid to Government by one person but their burden shifted to another person.

Q.15 Are fiscal deficit necessarily inflationary? Explain.

ANSWER :- Yes 1. If Fiscal deficit is financed by issuing new currencies.

2. If government borrows only to meet the revenue expenditure/ consumption expenditure.

Q.16 What are non-debt creating capital receipts? Give two examples of such receipts.

ANSWER :- Those capital receipts which leads to decrease in assets and not creating any liabilities are called non- debt creating capital receipts. Examples: Disinvestment, Recovery of Loan

Q.17 Categorized the following government receipts in to revenue and capital receipts. Give reasons for your answer.

(a) Receipts from sale of share of a public sector undertaking.

(b) Borrowings from public.

(c) Profits of public sector undertakings.

(d) Income tax received by government.

ANSWER :- (a) It is a capital receipt as it results in reduction of assets.

(b) It is a capital receipt as it creates a liability.

(c) It is a revenue receipt as it neither creates a liability nor reduces any assets.

(d) It is a revenue receipt as it neither creates a liability nor reduces any assets.

Q.18 Revenue deficit is estimated to be Rs.20,000 crores. Borrowing is estimated to be Rs.15,000 crores. If expenditure on interest payment is estimated to be 50% of the Revenue deficit, find Fiscal deficit and Primary deficit.

ANSWER :- $FD = \text{Borrowings} = \text{Rs.15,000 crores.}$

Interest payment = 50% of RD = 50% of 20,000 = Rs.10,000 crores.

$PD = FD - \text{Interest payment}$

$15000 - 10000 = \text{Rs.5,000 crores.}$

Q.19 Given the following data estimate the values of (i) Revenue deficit and (ii) Fiscal deficit

S.NO	ITEMS	RS IN CRORE
1	Non-tax revenue	2300
2	Tax revenue	1000
3	Recovery of loans	145
4	Revenue expenditure	3500
5	Capital expenditure	580
6	Disinvestment	300
7	Interest payment	1013

ANSWER :- Revenue deficit = Revenue expenditure – Revenue Receipts (tax revenue + non- tax revenue)

= Rs.3,500 crore – (Rs.1000 crore + 2,300 crore)

= Rs. 200 crore

Fiscal deficit = Total expenditure (Revenue expenditure + Capital expenditure) – Total

Receipts (Revenue receipts + Capital receipts) other than borrowings

= 3,500 crore + 580 crore – (1000 crore + 2,300 crore) + (145 crore + 300 crore)

= 3,500 crore + 580 crore – 3,300 crore + 445 crore

= Rs. 4,080 crore – Rs. 3,745 crore

= Rs. 335 crore

(i) Revenue deficit Rs. 200 crore

(ii) Fiscal deficit Rs. 335 crore

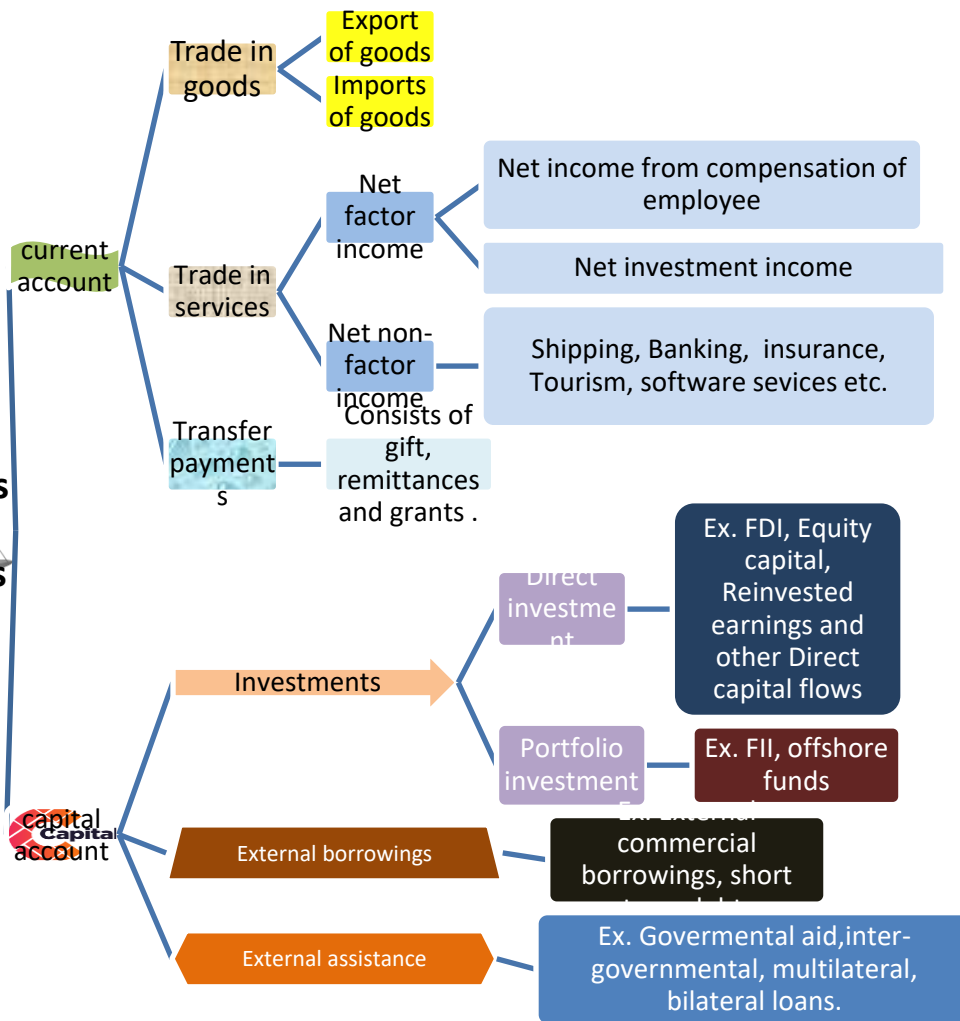
Q.20 Explain how Government Budget can helpful in bringing economic stabilization in the economy.

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

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

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

Components of Balance of payments



Foreign exchange rate – The price of one currency in terms of another currency is known as the foreign exchange rate or simply the exchange rate.

Meaning of fixed rate- When Government fixes the exchange rate at a particular level

Meaning of flexible rates- This exchange rate is determined by the market forces of demand and supply. It is also known as Floating Exchange Rate

Meaning and feature of managed floating- It is a mixture of a flexible exchange rate system (the float part) and a fixed rate system (the managed part).

Balance of payments account - meaning -The balance of payments (BoP) record the transactions in goods, services and assets between residents of a country with the rest of the world for a specified time period typically a year.

Components - There are two main accounts in the BoP — the current account and the capital account

current account- Current Account is the record of trade in goods and services and transfer payments. Trade in goods includes exports and imports of goods. Trade in services includes factor income and non-factor income transactions. Transfer payments are the receipts which the residents of a country get for ‘free’, without having to provide any goods or services in return. They consist of gifts, remittances and grants. They could be given by the government or by private citizens living abroad

Capital account - Capital Account records all international transactions of **assets**. An asset is any one of the forms in which wealth can be held, for example: money, stocks, bonds, Government debt, etc. Purchase of assets is a debit item on the capital account. If an Indian buys a UK Car Company, it enters capital account transactions as a **debit item** (as foreign exchange is flowing out of India). On the other hand, sale of assets like sale of share of an Indian company to a Chinese customer is a **credit item** on the capital account.

Balance of payments – Surplus – Country has a surplus receives more than it spending on sales to the rest of the world

Deficit- a country that has a deficit in its current account means spending more than it receives from sales to the rest of the world.

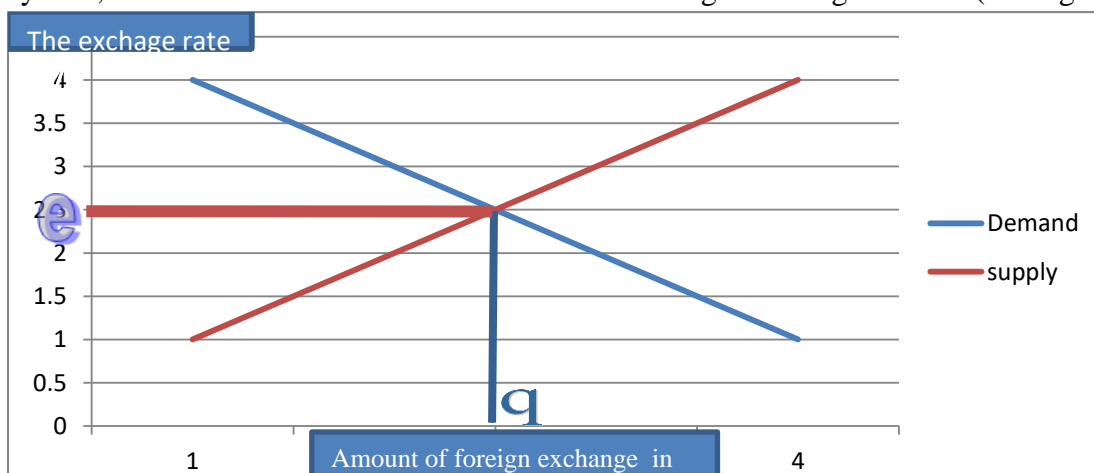
Foreign exchange rate – The price of one currency in terms of another currency is known as the foreign exchange rate or simply the exchange rate.

Meaning of fixed rate- When Government fixes the exchange rate at a particular level.

Meaning of flexible rates- This exchange rate is determined by the market forces of demand and supply. It is also known as Floating Exchange Rate.

Meaning and feature of managed floating- It is a mixture of a flexible exchange rate system (the float part) and a fixed rate system (the managed part). Under this system, also called dirty floating, central banks intervene to buy and sell foreign currencies in an attempt to moderate exchange rate movements whenever they feel that such actions are appropriate. Official reserve transactions are, therefore, not equal to zero.

Determination of exchange rate in a free market- the exchange rate is determined where the demand curve intersects with the supply curve, i.e., at point e on the Y – axis. Point q on the x – axis determines the quantity of US Dollars that have been demanded and supplied on e exchange rate. In a completely flexible system, the Central banks do not intervene in the foreign exchange market. (See figure)



Merits and demerits of flexible and fixed exchange rate-

Merits- 1. The main feature of the fixed exchange rate system is that there must be credibility that the government will be able to maintain the exchange rate at the level specified.

2. if there is a deficit in the BoP, in a fixed exchange rate system, governments will have to intervene to take care of the gap by use of its official reserves.

3. The flexible exchange rate system gives the government more flexibility and they do not need to maintain large stocks of foreign exchange reserves

4. The major advantage of flexible exchange rates is that movements in the exchange rate automatically take care of the surpluses and deficits in the BoP. Countries gain independence in conducting their monetary policies, since they do not have to intervene to maintain exchange rate which are automatically taken care of by the market.

Demerits- 1. If people know that the amount of reserves is inadequate, they would begin to doubt the ability of the government to maintain the fixed rate. This may give rise to speculation of devaluation.

2. When this belief translates into aggressive buying of one currency thereby forcing the government to devalue, it is said to constitute a speculative attack on a currency.

3. Fixed exchange rates are prone to these kinds of attacks, as has been witnessed in the period before the collapse of the Bretton Woods System.

BALANCE OF PAYMENT

Q1) if balance of trade of a nation shows deficit of 600 crore, the value of export is 800 crore and transfer payments are 100 crore.crore will be the value of import.

- a) 1300 b) 1500 c) 200 d) 1400

Ans. D

Q2) trade balance of is reflected as,

- I) Trade deficit when $M > X$
II) Trade surplus when $X > M$
III) Trade deficit when $M < X$
IV) Trade surplus when $X < M$

Option :

- A) I AND III B) II AND IV C) I AND II D) I AND IV

ANS. C

Q. read the following questions and answer from the alternative given below.

- a) Both statements are false.
b) Statement 1 is true and statement 2 is false.
c) Both statements are true.
d) Statement 2 is true and statement 1 is false.

Q3) statement 1) the transactions, which lead to inflow of foreign exchange, are recorded on the credit side. Statement 2) in a current account, receipts from export of goods and services, unilateral transfers and income from investment and work are entered as credit items as they represent inflow of foreign exchange.

Ans. C

Q4) statement 1) Accommodating transaction take place on current account.

Statement 2) these items are also known as "below the line items".

ANS. D

Q5) balance of trade is the difference between

- a) Export and import of services b) export and import of goods

c) Receipts and payment of unilateral transfer d) none of these

ANS: B

Q 6)) statement1: Autonomous items are classified as above the line items of BOP.

statement 2: Autonomous items lead to correction of BoP.

ANS B

Q7)) statement1) BoP disequilibrium when current account balance and capital account balance is not equal to zero.

statement 2) It causes the movement of official reserves.

Ans C

Q8) statement1: Capital account records receipts and payment of such transactions which cause and impact on asset liabilities status of the country in relation to the rest of the world.

statement 2 capital account transactions lead to future claims.

ANSWER. Both the statement for true

Q9) statement 1. Balance of payment is a statement of account showing all monetary and non monetary transactions

statement 2. The monetary transactions relate to export and import of goods; it's called visible trade.

ANSWER. statement 1 is false and statement 2 is true

Q10) statement1. Current transfer refers to :”transfer for free”

statement 2. these are unilateral transfers made by way of gift grants and remittance

ANSWER Both the statements are true

Q11) statement 1. Money sent by NRI to their family in India is to be treated as current transfers and are recorded in the capital account of BoP.

statement 2. Only deposits held by NRI in the domestic economy are to be considered as a component of capital account.

ANSWER. statement a is false and are is true.

Read the assertion and reason and give answer from the alternatives given below.

a) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion.

b) Both Assertion and Reason are true, but Reason is not the correct explanation of Assertion.

c) Assertion is true, but Reason is false.

d) Assertion is false, but Reason is true.

Q12) assertion: borrowing from abroad is recorded in the credit side of the capital account of the BoP account.

reason : “Borrowing from abroad” leads to the receipts of foreign exchange from rest of the world.

Ans a and r correct and correct explanation.

Q13) Assertion : The overall balance is finally reflected in the official reserve account of the RBI.

Reason : RBI is the custodian of foreign Reserve of the country and all for in transactions in the country are rotate through the RBI

Ans Both a and r true and R is the correct explanation of a.

Q14) assertion: Export and import of services is treated as individual invisible trade

reason : services are not material and therefore cannot be seen while crossing the border.

ANSWER . Both a and r is true and R is the correct explanation of it

Q15) assertion: disequilibrium in BOP requires the movement of Official Reserve

reason :Accommodating items lead to the Restoration of equilibrium

ANSWER. both the statements are true and R is correct explanation of A

Q16) Cause of BOP imbalance relates to
autonomous items

B) accommodating items

C) both A and B

D) neither a Nor b

ANS A

Q17) Trade Surplus refers to

export of goods and services is greater than Import of goods and services

Import of goods and services is greater than export of goods and services

export of invisible items is greater than Import of invisible item

export of visible items is greater than Import of visible items.

Answer d

Q18) If balance of trade is - 60 crores and the value of export is 500 crores then the value of import will be 1300 crores B) 300 crores C) 1100 crores D) 1200 crore

answer C

Q19) The 'resident', whose monetary transactions get recorded under the Balance of Payments system, includes _____.

Government agencies B) Individuals C) Firms D) All of the above

ANSWER D

Q20) Balance of Payments uses the _____ system of accounting.

Single-entry B) Double-entry C) Cash basis D) Accrual basis

Answer B

Q21) statement 1: exports are entered as credit items in the balance of payments accounts as it corresponds to outflow of foreign exchange.

Statement 2: imports are entered as debit items in the balance of payments accounts as it corresponds to outflow of foreign exchange.

read the following questions and answer from the alternative given below.

- a) Both statement are false.
- b) Statement 1 is true and statement 2 is false.
- c) Both statement are true.
- d) Statement 2 is true and statement 1 is false.

Ans: D

Q22) statement 1: the balance of payment accounting must be always balanced.

Statement 2 that is, total debits must be equal to total credits.

Ans: c

Q23) balance of trade is just a part of the balance of payment account.

Balance of trade is also known as balance of visible trade or trade balance.

Ans: C

Q24) statement 1) accommodating transactions that take place on current accounts.

Statement 2) these items are also known as below the line items.

Ans. D

FILL IN THE BLANK

Q25) the net value of credit and debit balance is the

Ans: balance on current account

Q26) when credit items are more than debit items. It implies

Ans: net inflow of foreign exchange.

Q27) when debit items are more than credit items. It implies

Ans: net outflow of foreign exchange.

Q28) purchase of a machine from USA by a producer is a Item.

Ans. Autonomous

Q29) borrowing from the world bank to recover from a severe balance of payment crisis is aitem.

Ans. accommodating

Q30) autonomous items are also known as.....

Ans. above the line items

Q31) match the following.

Column A	ANSWER	COLUMN B
Balance	A= 2	inflow of foreign exchange is more than outflow of foreign exchange
Surplus	B=1	2) inflow of foreign exchange is equal to outflow of foreign exchange
Deficit	C= 3	3) inflow of foreign exchange is less than outflow of foreign exchange

Q32) match the following.

Column A	ANSWER	Column B
----------	--------	----------

Export and import of goods	A= 4	Balance of invisible trade
Export and imports of services	B= 1	2) Gifts, donations, remittance and other one way transactions
Receipts and payment of unilateral transfers	C= 2	3) Balance of inflow and outflow of foreign exchange
Income	D=3	4) balance of trade

Q33) statement 1: Current account exhibits surplus when receipts from exports of goods and services , unilateral transfers and income from investment and work are more than payments for imports of goods and services, unilateral transfers and income from investment and work.

Statement 2: Capital account exhibits deficit when payments for imports of goods and services , unilateral transfers and income paid for investment and work are more than receipts from exports of goods and services, unilateral transfers and income from investment and work.

Ans. C

Balance of payment

1) Distinguish between balance of trade and balance of payment.

Answer.

Basis	Balance of trade	Balance of payment
Meaning	Systematic record of the value of visible export and import in a country.	Systematic record of all economic transaction of a country.
Nature of items	Only visible items.	Visible and invisible items
Concept	Narrow	wider
Nature of record	Incomplete record of economic transaction.	Complete record of economic transaction.

Q2) Distinguish between current and capital account.

Answer:

S.L.	current account	capital account
1.	Current account exhibits surplus when receipts from exports of goods and services , unilateral transfers and income from investment and work are more than payments for imports of goods and services, unilateral transfers and income from investment and work	Capital account exhibits deficit when payments for imports of goods and services , unilateral transfers and income paid for investment and work are more than receipts from exports of goods and services, unilateral transfers and income from investment and work.
2	When inflow of foreign exchange is more than its outflow.	When outflow of foreign exchange is more than its inflow.
3.	Value of credit items is more than value of debit.	Value of debit items is more than value of credit.

Q3) how is the balance of payment deficit measured? Explain.

Answer:

Payment deficit is a situation when autonomous receipts are less than autonomous payment. Autonomous transactions are those transactions which are carried out with economic motive irrespective of the present position of the balance of payment. It is also known as above the line items.

Q4) in a hypothetical economy, the balance of trade shows a deficit of 1900 crores and value of imports is 2400 crores .what is the value of exports.

Answer.

Balance of trade = exports – imports

(-) 1900= exports – 2400 crore

Or exports = (-) 1900+2400

= 500 crores

Q5) from the following data , calculate the primary deficit.

S.L. NO.	Particulars	Amount in crore
1	Revenue deficit	80
2	Non- debt crestring capital receipts	380
3	Tax revenue	250
4	Capital expenditure	440
5	Interest payment	40

Answer:

Primary deficit = fiscal deficit – interest payment

Fiscal deficit = revenue deficit + (capital expenditure - Non- debt crestring capital receipts)

80 +(440 - 380)

= 80 + 60

= 140 crore

Primary deficit = fiscal deficit – interest payment

140 – 40

= 100 crore

Q6) what is meant by balance of payments?

Answer : BoP refers to the statement of accounts regarding all economic transaction of a country with rest of the world in an accounting year.

Q7) what is the main difference between balance of trade and balance of payment.

Answer: balance of trade defined as the difference between the value of imports and exports of only physical goods or visible goods. And balance of payment include all visible and invisible transactions.

Q8) Give reason state which of the following transaction will be recorded in current account or capital account of BOP also indicate credit side or debit side of the transactions

sale of machinery to rest of the world

borrowing from abroad

Answer 1) sale of machinery to the rest of the world is recorded with a + sign on the credit side in the current account balance of the payment account. this is because it played to the receipts of foreign exchange.

2) Boring from abroad is recorded with a plus sign on the credit side in the capital account of balance of payment account as it result in an inflow of foreign exchange in the economy.

Q9) Balance of payment is always balance do you agree?

ANSWER. Yes I do agree because, It is only in the accounting sense that balance of payment always balance from the practical point of view it should not be interpreted Situation of zero net financial obligation for the country in negative balance on the current account is equated with positive balance in the capital account but the positive balance in capital account may have been achieve through loan from rest of the world

Q10) What are official reserve transactions?

Answer: When current account balance and capital account balance is not equal to zero there are official reserve transactions of the central bank cheese transactions after aquatic items in the balance of payment these are undertaken with the view of correcting BoP.

Q11) Find the balance of trade when value of Exports is 180 lacs and value of import is 420 lakh.

ANSWER: balance of trade = value of exports - value of import

180 lakh - 420 lakh

= (-)240 lakh

Q12) Find the value of import a balance of trade= 360 crores and value of Exports= 560 crores.

ANSWER: Balance of trade= value of exports - value of import

360 crore= 560 crores- value of imports

value of imports= 560 crores- 360 crores

= 200 Crores

Q13) The balance of trade show Deficit of 2400 lakh and the export of merchandise are 1/ 4th of the imports of merchandise. find the value of imports and Exports.

Answer. Suppose the value of import= X

Given balance of trade= 2400 lakh

Exports=1/4 of imports= $\frac{1}{4}(X)$

Do you know balance of trade= Exports- imports

$\frac{1}{4}(X)-X$

$X/4-X = X-4X/4$

$(-)2400= (-)\frac{3}{4}X$

$$2400 = 3X/4$$

$$3X = 9600$$

$$X = 9600/3$$

$$X = 3200$$

Exports = $\frac{1}{4}$ of item

$$\frac{1}{4} * 3200 = 800$$

Q14) In A hypothetical economy the following data is given, The value of balance on current account would be.....

SL. NO	Items	rupees in crores
1	Merchandise inputs	180
2	Merchandise Exports	200
3	Tourism	140
4	net remittance from abroad	- 40

ANSWER: Balance on current account = Merchandise EXP - merchandise imports tourism net remittance from abroad
 $= 200 - 180 + 140 + (-) 40$

$$200 - 180 + 140 - 40$$

120

Q15) Define balance of payment on capital account.

ANSWER. Balance of payment on capital account Record receipts and payments of foreign exchange of a country on account of such transaction which impact asset liability status The country in relation to rest of the world.

Q16) Distinguish between "Balance of Trade account and current account balance of BoP account.

Ans. Difference between Balance of Trade and current account balance of BoP account.

Basis	balance of trade	balance on current account
meaning	BoT includes only visible item	Balance of current account is the difference between some credit items and sum of debit items on current account
Coverage	Balance of trade does not record any transaction of visible item invisible item	balance of current account include Visible item as well as invisible items
concept	Balance update is a narrow concept	balance of current account include values of trade and it is a broad concept

Q17) What does a deficit in Balance of Trade indicate?

ANSWER A deficit in Balance of Trade indicates that the value of exports of goods are less than the imports of goods for a country.

Q18) write the components of the current account.

Answer. Components of the current account are....

Export and import of goods

Export and imports of services

Current transfers

Q19) write the components of capital account.

Answer. Components of capital account are...

Borrowings

Foreign investment

NRIs deposits

Banking capital

Q20) what do you understand by accommodating items?

Answer. Accommodating items are free from the consideration of profit and classified as below the line items. It dose not involve the movement of goods across the borders.

Q21) INDIA exported goods worth 52000 crore whereas, its imports amounted to 16000 crore. Calculate the value of trade balance.

Ans: $BoT = \text{export} - \text{imports}$
 $= 52000 \text{ crore} - 16000 \text{ crore}$
 $= 36000 \text{ crore}$

Q22) what is the difference between BOP current account and BOP capital account.

Basis	Current account	Capital account
Meaning	Current account of BOP records all those transactions between the residents of a country and the rest of the world, which do not cause a change in the assets or liabilities of the residents of the country and its government.	Capital account of BOP records all those transactions between the residents of a country and the rest of the world, which cause a change in the assets or liabilities of the residents of the country and its government.
concept	Flow concept and measured over a period of time	Stock concept. Measured at a point of time
components	Current account = visible trade + invisible trade + unilateral transfers + income from investment and work	Capital account = borrowing and lending + foreign direct investment and portfolio investment + change in foreign exchange reserves

Q23) what do you mean by autonomous items.

Ans. autonomous items refers to economic transactions with ROW which take place due to some economic motive for maximizing profits. these are independent of the countries situation. For example, MNC is buying shares in india with the aim of earning profit. these transactions take place on both sides, current and capital account.

Q24) what do you understand by accommodating items.

Ans. accommodating items refers to transactions that are undertaken in order to establish BOP identity or to adjust surplus or finance deficit in autonomous transactions. these are not related to those transactions which are determined by profit maximization for example if there is a current account deficit in BOP, than this deficit is financed by borrowing from ROW.

Q25) differentiate autonomous items and accommodating items.

Ans.

SL. NO.	Autonomous items	Accommodating items
1	Economic transactions which take place due to economic motive. (profit maximization)	Not related to those transactions which are determined by profit maximization
2	Transactions are undertaken by private sector and also the government sectors	Only by government sectors
3	These transactions take place on both current and capital account	take place on both capital account only.
4	Above the line items	Below the line items

Q 26) what do you understand about balance on capital account?

Ans. the transactions which lead to inflow of foreign exchange are recorded on the credit side and the transactions which leads to outflow of foreign exchange are recorded on the debit side. It means the net value of credit and debit balance is the balance on a capital account. Surplus on capital account implies net inflow of foreign exchange and deficit on capital account implies net outflow of foreign exchange.

Q27) what do you understand about disequilibrium in balance of payment?

Ans. disequilibrium in balance of payment is a state of either surplus BOP or deficit BOP.

Surplus BOP: when the payments of the country are less than its receipts, the balance of payment is said to be surplus BOP.

Deficit BOP: when the payment of the country are more than its receipts, the balance of payment is said to be deficit BOP.

Q28) explain the relationship between balance of payment and national income accounts.

Ans. economic transactions in balance of payments are related to current flow of visible and invisible items in economy which in other words is national income.

Income generation: the expenditure of consumers, investors, government as well as the expenditure of foreigners on the countries exports generates the national income.

Income disposition : this income is disposed off in purchase of consumer goods and services.

Income generated is equal to income spent.

Q29) case study question.

India's balance of payments this year is going to be "very very strong" on the back of significant improvement in exports and a fall in imports, Commerce and Industry Minister Piyush Goyal said on Monday.

He said that "good" green shoots are visible in the economy and exports have shown a "good" turnaround.

"We are in July at about 91 percent export level of July 2019 figures. Imports are still at about 70-71 percent level of July 2019. So, broadly our balance of payments this year is going to be very very strong, which is why we feel confident that Indian industry will see opportunities for themselves, will see opportunities of growth," he said at a FICCI webinar.

India's exports fell for the fourth straight month in June as shipments of key segments like petroleum and textiles declined but the country's trade turned surplus for the first time in 18 years as imports dropped by a steeper 47.59 percent.

The components of a Balance of Payment account are _____.

Capital Account b) Current Account c) Both a and b d) None of the above

The Balance of Payment account records the inflow of foreign exchange on the _____.

Debit side b) Credit side c) Both a and b d) None of the above

Import and export of goods are known as _____.

Nominal trade b) Invisible trade c) Visible trade d) None of the above

Ans. 1. C 2. C 3. C

PART- B

INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

Chapter :1

LOW LEVEL OF ECONOMIC DEVELOPMENT UNDER THE COLONIAL RULE

Indian economy before the advent of the British rule.

- India had an independent Though agriculture was the main source of livelihood for most people, yet, the country's economy was characterised by various kinds of manufacturing activities.
- India was particularly well known for its handicraft industries in the fields of cotton and silk textiles, metal and precious stone works etc.
- These products enjoyed a worldwide market based on the reputation of the fine quality of material used and the high standards of craftsmanship seen in all imports from India.

The economic policies pursued by the colonial government

- 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.
- The colonial government never made any sincere attempt to estimate India's national and per capita income.
- Some individual attempts which were made to measure such incomes yielded conflicting and inconsistent results. Among the notable estimators — Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai.
- it was Rao, whose estimates during the colonial period was considered very significant. However, most studies did find that the country's growth of aggregate real output during the first half of the twentieth century was less than two per cent coupled with a meagre half per cent growth in per capita output per year.

AGRICULTURAL SECTOR

The agricultural India's economy under the British colonial rule remained fundamentally agrarian. Agricultural sector continued to experience stagnation and, not infrequently, unusual deterioration. Agricultural pro-ductivity became low though, in absolute terms, the sector experienced some growth due to the expansion of the aggregate area under cultivation.

CAUSES OF STAGNATION AND BACKWARDNESS OF INDIAN AGRICULTURE

I. land settlement .

- **land settlement** that were introduced by the colonial government. 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 cultivators.
- interest of the zamindars was only to collect rent regardless of the economic condition of the cultivators.

II. Commercialization of agriculture.

- There was, of course, some evidence of a relatively higher yield of cash crops in certain areas of the country due to commercialization of agriculture.
- But this could hardly help farmers in improving their economic condition as, instead of producing food crops.
- they were producing cash crops which were to be ultimately used by British industries back home.

INDUSTRIAL SECTOR

- India could not develop a sound industrial base under the colonial rule.
- Under the colonial rule country's world famous handicraft industries declined.
 - Discriminatory tariff policy**
- The primary motive of the colonial government behind this policy of systematically deindustrialising India was two-fold.
- The intention was, first, to reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain and, second, 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.
- During the second half of the nineteenth century, modern industry began to take root in India but its progress remained very slow.
- During the second half of the nineteenth century, modern industry began to take root in India but its progress remained very slow.
- The cotton textile mills, mainly dominated by Indians, were located in the western parts of the country, namely, Maharashtra and Gujarat.
- The jute mills dominated by the foreigners were mainly concentrated in Bengal.
- 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.
- Lack of Capital good industries. capital goods industry to help promote further industrialization.
- industrial sector and its contribution to the Gross Domestic Product (GDP) or Gross Value Added remained very small.
- Limited operation of public sector.

FOREIGN TRADE

- The restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure composition and volume of India's foreign trade.
- India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute etc. and an importer of finished consumer goods like cotton, silk and woollen clothes and capital goods like light machinery produced in the factories of Britain.
- Britain maintained a monopoly control over India's exports and imports.

DEMOGRAPHIC CONDITION

- The first official census of India was conducted in the year 1881. Subsequently, every ten year such Census operations were carried out. Before 1921, India was in the first stage of demographic transition.
- The second stage of demographic transition began after 1921. The year 1921 is known as 'The year of great divide'.
- High birth rate and high death rate. BIRTH RATE: The number of children born per 1000 in a year. It was nearly 48 per 1000. DEATH RATE: The number of persons dying per 1000 in a year. It was nearly 40 per 1000.
- Infant Mortality Rate. It refers to number of infants dying before reaching one year of age per 1000 live birth in a year. It was about 218 per 1000.

- Literacy rate. It refers to number of persons capable to read and write above 7 year of age. The overall literacy rate was less than 16%. Out of this the female literacy level was near about 7%. Life expectancy. It refers to average number of years for which a person is expected to live. It was also very low. It was 32 years only. Wide spread poverty

OCCUPATIONAL STRUCTURE

- Distribution of working persons across different industries and sectors
- Predominance of Agricultural sector over manufacturing sector.
- The Agricultural sector accounted for the largest share of workforce, which usually remained at a high of 70-75%. The manufacturing and service sector accounted for only 10 and 15-20%.
- Regional variation. Parts of then Madras Presidency (comprising states of Tamil Nadu, Andhra Pradesh, Kerala, Karnataka), Bombay and Bengal witnessed a decline in the workforce in agriculture sector and showed increase in workforce in manufacturing and service sector.
- However, increase in the share of workforce in agriculture in Odisha, Rajasthan and Punjab.

INFRASTRUCTURE

- Under the colonial regime, basic infrastructure such as railways, ports, water transport, posts and telegraphs did develop
- The real motive behind this development was not to provide basic amenities to the people but to subserve various colonial interests.
- Roads: constructed in India during the British rule were built primarily for the purpose of mobilizing the army within India and drawing out raw materials from the country side to the nearest railway station or the port to send these England.
- Railways: It is the most important contribution of Colonial rule. The British introduced the railways in India in 1850. The first railway bridge linking Bombay to Thane was started in 1854. It help to break the Geographical and cultural barriers and integrating the nations. It fostered commercialization of Indian agriculture which adversely affected the self sufficiency of the village economies in India.
- Air and water transport: Tata airlines was started in 1932. The colonial dispensation also took measure for developing inland trade and sea lanes. However these measures were far from satisfactory. Communication: Post and Telegraph were the most popular and widely used means of communication developed by British government. The first stamp was released in 1852 and the first telegraph lines was started in 1853.

CONCLUSION

- The agricultural sector was already saddled with surplus labour and extremely low productivity.
- The industrial sector was crying for modernisation, diversification, capacity building and increased public investment. Foreign trade was oriented to feed the Industrial Revolution in Britain. Infrastructure facilities, including the famed railway network, needed upgradation, expansion and public orientation.
- Prevalence of rampant poverty and unemployment required welfare orientation of public economic policy.
- In a nutshell, the social and economic challenges before the country were enormous.

Q.1 Give the name of one economist who estimated India's per capital income during colonial period.

- a. Dadabhai Naoroji b. Prof V.K.R.V. Rao. C. both a and b d. None of these

ANS. . C. both a and b

2. What percentage of India's working population was engaged in manufacturing sector during British rule?

- a. 10% b. 18% c. 12% d. 25%

ANS. b. 18%

3. Occupational Structure refers to :

- (a) Nature of different occupations
(b) Size of working force in a country

(c) Distribution of working force among different occupations

(d) Number of people living in a country

ANS. (c) Distribution of working force among different occupations

4. Which industry was adversely affected due to partition?

(a) Silk

(b) Cotton

(c) Jute

(d) Nylon

ANS. (b) Cotton

5. The main objective of zamindars during the land settlement system was to

a) Improve the economic conditions of the cultivators

b) Improve the crop yield by making significant contributions in technology and fertilizers uses

c) Collection of rent with no interest in the economic condition of the cultivators

d) Cooperating with colonial government to improve the condition of agriculture.

ANS. c) Collection of rent with no interest in the economic condition of the cultivators

6. During the first half of the 20th Century, the growth rate of National Income

was: a) Less than 2% b) more than 2% c) 2% d) None of these

ANS. Less than 2%

7. The opening of the Suez Canal in 1869

a) Raised the cost of transportation between Britain and India.

b) Intensified British control over India's foreign trade.

c) Reduced the cost of transportation and made access to the Indian market easier.

d) Both (b) and (c)

ANS. d) Both (b) and (c)

8. Read the following statements carefully -Assertion (A) & Reason (R) and choose the correct alternative.

Assertion (A): Farmers were forced to produce cash crops like cotton or jute instead of conventional crops like rice and wheat during the British rule.

Reason (R): Agriculture was exploited through Zamindari System under the Colonial rule

Alternatives:

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

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

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

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

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

9. During the British rule, the condition of India's foreign trade was:-

a) Exporter of raw material

b) Surplus on account of foreign trade was spent on war expenses

c) Importer of finished goods produced in the British industries d)

d) All of the above

ANS. d) All of the above

10. Read the following statements carefully and choose the correct alternative from the following;

Statement 1: The two important industries which were adversely affected by partition were Paper Industry and Cement industry.

Statement 2: jute and cotton industries were adversely affected due to partition of the country.

Alternatives:

a) Both the statements are true.

b) Both the statements are false.

c) Statement 1 is true and statement 2 is false.

d) Statement 2 is true and statement 1 is false.

ANS. c) Statement 1 is true and statement 2 is false.

11. What were the causes of higher infant mortality rate during the British period?

- a) Poor health care b) Lack of education c) Traditional outlook of society d) All of above

ANS. d) All of above

12. During colonial period, India's demographic profile showed:

- a) High birth rate b) High death rate c) High infant mortality d) All of these

ANS. d) All of these

13. What was the life expectancy in India during British rule?

- a. 65 b-38 c-45 d-32

ANS.- d-32

14. When was the postage stamp released in India?

- a.1830 b-1840 c-1847 d-1852

ANS. 4-d

15. When were the railways introduced in India?

- a.1878 b-1850 c-1852 d.1875

ANS. c-1850

16. is described as a year of great divide.

- a. 1931 b.1942 c.1911 d-1921

17. Female literacy level during British rule.....

- a. 9% b-16% c.7% d-5%

ANS. c.7%

18. During the British rule, high mortality rate was due to.....

- a. inadequate public health facilities b. Lack of public awareness c-Both a and b d-neither a nor b

ANS. c-Both a and b

SHORT QUESTION ANSWER

Q.1 Name some notable economists who estimated India's per capita income during the colonial period.

Ans. Dadabhai Naoroji, V.K.R.V. Rao, William Digby, Findlay Shirras and R.C. Desai.

Q.2 Name some modern industries which were in operation in our country at the time of independence.

Answer. The Tata Iron and Steel Company (TISCO) was incorporated in August 1907 in India. It established its first plant in Jamshedpur (Bihar). Some other industries which had their modest beginning after Second World War were: sugar, cement, chemical and paper industries.

Q.3 When was India's first official census operation undertaken?

Answer. First official census was undertaken in the year 1881.

Q. 4 Underscore some of India's most crucial economic challenges at the time of independence.

Answer. Most crucial economic challenges at the time of independence were:

1. Little industrialisation and decline of handicrafts.
2. Low agricultural output and high imports of grains.
3. Low figure of national income and per capita income which showed extreme poverty.
4. Very sluggish economic progress.'
5. Unemployment and underemployment.
6. Very high infant mortality rate, low life expectancy and low standard of living.

Q.5 Mention the state of the agricultural sector under British rule.

The agricultural sector continued to experience stagnation and deterioration despite the fact that largest section of Indian population depended on it for subsistence.

Q.6 “Demand for Indian Handicrafts in the Indian market as well as foreign markets was systematically destroyed by Britishers.” Defend or refute.

Ans. The given statement is defended. (i) Demand in the foreign market was destroyed by imposing heavy duty on the exports of Indian Handicrafts. (ii) Demand in the Domestic Market (i.e. Indian Market) was destroyed by allowing duty-free import of British finished goods in the Indian Market.

Q.7 What was the focus of the economic policies pursued by the colonial government in India? What were the impacts of these policies?

Ans. 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. Impacts of these policies are as follow: India became supplier of raw material India became importer of finished products.

Q.8 Were there any positive contribution made by the British in India.

While British colonial rule in India was marked by exploitation and hardships, a few positive contributions can be acknowledged:

- **Railway Network:** The British established a vast railway network, facilitating transportation and trade across the subcontinent.
- **Legal and Administrative Reforms:** They introduced legal and administrative systems that, despite their limitations, laid the groundwork for modern governance.
- **Education:** The British promoted education, leading to the establishment of universities and institutions that later played a role in India's intellectual growth.
- **Communication Infrastructure:** They improved communication through postal and telegraph services, connecting different regions.

Q.9 What do you understand by the drain of Indian wealth during the colonial period?

Drain of wealth means that economic policies of the British in India were primarily motivated to snatch maximum benefits from India's trade. India's foreign trade generated large export surplus. This export surplus did not result in any flow of gold or silver into India. There was drain of India's wealth into Britain. It is clear from the following facts :

- The surplus was used to make payments for the expenses incurred by the office set up by the colonial government in Britain.
- The surplus was used to pay expenses on war fought by the British government.
- Surplus was used to pay for the import of invisible items.

Q.10 Which is regarded as the defining year to mark the demographic transition from its first to the second decisive stage?

Answer. 1921 is the defining year. It is called 'Year of Great Divide'.

Q.11 Highlight the salient features of India's pre-independence occupational structure.

Answer. Occupational structure means the distribution of work-force among different sectors of an economy. The state of occupational structure on the eve of independence was as follows:

1. **Pre-dominance of Agriculture Sector.** The agricultural sector accounted for the largest share of work-force, which was 72 per cent. The manufacturing and service sectors accounted for 10 per cent and 18 per cent respectively.
2. **Growing Regional Variations.** There was growing regional variation. In the states of Tamil Nadu, Andhra Pradesh, Kerala, Karnataka, Maharashtra and West Bengal, the dependence of the workforce on the agricultural sector declined. On the other hand, there was increase in the share of work force

in the agriculture sector in the states of Orissa, Rajasthan and Punjab.
Thus, India's occupational structure was static and imbalanced.

Q.12 Underscore some of India's most crucial economic challenges at the time of independence.

Answer. Most crucial economic challenges at the time of independence were:

1. Little industrialisation and decline of handicrafts.
2. Low agricultural output and high imports of grains.
3. Low figure of national income and per capita income which showed extreme poverty.
4. Very sluggish economic progress.'
5. Unemployment and underemployment.
6. Very high infant mortality rate, low life expectancy and low standard of living.

LONG QUESTION ANSWER

Q 1 "British rule adversely hampered the industrial sector of India." Do you agree with this view? Give reasons in support of your answer.

British rule adversely affected industrial sector in India which can be understood through the following points-

- (i) Discriminatory Tariff Policy :- The British Government allowed tariff free export of raw materials from India and tariff free import of British industrial products into India. But a heavy duty on the export of Indian handicrafts products. It leads to decay of handicrafts industry in India.
- (ii) Competition from machine :- Industrial revolution in Britain gave a stiff competition to the handicraft industries in India. Due to low cost and better quality product produced by machine forced the Indian craftsmen to shut down the handicraft Industry in India.
- (iii) New Patterns of Demand :- Owing to British rule in India, a new class of people emerged in India. This changed the pattern of demand in India against the Indian products and in favour of British products. As a result, the Indian Industry tended to Perish
- (iv) More market for British Goods: - An introduction of railways facilitated the transportation of the British products to different parts of the country. As a result, the size of the market for the low cost British product expanded while it started shrinking for the high cost Indian products. This lead to decay of Industry in India.

Q.2 Give a quantitative appraisal of India's demographic profile during the colonial period.

- The demographic condition on the eve of independence was as follows:
- High Birth Rate and Death Rate: High birth rate and high death rate are treated as index of backwardness of a country. Both birth rate and death rate were very high at 48 and 40 per thousand of persons respectively.
- High Infant Mortality Rate: It refers to death rate of children below the age of one year. It was about 18 per thousand live births.
- Low Life Expectancy: Life expectancy means the number of years that a new born child on an average is expected to live. It was as low as 32 years.
- Mass Illiteracy: Mass Illiteracy among the people of a country is taken as an indicator of its poverty and backwardness. The population census of 1941 (which was the last census under the British rule) estimated the literacy rate at 17 per cent. This means that 83 per cent of the total population was Illiterate.
- Low Standard of Living: At the time of Independence, people used to spend between 80 to 90 percent of their Income on basic necessities, that is, on food, clothing and housing. Even then, people did not get adequate quantity of food or clothing or housing; and millions of people starved,

went naked and lived in huts or in the open. Moreover, some parts of India came under severe famine conditions. The famines were so severe that millions died. One of the worst famines in India was the Bengal famine of 1943 when three million people died.

Q.3 What was the condition of agriculture sector at the time of Independence?

Land Tenure System. There were three forms of Land tenure system introduced by the British rulers in India. These were:

(a) **Zamindari system**

(b) **Mahalwari system**

(c) **Ryotwari system**

In the **Zamindari system**, Zamindars or landlords were the owners of land. The actual collections by Zamindars was much higher than what they had to pay to the Government. Zamindari system led to multiplication of middlemen between cultivators and Government, absentee landlordism, exploitation of peasants by unsympathetic agents and enmity between landlords and tenants. Under the system, intermediaries benefited at the cost of both actual cultivators and the state.

Commercialisation of Agriculture. Commercialisation of agriculture means production of crops for sale in the market rather than for self consumption. Farmers were forced to cultivate commercial crops like Indigo. Indigo was required by the textile industry in Britain for dyeing of the textile. As a result, there was fall in the production of food crops. The farmers had to suffer from frequent occurrence of famine. Indian agriculture was transformed into a raw material exporting sector for England.

Partition of the Country. Partition of the country in 1947 also adversely affected India's agricultural production. The rich food producing areas of West Punjab and Sindh went to Pakistan. It created food crisis in the country. Also, the whole of fertile land under jute production went to East Pakistan. The jute industry was most severely affected due to partition.

Thus, Indian agriculture became backward, stagnant and non-vibrant under the British rule. Indian Economy on the Eve of Independence.

Q.4 The railways affected the structure of the Indian economy positively, as well as negatively.' Do you agree?

Yes, I agree. The railways affected the structure of the Indian economy positively in the following ways

- It enabled people to undertake long distance travel and thereby break geographical and cultural barriers.
- It fostered commercialization of Indian agriculture as agricultural produce could be sent to distant places. Farmers started viewing agriculture as a business rather than a way of subsistence.
- Railways enabled the government to supply food grains fastly to famine affected areas.

The railways affected the Indian economy negatively in the following ways:

- It enabled the goods from British factories to be transported to various parts of the country, thereby expanding their market.
- It facilitated the transport of raw materials to the port cities and ensured their easy exportability.

Commercialization of agriculture affected the self-sufficiency of the rural areas.

INDIAN ECONOMY 1950-1990

Chapter 2

On 15 August 1947, India woke to a new dawn of freedom.

- Finally we were masters of our own destiny after some two hundred years of British rule; the job of nation building was now in our own hands.
- The leaders of independent India had to decide, among other things, the type of economic system most suitable for our nation, a system which would promote the welfare of all rather than a few.
- There are different types of economic systems and among them, socialism appealed to Jawaharlal Nehru the most.
- Indian economy is a Mixed Economy, in which the market provides whatever goods and services it can produce well, and the government will provide essential goods and services which the market fails to do.
- Nehru, and many other leaders and thinkers of the newly independent India, sought an alternative to the extreme versions of capitalism and socialism. Basically sympathising with the socialist

outlook, they found the answer in an economic system which, in their view, combined the best features of socialism without its drawbacks.

- What is a Plan?
- A plan spells out how the resources of a nation should be put to use. It should have some general goals as well as specific objectives which are to be achieved within a specified period of time;
- In India plans were of five years duration and were called five year plans (we borrowed this from the former Soviet Union, the pioneer in national planning)

GOALS FIVE YEAR PLANS.

- Growth: Growth refers to increase in the country's capacity to produce the output of goods and services within the country. A good indicator of economic growth is steady increase in the Gross Domestic Product (GDP).
- Modernisation: Adoption of new technology in the production of goods and services to increase the output is called modernisation.
- Modernisation does not refer only to the use of new technology but also to changes in social outlook, e.g. Equality of opportunities between men and women.
- Self-reliance/Self-sufficiency: It means avoiding imports of those goods which could be produced in India itself. Rationale:
 - (i) To reduce dependence on the foreign countries for goods, capital and technology, especially for food.
 - (ii) To avoid foreign interference in the policies of our country.
- Equity: Equity refers to reductions in inequality of income and wealth. Equity means to ensure that the benefits of economic prosperity reach the poor sections as well. Every Indian should be able to meet the basic needs such as food, house, education and health care.

AGRICULTURE

Land Reforms:

- Equity in agriculture called for land reforms which primarily refer to change in the ownership of landholdings.
- Abolition of intermediaries (Zamindari system): Ownership of land gave farmers incentive to increase output; it contributed to growth in agriculture.
- Land ceiling: It means fixing the maximum size of land which could be owned by an individual. The purpose was to reduce the concentration of land ownership in a few hands. Thus, it promotes equity in the agricultural sector.
- The goal of equity was not fully served by 'abolition of intermediaries'. In some areas, the zamindars continued to own large areas of land by making use of some loopholes in the legislation.
- The land ceiling legislation also faced hurdles. The big landlords challenged the legislation in the courts, delaying its implementation.
- Land reforms were unsuccessful in most of the states of India, except Kerala and West Bengal.
- GREEN REVOLUTION
- It refers to large increase in production of food grains by using high yielding variety (HYV) seeds, especially for wheat and rice.
- The use of these seeds required the use of fertiliser and pesticide in the correct quantities as well as regular supply of water; the application of these inputs in correct proportions is vital
- the use of HYV seeds was restricted to the more affluent states such as Punjab, Andhra Pradesh and Tamil Nadu
- first phase of the green revolution (approximately mid 1960s upto mid 1970s) In the second phase of the green revolution (mid-1970s to mid-1980s),
- self-sufficiency in food grains: The spread of green revolution technology enabled India to achieve self-sufficiency in food grains

- Increase in income of farmers: After the Green Revolution, a greater proportion of marketed surplus of wheat and rice was sold by the farmers in the market.
- Creation of Buffer Stock of food grains to be used during food shortage.
- Decrease in price of food grains
- Risks of Green Revolution:
- Increased the disparities between small and big farmers. Only the big farmers could afford the required inputs for green revolution.
- The HYV crops were more prone to attack by pests.
- Use of HYV seeds was restricted to the more affluent states such as Punjab, Andhra Pradesh and Tamil Nadu. It benefited the wheat growing regions only.
- Steps taken by the government to ensuring that green revolution benefited small farmers also:
- The government provided loans at a low interest rate to small farmers and subsidised fertilisers so that small farmers could also have access to the needed inputs Innovative techniques to reduced pest attacks.

THE DEBATE OVER FARM SUBSIDIES IN INDIA

- Arguments against farm subsidies:
 - (i) Fertiliser subsidy also benefits the fertiliser industry and big farmers, which is not needed.
 - (ii) Fiscal burden —
- subsidies are a huge burden on the government's finances.
- Arguments in favor of subsidies:
 - (i) Most farmers are very poor and they will not be able to afford the expensive agricultural inputs without subsidies.
 - (ii) Eliminating subsidies will increase the inequality between rich and poor farmers and violate the goal of equity.

INDUSTRY AND TRADE

Public sector was given a leading role in industrial development during the planning period in India. Why?

(i) At the time of independence, the Indian

industrialists did not have enough resources for modernization.

(ii) The market was not big enough to encourage industrialists to undertake major project

- **Industrial Policy Resolution 1956 (IPR 1956):** In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted.
- This resolution formed the basis of the Second Five Year Plan, the plan which tried to build the basis for a socialist pattern of society.
- This resolution classified industries into three categories.
- The first category comprised industries which would be exclusively owned by the government;
- the second category consisted of industries in which the private sector could supplement the efforts of the public sector, with the the government taking sole responsibility for starting new units;
- the third category consisted of the remaining industries which were to be in the private sector.
- No new industry was allowed unless a license was obtained from the government.
- .Even an existing industry had to obtain a license for expanding output or for diversifying production.
- Promotion of Small-Scale Industry (SSI) by the Government In 1955, the Village and Small-Scale Industries Committee, also called the Karve Committee, noted the possibility of using small-scale industries for promoting rural development.
- A 'small-scale industry' is defined as a small-scale industrial unit having
- Maximum investment of `1 crore in the assets of the unit. Why did the government promote small-scale industry? Small-scale

- industries are more 'labor intensive' and, therefore, generate more employment.
- How did the government promote and protect small-scale industry?
 - The production of a number of products was reserved for the small-scale industry.
 - Concessions e.g. lower excise duty and bank loans at lower interest rates.

TRADE POLICY: IMPORT SUBSTITUTION

- The industrial policy that India adopted was closely related to the trade policy.
- In the first seven plans, trade was characterized by what is commonly called an inward looking trade strategy. Technically, this strategy is called import substitution.
- This policy aimed at replacing or substituting imports with domestic production.
- In this policy the government protected the domestic industries from foreign competition.
- Protection from imports took two forms: tariffs and quotas. Tariffs are a tax on imported goods;
- they make imported goods more expensive and discourage their use.
- Quotas specify the quantity of goods which can be imported.
- The effect of tariffs and quotas is that they restrict imports and, therefore, protect the domestic firms from foreign competition.

MCQ

1. Import substitution refers to a policy of substitution of imports by _____ production.

- (a) Foreign (b) State (c) District (d) Domestic

Ans. (d) Domestic

2. _____ committee was set up for the development and promotion of small-scale industries in India.

- a) Karve b) Tapas Majumdar c) Mahalanobis d) VK V Rao

Ans. a) Karve

3. First Industrial Policy Resolution of Independent India was announced in the year _____ (Fill in the blank with the correct alternative)

- a) 1947 b) 1948 c) 1951 d) 1956

Ans. B) 1948

4. Land ceiling refers to

- a) Fixing the maximum size of land owned by the owner
 b) Abolition of intermediaries
 c) Portion of agricultural produce sold in the market
 d) None of the above

Ans. A) Fixing the maximum size of land owned by the owner

5. _____ refers to fixing the specified limits of land, which could be owned by an individual.

- a) Consolidation of holdings b) Cooperative farming c) Tariff d) Land ceiling

Ans. D) Land ceiling

6. Which factor led to the breaking up of the stagnation of agriculture?

- a) Land reforms b) Green revolution c) Buffer stocks d) Land ceiling

Ans. B) Green revolution

7. Green revolution introduced during the planning process was restricted mainly to:

- a) Wheat and rice b) Cereals and pulses c) Cotton and jute d) Jowar and bajra

Ans. A) Wheat and rice

8. Before Green revolution introduced during the planning process India was at the mercy of this country for meeting nation's food requirements

- a) America b) China c) British d) Russia

Ans. A) America

9. Marketed surplus refers to the

- a) Portion of agricultural produce which is sold in the market by the farmers
 b) Portion of agricultural product which is sold by the government in the market
 c) Earning of the farmers which is left with the farmers
 d) Portion of agricultural product which is left with the farmer after selling in the market

Ans. a) Portion of agricultural produce which is sold in the market by the farmers

10. Identify an argument that supports the agricultural subsidies in India.

- a. reduces the gap between the rich and poor farmers
- b. reduces government spending on agriculture
- c. unpopularity of the HYV seeds
- d. supports fertiliser industries

ANS. a. reduces the gap between the rich and poor farmers

11. Industrial Policy Resolution, 1956 laid emphasis on the role of:

- (a) public sector
- (b) private sector
- (c) Joint sector
- (d) none of these

ANS. (a) public sector

12. _____ is known as the architect of Indian Planning.

- (a) Jawaharlal Nehru
- (b) P. C. Mahalanobis
- (c) Dr. Manmohan singh
- (d) Mrs. Indira Gandhi

ANS. (b) P. C. Mahalanobis

13. In first phase of green revolutions, output was restricted mainly to _____

- a) Wheat and rice
- b) Jowar and Bajra
- c) Cotton and Jute
- d) Cereals and Jute

ANS. a) Wheat and rice

Question Assertion (A) & Reasons (R)

1 Assertion: Capitalist economy has the motive of profit maximization.

Reason: Capitalist economy has no intervention of Government.

(A) Both Assertion and reason are true and reason is correct explanation of assertion.

(B) Assertion and reason both are true but reason is not the correct explanation of assertion.

(C) Assertion is true, reason is false.

(D) Assertion is false, reason is true.

ANS. (B) Assertion and reason both are true but reason is not the correct explanation of assertion.

2 Assertion: Tax incentives are provided to foreign investors which further reduced the scope for raising tax revenues.

Reason: This has a negative impact on developmental and welfare expenditures of the country.

(A) Both Assertion and reason are true and reason is correct explanation of assertion.

(B) Assertion and reason both are true but reason is not the correct explanation of assertion.

(C) Assertion is true, reason is false.

(D) Assertion is false, reason is true.

ANS. (B) Assertion and reason both are true but reason is not the correct explanation of assertion.

Assertion: The government borrows only from banks to finance the deficit caused.

Reason: Deficit is caused when expenditure is more than income.

(A) Both Assertion and reason are true and reason is correct explanation of assertion.

(B) Assertion and reason both are true but reason is not the correct explanation of assertion.

(C) Assertion is true, reason is false.

(D) Assertion is false, reason is true.

ANS. (A) Both Assertion and reason are true and reason is correct explanation of assertion.

4 Assertion: Just a year after independence, efforts towards land reforms were introduced.

Reason: Ownership of land would give incentives to the tillers to invest in making improvements.

(A) Both Assertion and reason are true and reason is correct explanation of assertion.

(B) Assertion and reason both are true but reason is not the correct explanation of assertion.

(C) Assertion is true, reason is false.

(D) Assertion is false, reason is true.

ANS. (C) Assertion is true, reason is false.

5 Assertion: Industrial Policy Resolution of 1956 was adopted, in accordance with the goal of the state controlling the commanding heights of the economy

Reason: System of licenses was used for all the industries after the IPR 1956.

(A) Both Assertion and reason are true and reason is correct explanation of assertion.

(B) Assertion and reason both are true but reason is not the correct explanation of assertion.

(C) Assertion is true, reason is false.

(D) Assertion is false, reason is true.

ANS. (A) Both Assertion and reason are true and reason is correct explanation of assertion.

Assertion: - India was considered as an agrarian economy on the eve of independence.

Reason: - Around 30% people were depending on agriculture.

(A) Both Assertion and reason are true and reason is correct explanation of assertion.

- (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.

ANS. (D) Assertion is false, reason is true.

7 Assertion: - As per Industrial policy-1956, the industries classified into 3 groups.

Reason: - Directly or indirectly all the industries were under the control of the Government.

- (A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.

ANS. (A) Both Assertion and reason are true and reason is correct explanation of assertion.

8 Assertion: - In the first seven five year plans of India, the trade was commonly called an 'inward looking' trade strategy.

Reason: - Imports were protected by the imposition of tariff and quotas which protect the domestic firms from foreign competition.

- (A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.

ANS. (C) Assertion is true, reason is false.

9 Assertion:- The economic justification of subsidies in agriculture is, at present, a hotly debated question.

Reason:-The zamindari system has not been abolished so far.

- (A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.

ANS. (C) Assertion is true, reason is false.

Assertion:- The proportion of people depending on agriculture declined as expected

Reason:- The 2nd Industrial Policy Resolution was adopted in the year 1956.

- (A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.

ANS. (A) Both Assertion and reason are true and reason is correct explanation of assertion.

11 Assertion (A): Socialism appeal to Jawaharlal Nehru for India.

Reason (R): Jawaharlal Nehru was in favour of kind of socialism in Soviet Union.

- (A) Both Assertion and reason are true and reason is correct explanation of assertion.
(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true

ANS. (C) Assertion is true, reason is false.

A plan spells out how the resources of a nation should be put to use. **general goals as well as specific objectives which are to be achieved within a specified period of time;**

When was the Planning Commission set up?

In 1950, the Planning Commission was set up with the Prime Minister as its Chairperson.

Define 'perspective plan'.

Our plan documents also specify the objectives to be achieved over a period of twenty years. This long-term plan is called 'perspective plan'.

Q. What are High Yielding Variety (HYV) seeds?

Ans. High Yielding Variety (HYV) seeds are seeds of better quality, which produce more output but require the use of fertiliser and pesticide in the correct quantities as well as regular supply of water.

What is marketable surplus?

The portion of agricultural produce which is sold in the market by the farmers is called marketed / marketable surplus.

Why, despite the implementation of green revolution, 65 per cent of our population continued to be engaged in the agriculture sector till 1990?

The reason is that the industrial sector and the service sector did not absorb the people working in the agriculture- sector.

Minimum Learning Questions (MCQs/Short Answers):

What economic model did India adopt after independence?

Answer: India adopted a mixed economy model, combining elements of both capitalism and socialism.

2. What were the objectives of the Five-Year Plans?

The Five-Year Plans aimed to achieve several objectives:

Economic Growth: Increase overall production of goods and services to improve living standards.

Modernization: Introduce new technologies and infrastructure to modernize the economy.

Self-Reliance: Reduce dependence on imports and achieve self-sufficiency in key sectors like food production.

Social Justice: Reduce poverty and inequality by creating employment opportunities and improving social welfare.

3. Describe the land reform measures implemented in India.

Land reform measures aimed to address issues like unequal land ownership and exploitation of farmers. Some key measures included:

Abolition of Zamindari System: Elimination of intermediaries who collected revenue from farmers on behalf of the government.

Land Ceiling: Imposition of a limit on the amount of land an individual can hold, with surplus land distributed to landless farmers.

Tenancy Reforms: Providing security of tenure to farmers and regulation of rent paid to landowners.

4. Explain the role of the public distribution system (PDS) in India.

The Public Distribution System (PDS) is a network of shops that sell essential commodities like rice, wheat, sugar, and kerosene at subsidized prices to ration card holders. The PDS aims to:

Food Security: Ensure availability of essential food items for the poor and vulnerable sections of society.

Price Stabilization: Moderate price fluctuations of essential commodities in the open market.

5. How did the Green Revolution impact food security in India?

The Green Revolution increased agricultural production significantly, contributing to India's food security in several ways:

Increased Availability: Higher yields of crops like wheat and rice led to greater availability of food grains, reducing dependence on imports.

Reduced Dependence on Weather: HYVs were more resistant to droughts, making food production less vulnerable to weather fluctuations.

Buffer Stocks: Increased production allowed the government to build buffer stocks of food grains, which could be used during times of scarcity.

6 What were the major features of the Industrial Policy Resolution of 1956?

The Industrial Policy Resolution of 1956 classified industries into three categories:

Strategic Industries: These were under the exclusive control of the government, considered vital for national security and economic development.

Public Sector Undertakings (PSUs): The government played a dominant role in establishing and operating industries in certain sectors like steel, heavy machinery, and coal.

Private Sector: The private sector was encouraged to invest in other industries, subject to government regulations and licensing.

7. Briefly describe the role of cottage industries in post-independence India.

Cottage industries continued to play a significant role in post-independence India:

Employment Generation: Provided employment opportunities in rural areas, especially for women and artisans.

Skilled Craftsmanship: Preserved traditional skills and produced handcrafted goods with cultural value.

Decentralized Production: Contributed to regional development and economic diversification.

8. Explain the concept of import substitution and its impact on Indian industries.

Import substitution is a strategy where a country focuses on producing goods domestically rather than relying on imports. In India, this policy aimed to:

Reduce Dependence on Imports: Encourage self-sufficiency and reduce foreign exchange drain.

Promote Industrialization: Stimulate domestic industries by protecting them from foreign competition.

However, import substitution also had some drawbacks:

Limited Competition: Lack of competition could lead to inefficiencies and slow technological advancements in domestic industries.

Higher Prices: Consumers might have to pay higher prices for domestically produced goods compared to cheaper imports.

9. How did the Green Revolution contribute to regional disparities in India?

The Green Revolution didn't benefit all farmers equally. Some regional disparities emerged:

Infrastructure: Areas with better irrigation facilities and access to HYVs benefited more from the Green Revolution.

Land Ownership: Marginal farmers with limited landholding might not have had the resources to adopt new technologies.

Social Inequality: Richer farmers who could afford inputs like fertilizers and pesticides might have increased their income and social status compared to poorer farmers.

10. Explain the role of small-scale industries in the Indian economy.

Answer: Small-scale industries played a significant role by providing employment opportunities, producing essential goods, and contributing to regional development.

CBT AND HIGHER ORDER THINKING QUESTIONS (HOTS):

1. Critically evaluate the effectiveness of the Five-Year Plans in achieving their objectives.

Consider factors like resource allocation, bureaucratic hurdles, and changing global economic conditions.

- **Answer:** The Five-Year Plans achieved some success in promoting economic growth and infrastructure development. However, limitations existed:
 - **Resource Allocation:** Focus on heavy industries might have neglected agriculture and social welfare needs.
 - **Bureaucratic Hurdles:** Red tape and inefficiencies could have slowed down implementation and increased costs.
 - **Global Context:** Changing global oil prices or international trade policies could have impacted plan targets.

2. Imagine you are a small farmer in pre-Green Revolution India. How might your life and agricultural practices change due to the introduction of HYVs and new technologies?

Answer: (As a farmer)

- **New Techniques:** I would need to learn new farming methods like using fertilizers and pesticides, which could be a challenge.
- **Investment Needs:** Purchasing seeds, fertilizers, and potentially new irrigation equipment could require a significant financial investment.
- **Increased Yields:** I could potentially harvest more crops, leading to higher income if market conditions are favourable.
- **Dependence on Markets:** My income would become more dependent on market prices for my crops, which could be risky.

3. **Analyse the potential benefits and drawbacks of a dominant public sector in a developing economy like India in the 1950s and 1960s.**

• **Benefits:**

- **Strategic Control:** The government could steer resources towards industries crucial for national development.
- **Social Welfare:** PSUs could provide essential services at subsidized rates, benefiting the population.
- **Employment Generation:** Public sector jobs could create employment opportunities.

• **Drawbacks:**

- **Inefficiency:** Lack of competition might lead to inefficiencies and slower innovation in PSUs.
- **Financial Burden:** The government might struggle to manage large PSUs, leading to financial strain.
- **Lack of Flexibility:** Responding to changing market demands could be slower in a bureaucratic public sector.

4. **Compare and contrast the impact of the Green Revolution on small and large farmers in India. Consider factors like access to resources, credit availability, and risk management.**

- **Large Farmers:** They might have had easier access to credit, irrigation facilities, and new technologies, leading to greater benefits from the Green Revolution.
- **Small Farmers:** Limited resources, lack of access to credit and infrastructure could make it harder for them to adopt new practices, potentially widening the income gap between large and small farmers.

5. **Evaluate the argument that India's focus on import substitution during the pre-liberalization era hindered its industrial development. Consider alternative strategies and potential long-term impacts.**

• **Import Substitution's Drawbacks:**

- **Limited Competition:** Sheltered from foreign competition, domestic industries might have lacked the incentive to innovate and improve efficiency.
- **Higher Prices:** Consumers might have faced higher prices for domestically produced goods due to lack of competition.

• **Alternative Strategies:**

- **Selective Import Substitution:** Focus on developing industries with long-term competitive potential, while allowing imports in other sectors to promote innovation.
- **Export Promotion:** Encourage domestic industries to focus on producing high-quality goods for export, leading to increased foreign exchange earnings and international competitiveness.

6. **“Import restrictions were imposed in India with the dual objective to safe Indian foreign exchange reserves and to be self-sufficient” justify the given statement with valid arguments.**

- Ans. Import restrictions in India serve the dual purpose of safeguarding foreign exchange reserves by limiting unnecessary imports and fostering self-sufficiency by promoting domestic production. This policy aims to conserve foreign exchange for essential imports while nurturing domestic industries, ensuring economic stability, and fostering national self-reliance.

7. Aatmnirbhar Bharat had been at the roots of Indian planning process in the form of self-Reliance as an objective of the planning process. Do you agree with the given statement justify the rationale of the given statement.

- Ans. Yes, I agree. Aatmanirbhar Bharat has indeed been a foundational aspect of India's planning process, with self-reliance as a key objective. This emphasis on self-reliance stems from the desire for economic independence, sovereignty, and inclusive growth, as evidenced throughout India's developmental journey since independence in 1947.

8. The Public Distribution System (PDS) plays a vital role in ensuring food security in India. How does the PDS function, and who are the target beneficiaries?

Answer: The PDS is a network of shops that sell essential commodities like rice, wheat, sugar, and kerosene at subsidized prices to ration card holders. This system aims to ensure availability of these essential food items at affordable prices for the poor and vulnerable sections of society, thereby contributing to food security.

9. The growth of small-scale industries can benefit the Indian economy in several ways. Briefly explain two advantages of a well-developed small-scale industry sector.

Answer: Small-scale industries can contribute to the economy in various ways. Here are two advantages:

- **Employment Generation:** These industries provide employment opportunities, especially in rural and semi-urban areas, contributing to livelihood creation and poverty reduction.
- **Decentralized Production and Regional Development:** Small-scale industries can be spread across different regions, promoting balanced development and reducing dependence on large industrial centres.

10. The pre-liberalization era in India witnessed a focus on import substitution. What was the main objective of this policy, and how did it potentially impact Indian industries?

Answer: Import substitution aimed to reduce India's dependence on imported goods by encouraging domestic production. This policy could have:

- **Promoted Self-Reliance:** Strengthened domestic industries by protecting them from foreign competition, potentially leading to self-sufficiency in certain sectors.
- **Limited Competition:** Lack of competition from foreign imports might have reduced the pressure on domestic industries to innovate and improve efficiency.

CHAPTER 3: ECONOMIC REFORMS SINCE 1991

KEY CONCEPTS

- 1. Economic crisis:** A situation wherein the expenditures are much more than the revenues and there is no source (such as world Bank) to lend (as the borrower already has a large outstanding loan to repay with interest)
- 2. Public sector undertakings (PSU's):** Government-owned enterprises that produce and sell various goods in the market, to earn a profit.
- 3. Remittances:** These are foreign currencies transferred by those working outside the country to their families and friends in their own countries.
- 4. Delicensing:** Removal of controls, especially on industries.
- 5. De-reservation:** Taking off certain industries from the sole domain of the public sector by allowing private capital investment, such as in coal, medicine, etc.

6. **Devaluation:** It is the fall in the value of the domestic currency with respect to foreign currency under the fixed exchange system (Presently, the synonymous term is depreciation-under flexible exchange system).
7. **Outsourcing:** Contracting another agency to conduct a process during the production of services. For example, software development, customer services, etc.
8. **Quantitative restrictions:** Restrictions in the form of total quantities or quotas imposed on imports to reduce the Balance of Payments (BoP) deficit and protect domestic industry.
9. **Import Licensing:** Permission required from the government to import goods into a country.
10. **Foreign Direct Investment (FDI):** refers to the investment of foreign assets into domestic structures, equipment, and organizations. It does not include investment in the stock markets.

Economic reforms

The new economic policy started by the government since 1991 in order to solve the economic crisis and to accelerate the rate of economic growth is called Economic Reforms. It is also known as the new economic policy which consists of Liberalization, Privatization and Globalization (LPG).

Need for economic reforms?

1. Mounting fiscal deficit :

Fiscal deficit of the government had been mounting year after year on continuous increase in non-development expenditure. Due to persistent rise in fiscal deficit there was corresponding rise in public debt and interest payment liability there was possibility that the economy might lead to debt-trap situation. Thus it becomes essential for the government to reduce its non-development expenditure and restore fiscal discipline in the economy.

2. Adverse balance of payment : When receipts of foreign exchange fall short of their payments, the problem of adverse balance of payment arises. Despite the restrictive policy adopted by the government till 1990 import substitution and export promotion the desired result could not be met. Our export could not compete in terms of price and quality in the international market. As a result there was slow growth of export and rapid increase in imports. Accordingly the burden of foreign debt services increased tremendously and leading to depletion of foreign exchange reserves.

3. Gulf Crises: On account of Iraq war in 1990-91 prices of petrol shot-up. Besides India used to receive huge amount of remittances from Gulf countries in terms of foreign exchange.

4. Poor performances of PSU's:

Due to poor performances of public sector undertakings degenerated into a liability. Most of public sector undertakings were incurring loss and their performance was quite satisfactory. On account of these factors, it becomes imperative for the government to adopt new economic policy or to initiate economic reforms.

5. Rise in price: Due to rise in prices of food grains there was pressure of inflation prior to 1991. Which deepened the economic crisis from bad to worse.

6. Fall in foreign exchange reserves: In 1990-91 India's foreign exchange reserves fell to such a low level that there was not enough to pay for an import bill of even 10 days. In such a situation the government had to helplessly resort to policy of liberalization as suggested by the World Bank.

ELEMENTS OF NEW ECONOMIC POLICY

1. **Liberalization:** It means to free the economy from the direct and physical control imposed by the government.

Measures adopted for Liberalization:

- (i) Abolition of industrial licensing.
- (ii) DE reservation of production areas
- (iii) Expansion of production capacity
- (iv) Freedom to import capital goods

2. **Privation:** It refers to general process of involving the private sector in the ownership or management of state owned enterprises. It imply partial or full ownership and management of public sector enterprises by the private sector.

Measures adopted for Privatization:

- (i) Contraction of public sector
- (ii) Disinvestment of public sector undertaking
- (iii) Selling of shares of public enterprises

3. **Globalization:** It men’s integrating the economy of a country with the economies of other countries under condition of free flow trade and capital and movement of persons across borders.

Measures adopted for Globalization:

- (i) Increase in equity limit of foreign investment
- (ii) Partial convertibility of Indian rupees
- (iii) Long –term trade policy
- (iv) Reduction in tariffs.

Positive impact of LPG polices

- 1. A vibrant Economy
- 2. Stimulant to Industrial production
- 3. Check on fiscal deficit
- 4. Check on inflation
- 5. Improvement in consumers sovereignty
- 6. A substantial increase in foreign exchange reserves.
- 7. Flow of private foreign investment.
- 8. India as an emerging economic power
- 9. Shift from monopoly market to competitive market

Negative impact of LPG polices.

- 1. Neglect of agriculture
- 2. Urban concentration of growth process
- 3. Economic colonialism
- 4. Spread of consumerism
- 5. Lopsided growth process
- 6. Cultural erosion

ONE MARK QUESTIONS AND ANSWERS:

1. International Bank for Reconstruction and Development (IBRD) is popularly known as: Answer (A)

- a) World Bank (b) Bank of Tokyo (c) American Express (d) HSBC Bank

2. IMF stands for: Answer (c)

- a) International Monetary Foundation b) Internal Monetary Fund
c) International Monetary Fund d) International money foundation

3. What was the one major proposal of the new industrial policy(1991)?

Answer (d)

- a) NRI’s will not be allowed for capital investment in India.
- b) The facility of FDI up to 51 percent in high priority industries
- c) Import restrictions on technical know-how for one year
- d) Abolition of industrial licensing except for six industries.

4. Objectives of privatization policy are: Answer (a)

- a) To improve the government’s financial position
- b) To improve the performance of an enterprise
- c) To reduce the burden on public administration.
- d) All the above.

5. Rate of which tax was reduced as per the tax reforms: Answer (b)

- a) Income tax (b) corporation tax (c) value-added tax (d) property tax

6. Which is the latest tax introduced by the government of India? Answer (a)

- a) Goods and services tax (b) Value-added tax
(c) service tax (d) corporation tax

7. Privatization of the public sector undertakings by selling off part of the equity of PSU's to the private sector is known as. Answer:(disinvestment)

8. SGST stands for__. Answer (State Goods and Services Tax)

9. What is privatization?

Ans. It implies shedding of the ownership or management of a government-owned enterprise.

10. Define disinvestment.

Ans. Disinvestment refers to the deliberate sale of a part of the capital stock of a company to raise resources and change the equity and /or management structure of a company.

11. What is meant by globalization?

Ans. Globalization is an outcome of the set of various policies aiming at transforming the world towards greater interdependence and integration.

12. What is meant by demonetization?

Ans. Demonetization is the economic policy wherein the legal status of a currency unit is canceled and a new one comes into circulation.

13. When was demonetization implemented in India?

Ans. On November 8, 2016, demonetization was implemented in India with its announcement by Prime Minister Narendra Modi's address to the nation at 20:15 IST.

SHORT ANSWER TYPE QUESTIONS OF 3/4 MARKS

1. State the features of the new economic policy.

Ans.

- a. Liberalization
- b. Privatization
- c. Globalization

(Explanation required)

2. What are Fiscal policy reforms? Explain.

Ans. Fiscal policy reforms were undertaken to improve the expenditure and revenue policies of the government. The following steps were undertaken:

- a. Tax Reforms: Tax rates were reduced, tax evasion was plugged and procedures were simplified.
- b. Government expenditure was curtailed by cutting down on unnecessary expenses. Borrowings were reduced and all loss-making PSU's were shut down.
- c. Disinvestment in PSU's was undertaken to plug the budgetary deficit.

3. Explore the industrial policy Reforms under NEP 1991.

Ans. Industrial Policy Reforms were aimed at reducing government control and opening up the industrial sector to private participation. The reforms were:

- a. Delicensing of industries
- b. Deregulation of industries
- c. De-reservation of industries by the withdrawal of reservation in the public sector.

- d. Foreign capital was also encouraged by increasing the share of foreign investment.

4. Write a short note on Niti Aayog.

Ans. Its constitution comprises the following:

- a. Chairperson (The Prime Minister)
- b. Vice-Chairperson
- c. Full-Time members(four)
- d. Chief Executive officer(one)

Formed via a resolution of the Union Cabinet on January 1, 2015. NITI Aayog is the premier policy “Think-Tank” of the government of India (GOI), providing both directional and policy inputs. While designing strategic and long-term policies and programs for the GOI, it also provides relevant technical advice to the center and states.

5. Give any three aims of demonetization.

Ans. The three aims of demonetization are:

- a. To curb corruption
- b. To curb counterfeiting
- c. To curb the use of high denomination notes for terrorist activities.

6. What do you understand by GST? How good is a system of GST as compared to the old tax system? State its categories.

Ans. GST is the “single comprehensive indirect tax” on the supply of goods And services right from manufacturer or service provider to the consumer.

The system of GST as compared to the old tax system.

- a. Has simplified the multiplicity of taxes on goods and services.
- b. The laws, procedures, and rates of taxes across the country are also now standardized.
- c. It has also facilitated the freedom of movement of goods and services.
- d. It has created a common market in the country. The two categories of GST and CGST and SGST.

7. Give the list of navaratna companies

Ans.

- a. Bharat Electronics Ltd.
- b. Bharat Petroleum Corporation Ltd.
- c. Hindustan Aeronautics Ltd.
- d. Hindustan Petroleum Corporation Ltd.
- e. Mahanagar Telephone Nigam Ltd.
- f. National Aluminum Company Ltd.
- g. National Mineral Development Corporation Ltd.
- h. Neyveli Lignite Corporation Ltd.
- i. Oil India Ltd.
- j. Power Finance Corporation Ltd.
- k. Power Grid Corporation of India Ltd.
- l. Rashtriya Ispat Nigam Ltd.
- m. Rural Electrification Corporation Ltd.
- n. Shipping Corporation of India Ltd.

8. What are the objectives of WTO?

Ans. Objectives of the World Trade Organization (WTO) are

- a. Reduction of trade barriers to liberalize world trade.
- b. Serves as a platform for countries to raise their concerns regarding the trade policies of their trading partners.
- c. To enlarge production and trade of services.
- d. To ensure optimum utilization of world resources.
- e. To protect the environment.
- f. To provide greater market access to all member countries.

LONG ANSWER TYPE QUESTIONS AND ANSWERS OF 6 MARKS:

1. Explain financial sector reforms under Liberalisation.

Ans.

- a. Industrial Sector Reforms
- b. Financial Sector Reforms
- c. Fiscal Reforms
- d. External Sector Reforms

(Explanation required)

2. What are the major factors responsible for the high growth of the service sector?

Ans.

- a. Cheap labor and a reasonable degree of skill in India.
- b. Advanced technology and growth of IT
- c. Structural transformation
- d. High demand for services as the final product

(Explanation required)

3. Explain the main objectives of Globalization.

Ans. Following are the main objectives of globalization are as follows:

- a. Reduction of trade barriers to liberalize world trade.
- b. Serves as a platform for countries to raise their concern regarding the trade policies of their trading partners.
- c. To enlarge production and trade of services.
- d. To protect the environment
- e. To provide greater market access to all member countries.
- f. To ensure optimum utilization of world resources.

4. Why were reforms introduced in India?

Ans: Reforms were introduced in India due to following reasons:

- i) Fall in foreign exchange reserves: In 1990-91 India's foreign exchange reserves fell to such a low level that the same was not enough to pay for an import bill for even 15 days. Also there was not sufficient foreign exchange to pay the interest that need to be paid to international lenders.
- ii) Iran Iraq war: Due to Iran Iraq war in 1990-91, prices of petrol shot up.
- iii) Rising prices of essential goods: In India prices of essential goods continued to rise rapidly due to rise in price of petroleum products.
- iv) Poor performances of Public Sector Undertakings (PSUs): Income from PSUs was not enough to meet growing govt. expenditure.
- v) Mounting adverse Balance of Payments (BOP): It means our payments to rest of the world are more than our receipts from rest of the world.
- vi) Rising fiscal deficit: It means govt. expenditure was more than govt. revenue.

Vii) Closed economy: Poor performance of Indian economy due to adoption of closed economy concept in the lack of competition.

5. Distinguish between the following

(i) Strategic and Minority sale

Ans: In strategic sales the Govt. offers or sell 51% - 76% shares to the investors. It means govt. transfers the management control and ownership rights to the investors.

In Minority sales Govt. offers or sell only upto 49% shares of PSUs to the investors. It means management control and ownership rights do not transfer to the investors.

(ii) Bilateral and Multi-lateral trade

Ans: Bilateral trade means the trade (exchange of goods and services) between two countries.

Multilateral trade means the trade (exchange of goods and services) among more than two countries.

(iii) Tariff and Non-tariff barriers.

Ans: Tariff barriers are the taxes on imported goods to make them expensive and protect domestic industries from foreign competition.

Non-Tariff barriers are the quotas which mean the fixation of quantity of imported goods.

6. Why are tariffs imposed?

Ans: Tariffs (import tax) are imposed to increase the prices of imported goods, so that their demand decreases and domestically produced goods can be saved from the competition with imported goods of foreign industries.

7. What is the meaning of quantitative restrictions?

Ans: Quantitative restrictions are the quotas which mean the fixation of quantity of imported goods.

Quantitative restrictions are imposed to reduce the volume of imports, to promote the sale of domestically produced goods and to save the domestic producers from competition with foreign producers.

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

Ans: No, public sector undertakings which are making profits should not be privatized because these are established for providing infrastructure, necessary goods and necessary services at an affordable price to all sections of the society especially poor for their upliftment. In spite of Privatisation of these PSUs the govt. should make more efforts to expand them, to modernise them, to increase their efficiency, to provide them more financial and to provide more freedom in managerial decisions so that they can strengthen their position in world market.

9. Do you think outsourcing is good for India? Why are developed countries opposing it?

Ans: Outsourcing means hiring of regular services such as legal advice, computer service, advertisement, security etc. from external sources, mostly from other countries.

Yes, outsourcing is good for India due to following reasons:

i) It provides Indians better opportunities to earn more income and raise their standard of living.

ii) Outsourcing provides employment and leads the formation of more human capital i.e. educated and skilled workers.

Developed countries are opposing it due to following reasons:

i) It will narrow down the income disparities between them and India which causes the disappearance of dominant role of developed countries over developing countries like India.

ii) It causes the large flow of foreign currencies in India from developed countries.

iii) It causes decrease in employment opportunities in developed countries because skilled manpower is easily available in India at lesser wage rate.

10. India has certain advantages which makes it a favourite outsourcing destination. What are these advantages?

Ans: Most of the MNCs even small companies are outsourcing their services from India due to following reasons:

i) Low wage rates.

ii) Availability of skilled and technical manpower in India.

- iii) Availability of English-speaking persons.
- iv) Reasonable degree of skill and accuracy at cheaper cost.
- v) Trustworthy or honest people.

11. Do you think the *navaratna* policy of the government helps in improving the performance of public sector undertakings in India? How?

Ans: In 1996, the govt. chose nine PSUs and declared them as navartnas and this navaratna policy of the government helps in improving the performance of public sector undertakings in India in the following ways:

- i) It helped in improving efficiency of PSUs.
- ii) It helped in infusing professionalism in PSUs.
- iii) It helped PSUs to compete more effectively in the liberalised global environment.

Under this policy PSUs were given greater managerial and operational autonomy, in taking various decisions to run the company efficiently and thus increase their profits.

12. What are the major factors responsible for the high growth of the service sector?

Ans: Major factors responsible for the high growth of the service sector are as follows:

- i) Skilled manpower.
- ii) Foreign direct investment.
- iii) Outsourcing.
- iv) Liberalisation and Globalisation.
- v) Tax reforms.
- vi) Peaceful environment.
- vii) Big market

13. Agriculture sector appears to be adversely affected by the reform process. Why?

Ans: In the wake of new economy policy (or LPG) focus shifted from agriculture to service sector.

Consequently, growth rate in agriculture suffered a setback and all this was due to following reasons:

- i) Public investment in agriculture sector especially in infrastructure, which includes irrigation, power, roads, market linkages and research and extension (which played a crucial role in the Green Revolution), has been reduced in the reform period.
- ii) Removal of fertilizer subsidy has led to increase in the cost of production, which has severely affected the small and marginal farmers.
- iii) Since the commencement of WTO, this sector has been experiencing a number of policy changes such as reduction in import duties on agricultural products, lifting of quantitative restrictions on agricultural products adversely affected Indian farmers as they now have to face increased international competition.
- iv) Because of export oriented policy, In agriculture there has been a shift from production for the domestic market to production for the export market focusing on cash crops in lieu of production of food grains. This puts pressure on prices of food grains.

14. Why has the industrial sector performed poorly in the reform period?

Ans: Industrial sector has performed poorly in the reform period due to following reasons:

- i) Inadequate investment in infrastructure.
- ii) Decreasing demand of domestic industrial products due to various reasons such as cheaper imports etc.
- iii) Free movement of goods and services from foreign countries increased competition and adversely affect the local industries and employment opportunities in India.
- iii) Developing country like India still does not have the access to developed countries' markets because of high non-tariff barriers.

15. Discuss economic reforms in India in the light of social justice and welfare.

Ans: New economic reforms in India brought advantages and disadvantages in the economy but economic reforms caused more disadvantages to social justice and welfare .The following points will explain this:

- i) Due to undevelopment of agriculture sector in reform period the welfare of farmers decreased.
- ii) Due to undevelopment in industrial sector in reform period the welfare of domestic industrialists and workers decreased.

- iii) Globalisation destroyed the small scale industries therefore decreased the welfare of small industrialists.
- iv) New economic reforms proved beneficial for rich, educated and skilled because only they take the benefits of opportunities created by new economic reforms which caused increase in income inequalities in the economy.
- v) New economic reforms only developed the service sector activities such as telecommunication, information technology, entertainment, travel, real estate etc. and neglect the other sectors of the economy.

ADDITIONAL QUESTIONS ON ASSERTION AND REASONING ON UNIT 1

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

Assertion (A): India became an exporter of primary products and an importer of finished consumer and capital goods produced in Britain.

Reason(R): Restrictive policies of commodity production, trade, and tariff pursued by the colonial government adversely affected the structure, composition, and volume of India's foreign trade.

Alternatives :

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

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

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

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

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

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

Assertion (A): The major policy initiatives i.e. land reforms and green revolution helped India to become self-sufficient in food grains production.

Reason (R): The proportion of people depending on agriculture did not decline as expected

Alternatives:

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

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

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

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

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

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

Assertion (A): Every year government fixes a target for disinvestment of Public Sector Enterprises (PSEs).

Reason (R): A disinvestment is an excellent tool for discarding the loss incurring Public Sector Enterprises (PSEs).

Alternatives :

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

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

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

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

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

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

Assertion (A): Five-year plans gave a big push to the basic and capital goods industries.

Reason (R): Indian economy is now ranked as the eleventh largest industrial economy in the world.

Alternatives:

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

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

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

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

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

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

Assertion (A): Economic and social equality was considered as the principal goal of planning.

Reason (R): Real income of the people decreased due to the high rate of inflation.

Alternatives:

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

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

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

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

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

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

Assertion (A): Wage goods are luxuries of life.

Reason (R): Agriculture provides wage goods to about 121 crores of people in India.

Alternatives:

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

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

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

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

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

Human Capital Formation:

Human Resource: It refers to abilities (skill and expertise) of human beings to contribute to the process of value-addition in the economy.

Human Capital: It refers to the stock of 'skill and expertise' of a nation at a point of time.

Human Capital Formation: It refers to the process of adding to the stock of human capital.

Sources of Human Capital:

Expenditure on education,

Expenditure on health,

On-the-job training.

Study programmes for adults.

Migration

(vi) Expenditure on information.

Significance of Human Capital Formation:

Change in emotional and material environment of growth.

Higher productivity of physical capital.

Innovative skills.

Higher rate of participation and equality.

Problems facing Human Capital Formation in India:

Rising population, (ii) Brain drain, (iii) Deficient manpower planning, (iv) Insufficient on-the-job training in primary sector, (v) Low academic standards.

Importance and Objectives of Education: (i) Education produces good citizens, (ii) It develops science and technology, (iii) It facilitates use of resources in the country, (iv) It expands mental horizon of the people, (v) It helps in economic development through greater participation of the people in the process of growth and development, (vi) It promotes cultural standard of the citizens, (vii) It develops human personality.

Growth of Education Sector in India: It includes: (i) Expenditure incurred on education, (ii) Educational achievements of India.

Problems Relating to Development of Education in India: (i) Large number of illiterates. (ii) Inadequate vocationalisation, (iii) Gender bias, (iv) Low rural access level, (v) Privatisation, (vi) Low government expenditure on education.

MCQs(1MARK):

1. Read the following statements carefully.

Statement 1: The physical capital is separable from its owner, whereas, human capital is inseparable from its owner.

Statement 2: Human capital is not perfectly mobile between countries as movement is restricted by nationality and culture.

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

- (a) Statement 1 is true and statement 2 is false
- (b) Statement 1 is false and statement 2 is true
- (c) Both statements 1 and 2 are true
- (d) Both statements 1 and 2 are false

2. The two major sources of human capital in a country are:

- (a) Investment in Education and health
- (b) Investment in Education and on the job training
- (c) Investment in Education and migration
- (d) Investment in education and information

3. What percent of GDP was recommended by the Education Commission (1964-66) to be spent on the education sector?

- (a) 3%
- (b) 4%
- (c) 5%
- (d) 6%

4. Which one of the following is not a source of human capital formation?

- (a) Expenditure on infrastructure
- (b) Expenditure on education
- (c) Expenditure on on-the-job training
- (d) Expenditure on migration

5. The objective of midday meal is:

- (a) to boost universalisation of primary education
- (b) to boost the nutritional status of children in schools
- (c) to increase enrolment attendance and retention, and also improving the nutritional status of children in school
- (d) to boost universalisation of upper primary level of education

6. The stock of skill and expertise of a nation at a particular point of time is known as:

- (a) Physical capital
- (b) Social infrastructure
- (c) Human capital
- (d) Financial capital

7. Which is the problem of human capital formation in India?

- (a) Decreasing population
- (b) Brain drains
- (c) High academic level
- (d) Gender equality

8. Which of the following is not an indicator of education level?

- (a) Years of schooling
- (b) Life expectancy
- (c) Teacher-pupil ratio
- (d) Enrollment rate

9. Which level of education takes a major share of total education expenditure in India?

- (a) Elementary
- (b) Secondary
- (c) Higher
- (d) Tertiary

10. Which of the following is not the role of on-the-job training?

- (a) Eradicates inequality
- (b) Encourages innovation
- (c) Promotes modern methods
- (d) Enhances productivity

11. Read the following statements- Assertion (A) and Reason (R):

Assertion (A)- Human capital formation is required for effective use of physical capital.

Reason (R)- Formation of human capital raises life expectancy of the people.

From the given alternatives choose the correct one:

Alternatives:

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

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

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

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

12. Assertion (A): Human Capital formation is the process of adding to the stock of human capital overtime.

Reason (R): Migration contributes to human capital formation as it facilitates utilization of inactive skills of the people.

Alternatives:

- (a) Assertion and reasons both are correct statements and reason is correct explanation for assertion.
- (b) Assertion and reasons both are correct statements, but reason is not correct explanation for assertion.
- (c) Assertion is correct statement, but reason is wrong statement.
- (d) Assertion is wrong statement, but reason is correct statement.

13. Read the following statements- Assertion (A) & Reason (R). Choose one of the correct alternatives given below:

Assertion (A): The relation between human capital and economic growth flows in either directions.

Reason (R): High level of economic growth means more investment in human capital formation—better schools, colleges, research institutions, hospitals and high level of human capital like doctors, scientists, engineers, professors causes growth of income or vice versa

- (a) Both Assertion (A) & Reason (R) is true
- (b) Both Assertion (A) & Reason (R) is false
- (c) Assertion (A) is true but Reason (R) is False
- (d) Assertion (A) is False but reason (R) is true

14. Read the following statements- Assertion (A) & Reason (R). Choose one of the correct alternatives given below:

Assertion (A): Human capital creates both private and social benefits

Reason (R): The benefits from a human capital not only flows to those who pay for it but also to the society in general.

- (a) Both Assertion (A) & Reason (R) is true
- (b) Both Assertion (A) & Reason (R) is false
- (c) Assertion (A) is true but Reason (R) is False
- (d) Assertion (A) is False but reason (R) is true

15. Assertion (A): Expenditure on information is considered an important source of human capital formation.

Reason (R): A person who is educated, trained and skilled can be unemployed due to lack of expenditure on information

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

ANSWER(MCQs):

1. (c) Both statements 1 and 2 are true
2. (a) Investment in Education and health
3. (d) 6%
4. (a) Expenditure on infrastructure
5. (c) to increase enrolment attendance and retention, and also improving the nutritional status of children in school
6. (c) Human capital
7. (b) Brain drains
8. (b) Life expectancy
9. (a) Elementary
10. (a) Eradicates inequality
11. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
12. (a) Assertion and reasons both are correct statements and reason is correct explanation for assertion.
13. (a) Both Assertion (A) & Reason (R) is true
14. (a) Both Assertion (A) & Reason (R) is true
15. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

VERYSHORTANSWERQUESTIONS:

1. What are the two major sources of human capital in a country?

Ans: Expenditure in education and health are the two major sources of human capital in a country.

2. What are the indicators of educational achievement in a country?

Ans: The indicators of educational achievement in a country are: (1) years of schooling, (2) teacher-pupil ratio, and (3) enrolment rate.

3. Why do we observe regional differences in educational attainment in India?

Ans: We observe regional differences in educational attainment in India due to variation in the per capita education expenditure across states in India.

4. What factors contribute to human capital formation?

Ans: Factors contribute to human capital formation are: expenditure in education, expenditure in health, expenditure in on-the-job training, expenditure on migration and information. These are sources of human capital formation.

5. Explain “on the job training” as a source of human capital formation.

Ans: Firms spend on giving on-the-job-training to their workers. This may take different forms: (a) the workers may be trained in the firm itself under the supervision of a skilled worker; (b) the workers may be sent for off-campus training. In both these cases firms incur some expenses. Expenditure regarding on-the-job training is a source of human capital formation as the return of such expenditure in the form of enhanced labour productivity is more than the cost of it.

6. Who takes care of education in India?

Ans: The ministries of education at the union and state level, departments of education and various organizations like National Council of Educational Research and Training (NCERT), University Grants Commission (UGC) and All India Council of Technical Education (AICTE) are taking care of education in India.

SHORT ANSWER QUESTIONS:

1. Distinguish between human capital and human development.

Ans: Human capital treats human beings as a means to an end; the end being the increase in productivity. Any investment in education and health is unproductive if it does not enhance output of goods and services.

- In the human development, human beings are ends in themselves.
- Human welfare should be increased through investments in education and health even if such investments do not result in higher labour productivity.
- Therefore, basic education and basic health are important in themselves, irrespective of their contribution to labour productivity.

2. How is human development a broader term as compared to human capital? Explain

Ans: Human capital treats human beings as a means to an end; the end being the increase in productivity. In human development, human beings are ends in themselves.

- Human capital considers education and health as a means to increase labour productivity. Human development is based on the idea that education and health are integral to human well-being.
- Human capital asserts that any investment in education and health is unproductive if it does not enhance output of goods and services. According to human development, human welfare should be increased through investments in education and health even if such investments do not result in higher labour productivity. In this sense, human development is a broader concept than human capital.

3. How government organizations facilitate the functioning of schools and hospitals in India?

Ans: In India, the ministries of education at the union and state level, departments of education and various

organizations like National Council of Educational Research and Training (NCERT), University Grants Commission (UGC) and All India Council of Technical Education (AICTE) facilitate institutions which come under the education sector. Similarly, the ministries of health at the union and state level, departments of health and various organizations like Indian Council for Medical Research (ICMR) facilitate institutions which come under the health sector.

4. Education is considered to be an important input for the development of a nation. How?

Ans: Education is considered to be an important input for the development of a nation. Because, education confers higher earning capacity on people; it gives one a better social standing and pride; it enables one to make better choices in life; it provides knowledge to understand the changes taking place in society; it stimulates innovations. And the availability of educated labor force facilitates adaptation of new technologies. Education provides knowledge to understand changes in society and scientific advancements, thus, facilitates inventions and innovations. Thus, due to education the nation is capable of producing more output of goods and services. This leads to higher economic development in a nation.

5. Establish the need for acquiring information relating to health and education expenditure for the effective utilization of human resources.

Ans: People spend to acquire information relating to the labour market and other markets like education and

health. For example, people want to know the level of salaries associated with various types of jobs, whether

the educational institutions provide the right type of employable skills and at what cost. This information is

necessary to make decisions regarding investments in human capital as well as for efficient utilisation of the

acquired human capital stock. Expenditure incurred for acquiring information relating to the labour market

and other markets is a source of human capital formation.

6. How does investment in human capital contribute to growth?

Ans: Economic growth means the increase in real national income of a country over a long period of time. The contribution of the educated and healthy person to economic growth is more than an uneducated and unhealthy person. Expenditure in health and education along with on-the-job training, job market information

and migration, increases individual's income generating capacity. The enhanced productivity of human capital contributes substantially not only towards increasing labour productivity but also stimulates innovations and creates ability to absorb new technologies. Higher human capital causes higher economic growth and higher level of income and vice versa, that is, higher income causes building of high level of human capital.

7. 'There is a downward trend in inequality world-wide with a rise in the average education levels'.

Comment.

Ans: Expenditure in education opens new avenues of employment. Labour skills of an educated person is more than that of an uneducated person, which enables him to generate more income than the uneducated. An uneducated person has better chances of landing a high paying job. Throughout the world, education levels have risen over the years. This has resulted in participation of more people in the

workforce. Rising number of women in the workforce can be a clear indicator of benefits which education can impart towards employability. In case of India, many sections of the society which were downtrodden and oppressed since ages have been able to improve their socio-economic status because of education. All these developments have helped in reducing the inequality between the rich and the poor.

8. Examine the role of education in the economic development of a nation.

Ans: Education is considered to be an important input for the development of a nation. Because, education

confers higher earning capacity on people; it gives one a better social standing and pride; it enables one to make

better choices in life; it provides knowledge to understand the changes taking place in society; it stimulates

innovations. The contribution of the educated person to economic development is more than that of an illiterate

person. Because education provides knowledge to understand changes in society and scientific advancements,

thus, facilitate inventions and innovations. Similarly, the availability of educated labour force facilitates adaptation to new technologies.

9. Explain how investment in education stimulates economic growth.

Ans: Investment in education is an important source of human capital formation because it enhances labour productivity and increases income generating capacity of individuals. Education stimulates innovations and creates ability to absorb new technologies. Education provides knowledge to understand changes in society and scientific advancements facilitate inventions and innovations. Similarly, the availability of educated labour force facilitates adaptation to new technologies. Thus, investment in education stimulates higher economic growth.

10. Trace the relationship between human capital and economic growth.

Ans: There is causality between human capital and economic growth. This means that higher income causes building of high level of human capital and vice versa, that is, high level of human capital causes growth of income. Both education and health, along with many other factors like on-the-job training, job market information and migration, increase an individual's income generating capacity. An enhanced human capital contributes substantially not only towards increasing labour productivity but also stimulates innovations and creates ability to absorb new technologies. However, empirical evidence to prove that increase in human capital causes economic growth is rather nebulous. This may be because of measurement problems of the sources of human capital like health and education.

11. Discuss the need for promoting women's education in India.

Ans: The need for promoting women's education in India is imminent for various reasons such as (i) improving economic independence and social status of women, (ii) women education makes a favourable impact on fertility rate and health care of women and children, (iii) educating women help in promoting family welfare programmes and hence in population control, (iv) educated women are aware of health care and hence take proper care of their family members contributing to human capital formation, and (v) an educated women can inculcate moral values in her children and can facilitate their education.

LONGANSWERQUESTIONS(6MARKS):

1. Discuss the following as a source of human capital formation.

(i) Health Infrastructure and (ii) Expenditure on Migration

Ans: (i) Health infrastructure: Expenditure in health infrastructure is an important source of human capital

formation. Health infrastructure includes hospitals, doctors, nurses and other paramedical professionals, bed, equipment required in hospitals and a well-developed pharmaceutical industry. Development of health infrastructure ensures a country of healthy manpower for production of goods and services. Expenditure in

health infrastructure directly increases the supply of healthy labour force and hence is source of human capital formation.

(ii) Expenditure on migration: People migrate in search of employment and better opportunity like health, education and facilities of urbanization which benefit them to fetch higher income and better standard of living. There are various types of migration such as rural to urban, urban to urban, urban to rural and country to country. Unemployment is the cause of rural to urban migration in India. Technically qualified persons like doctors and engineers migrate to other countries because of higher salaries that they may get in

such countries. Migration involves cost of transport, higher cost of living in the migrated places and psychic costs of living in a strange sociocultural setup. If the enhanced earnings in the new place outweigh the costs

of migration; hence, expenditure on migration is a source of human capital formation.

2. Argue in favour of the need for different forms of government intervention in education and health sectors.

Ans: Expenditure in education and health are an important source of human capital formation in India and both have private and social benefits and provided both by government and private institutions. Thus, the need for different forms of government intervention in education and health sectors is important because of

the following reasons:

(i) Expenditures on education and health make substantial long-term impact and they cannot be easily reversed; hence, government intervention is essential. For instance, once a child is admitted to a school or health care centre where the required services are not provided, before the decision is taken to shift the child to another institution, substantial amount of damage would have been done.

(ii) Individual consumers of these services do not have complete information about the quality of services and their costs.

(iii) The providers of education and health services acquire monopoly power and are involved in exploitation.

Thus, the role of government is to ensure that the private providers of these services adhere to the standards

stipulated by the government and charge the correct price.

3. What are the main problems of human capital formation in India? Explain

Ans: The main problems of human capital formation in India are as follows:

(i) Lack of Resources: The economic resources needed to fund investment in education and health for human capital formation in India is not sufficient. Even, though government increases the plan outlay for health and education sectors every year, it remains inadequate in comparison to demand for these facilities.

(ii) Implementation Problems: There are various programmes being run by the government for human capital formation like SarvaShiksha Abhiyan and National Rural Health Mission, they badly suffer from corruption and faulty implementation due to which the benefits do not reach to the people.

(iii) Quality Issues: Though there has been a progress in human capital formation in India in quantitative terms, quality of human capital is far from satisfactory. Health facilities are not proper in many areas and education system in India is producing unemployable educated youth.

(iv) Large Size of Population: Due to large size of population, it has become very difficult for the government to deliver the facilities and infrastructure required for human capital formation.

(v) Lack of Proper Planning: Planning for human capital formation has not been proper due to which there is always a shortage of manpower in the health and education sectors. There are schools but no teachers and there are hospitals but no doctors to work in rural areas. Similarly, even the physical infrastructure falls short of requirement, there are lesser classrooms than needed in the schools and lesser number of beds than required in hospitals.

Rural Development: 5

- Introduction
- Meaning of Rural Development
- Process of Rural Development
- Rural Credit
- Need for Rural Credit or Agricultural finance
 - On the basis of time
 - On the basis of purpose
- Sources of Rural Credit
 - Non Institutional Sources
 - Institutional Sources
- Critical Appraisal of Rural Banking
- Agricultural Market system
 - Measures to improve agricultural marketing
 - Defects of Agricultural marketing in India
 - Remedial measures for Improvement of Agricultural marketing
 - Emerging Alternate Marketing Channels
- Diversification of Agricultural activities
 - Diversification of Crop production
 - Diversification of productive of activities
- **Note This topic is deleted for the session 2020-21:**
- **Sustainable Development and Organic Farming.**
- Evaluation of Rural Development
 - **Rural Development:** It refers to continuous and comprehensive socio-economic process, attempting to improve all aspects of rural life.
 - **Rural Credit:** Rural Credit means provision of loans specially in production for agriculture and non-agricultural sectors.
 - **Agricultural Marketing:** It is a process that involves assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.
 - **Organic farming:** It is the form of agriculture that lies on techniques such as crop rotation, green manure, compost and biological pest control.

Rural Credit

1. Rural Credit means provision of loans specially in production for agriculture and non-agricultural sectors.
2. Credit facilities in the rural areas have contributed a large increase in agricultural productivity and employment facilities in non-agricultural sectors.
3. The loans have provided in rural areas to the frames in order to purchase machineries agricultural implements etc.
4. The government had also provided long term loans which can be repaved in 15to 20 years for improvement of the land, digging tube well, purchase of tractors etc.

There are some loans which are provided to farmers to celebrate religious ceremonies, marriages for settlements of old loans and to support the family in case of a crop failure. These loans are called as unproductive loans.

Sources of Rural Credit

Rural Credit availability can be broadly classified into 2 categories:

1. **Non-institution Sources:** - These are the traditional sources of agricultural credit in India. They include money lenders, relatives, traders, commission agents and land lords.
2. **Institutional Sources:-** They are cooperative credit, land development banks, commercial banks, regional rural banks, govt., national bank for agricultural and rural development(NBNR) and also self-help groups.

Agricultural Marketing System

Agricultural marketing is a process which involves assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.

Measures to Improve Agricultural Marketing

After Independent govt. has adopted various measures to improve of the system of agricultural marketing in the country.

It has brought about following measures in order to regulate the markets:-

1. **Regulated Markets:-** The first measure was regulation of markets, to create orderly and transparent marketing condition. This is organized in order to protect farmers from malpractices of sellers and brokers.
2. **Cooperative Marketing:-**Marketive societies are formed by farmers to sell the output collectively and to take advantages of collective bargaining , for obtaining a better price. Cooperatives are not functioning properly in a recent past due to inadequate coverage of farmer members and processing cooperatives and also inefficient management.
3. **Infrastructural facilities:-** Govt. had also provided infrastructural facilities like roads, railways, warehousing, old storage and processing units.
4. **Standardization and Grading:-** Grading And quality control helps farmers to get good price for quality products produced by them.
5. **Minimum Support Price:-** To safeguard the Interest of the farmers government fixes the minimum support price for agricultural products like wheat, rice, maize, cotton, sugarcane, pulses etc. the government willingly will buy any amount of grains from the farmers at a price higher than the market price in order to helpthem recover their loss. This is normally done by good cooperation of India & the Government in turn will supply these products in public distribution system against BPL & APL card.

Defects of Agricultural Market in India

The existing system of Agricultural marketing has no. of defects the following are some of the defects due to which the marketing system is not properly organized.

1. Lack of storage facility for food grain and crops has damaged the products either by rats or insects or due to rain.
2. Distress Sale: Most Indian farmers are poor and they have no capacity to wait for better price. They sell the commodities at whatever the price available immediately. As a result they go for distress sale of their output, to the village money lenders or traders for poor price.
3. Lack of transportation as a result farmer cannot reach nearby mandhis to sell their produce at a fair price.
4. Long chain of middleman or intermediaries between the cultivator and the consumer will also reduce the profit of the producer.
5. There are also other defects like lack of institutional finance, lack of guiding etc.. This makes Indian marketing system disorganized.

Remedial measures for improvement of agricultural marketing

Following are some of the measures to improve the system agricultural marketing in the country.

1. Extension of storage facilities at the farm level and storage and warehousing facilities in the markets and consumption centers Establishments of regulated markets.
2. Improvement of transport facilities between the village and the mandhis.
3. Establishment of cooperation marketing societies.
4. Provision of cheap credit, especially from institutional sources.
5. Provision for grading of the produce to ensure good quality to the consumers and better prices for the producers.
6. Prompt supply of marketing information.

Diversification of Agricultural Activity

1. This means the excess of people in agriculture can be given gainful employment in some other allied activities in agriculture and non-farm activities. This is done in order to overcome poverty, improve employment and make rural agricultural people fully employed.
2. Diversification includes 2 aspects.
 - a. **Diversification of crop production:-** This involves shift from single cropping system to multiple cropping system. This also involves shifting cropping pattern from food grains to cash crops. The main aim is to promote shift from subsistence farming to commercial farming.
 - b. **Diversification of Productive Activities:-** As agricultural is already overcrowded the major portion of the increasing labour force needs to find alternate employment opportunities in other non-farm sectors. This will provide alternate sustainable livelihood and would raise the level of income.

Some of the non- form activities are:-

Animal husbandry and dairy farming, fishers, horticulture, agro processing industries, food processing industries leather industry, tourism etc. these sectors which have the potential but they lack infrastructure and other financial support.

1. The Apex body which coordinates The functioning of different Financial Institutions working for the expansion of rural credit .

(A) NABARD

(B) self-help groups

(C) regional rural bank.

(D) Commercial bank

ANS. (A) NABARD

2. -----comes under horticulture.

(A) fish farming

(B) poultry farming

(C) flower cultivation

(D) animal husbandry

ANS. (C) flower cultivation

3 Agriculture Marketing does not comprise of

(A) transportation of product to the marketing place for sale

(B) grading of products according to the quality

(C) storage of the produce for sale in future

D)credit is taken to meet expenditure on agriculture

ANS. D)credit is taken to meet expenditure on agriculture

4. Emerging Challenges of rural development includes:

(A) Diversification of production activities

(B) Organic farming

(C) Both a and b

(D)None of these

ANS. (C) Both a and b

5 once said that the real progress of India did not mean simply the growth and expansion of industrial urban centers but mainly the development of the villages.

(Mahatma Gandhi/Jawahar lal Nehru)

ANS. Mahatma Gandhi

6. The alternate marketing channels in Punjab, Haryana, and Rajasthan are known as-----

(Apni mandi/Rythu Bazar)

ANS. Apni mandi

7.At the time of independence, major source of credit was:

(a) Institutional Sources

(b) Non-Institutional Sources

(c) Both (a) and (b)

(d) None of these

ANS. (b) Non-Institutional Sources

8. Identify which of the following is not a step taken by the government to improve rural marketing:

(a) Maintenance of buffer stocks

(b) Regulation of markets to create transparent marketing conditions

(c) Promotion of cooperative marketing

(d) Promoting trade by big rural merchants

ANS. (a) Maintenance of buffer stocks

9. _____ is the apex body which coordinates the functioning of different financial institutions, working for expansion of rural credit:

a) NABARD

b) Commercial banks

c) Regional rural bank

d) RBI

ANS. a) NABARD

10. Organic farming is beneficial because:

a) It generates income through international exports

b) It is produced in an environmentally sustainable way

c) It provides healthy food

d) all of these

ANS. d) all of these

11. NABARD was established in _____ year

A) 1956

B) 1986

C) 1991

D) 1982

ANS. D) 1982

12. Read the following statements carefully and choose the correct alternative from the following:

Statement 1: Milk Cooperatives in Gujarat transformed the social and economic condition of Gujarat and some other parts of the country.

Statement 2: The aim of cooperative marketing is to realise fair price for farmers' products.

Alternatives:

- (a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement 1 is true and Statement 2 is false.
- (d) Statement 2 is true and Statement 1 is false.

ANS. (a) Both the statements are true.

13. Assertion (A): IT can play a critical role in achieving sustainable development and food security in 21st century.

Reason (R): Farmers are very keen to learn computer.

Choose the correct option for below given questions

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

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

14. Assertion (A): The SHGs promote thrift in small proportions by a minimum contribution from each member. .

Reason (R): Macro credit refers to credit and other financial services provided to the poor through SHG s.

Choose the correct option for below given questions

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

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

15 Assertion (A): The yields from organic farming are more than modern agricultural farming.

Reason (R): The yields from organic farming are less than modern agricultural farming in the initial years.

Alternatives:

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion (A)
- (C) Assertion (A) is true but Reason (R) is false
- (D) Assertion (A) is false but Reason (R) is true

ANS. (D) Assertion (A) is false but Reason (R) is true

16. Assertion (A): Even today more than 10% of goods produced in farms are wasted.

Reason (R): The current storage facilities are quite inadequate to meet the growing demands.

Alternatives:

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

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

(C) Assertion (A) is true but Reason (R) is false

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

ANS. (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion (A)

17. Statement I: The SHGs promote thrift in small proportions by a minimum contribution from each member.

Statement II: From the pooled money, credit is given to the needy members to be repayable in small installments at reasonable interest rates

a. Both the statements are true

b. Both the statements are false

c. Statement 1 is true but statement 2 is false

d. Statement 2 is true but statement 1 is false

ANS. a. Both the statements are true

18. Assertion (A): agriculture loan default rates have been chronically high.

Reason (R): It is alleged that farmers are deliberately refusing to pay back loans.

Alternatives:

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

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

(C) Assertion (A) is true but Reason (R) is false

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

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

19. Assertion (A): The fishing community regards the water body as mother or provider.

Reason (R): Because the water bodies (sea, Ocean, rivers, lakes, natural aquatic ponds etc.) are integral and life- giving source for the fishing community.

Alternatives:

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion (A)
- (C) Assertion (A) is true but Reason (R) is false
- (D) Assertion (A) is false but Reason (R) is true

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

20. Assertion: Rural development is comprehensive term which essentially focuses on the action of overall development of rural areas.

Reason: It is required to develop the standard of living of rural people.

- A. Both assertion (A) and reason (R) are true and reason (R) is the correct explanation of assertion (A)
- B. Both assertion (A) and reason (R) are true and reason (R) is not the correct explanation of assertion (A)
- C. Assertion (A) is true but Reason (R) is false
- D. Assertion (A) is false but Reason (R) is true

ANS. A. Both assertion (A) and reason (R) are true and reason (R) is the correct explanation of assertion (A)

21. Assertion (A) : The yields from organic farming are more than modern agricultural farming.

Reason (R) : The yields from organic farming are less than modern agricultural farming in the initial years.

Alternatives:

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

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

22. Assertion (A) : After the initiation of reforms the growth rate of Agricultural sector decelerated to about 3% per annum during 1991 -2012 which was lower than the earlier years.

Reason (R) : Decline in public investment since 1991

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

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

1. What do you mean by the terms Rural Development ?”

Ans: Rural Development refers to a continuous and comprehensive socio-economic process, attempting to improve all aspects of rural life.

2. State any two challenges facing rural development in India(3)

The three challenges facing rural development in India are:

a) Infrastructure development : Basic infrastructure requirements like electricity, irrigation, credit availability, transport facility, construction of village roads to nearby highways etc. are the areas which still need attention of the government so as to gain commanding heights.

b) Alleviation of poverty: In rural areas of India should be taken as a mission for improvement in the living conditions of particular those living at the bottom of the pyramid. This problem may be tracked by emphasising or great access to productive employment opportunities.

c) Development of human capital: Rural capital must be developed by taking sincere steps in the direction of education and health. It means enabling them better and more affordable access to healthcare, sanitation facilities at home and work place and education for all must be given top priority for rapid rural development.

3. Mention briefly the problems related to agricultural finance in India

Rural banking has expanded a great deal in India. But there are certain deficiencies which have led to the problems related to agricultural finance. These are;

a) Credit has been linked with collateral because of which small and marginal farmers have not been the major beneficiary of it,

b) The government has been very lenient on the recovery of loans from the farmers because of which there is a large number of overdue installments.

4. Discuss the importance of organic farming

In organic farming we use only organic inputs for cultivation: like dung of animals as fertilizers and natural chemicals as pesticides.

Importance of organic farming:

1. It is environmentally friendly.

2. It increases the employment level in the economy.

3. It is good for soil health.

4. It produces tasty and healthier food. 5. It is labour intensive

5. Discuss any two steps taken by the government in the direction of improving agricultural marketing system in India since independence.

Two major steps taken by the government in the direction of improving agriculture marketing system in India since Independence are ①) Regulation of markets: this step was necessary in the post-independence

period so as to create an orderly and transparent marketing condition across India. This policy benefitted both farmers as well as consumers.

2) Physical infrastructure: This is another important aspect tackled by the government. Improvement of physical infrastructure facilities like roads, railways, warehouses, cold storage., processing units etc

6.What do you mean by rural development? Bring out the key issues in rural development

Rural Development refers to a continuous and comprehensive socio-economic process, attempting to improve all aspects of rural life. Some of the key issues in rural development include:

- Development of Human Resources: The quality of the human resource needs to be improved by giving proper attention to literacy and better Health facilities.
- Development of infrastructure; It involves improvement in electricity, irrigation, credit, marketing and transport facilities.
- Land Reforms: It includes: (i) Elimination of exploitation in land relations; (ii) Actualization of the goal of land to the tiller; (iii) Improvement of socio-economic

7.Discuss the Different Policy Instruments' initiated by the government to improve Agricultural Marketing.

Government initiated the following policies:

1)Minimum Support Prices (MSP): To safeguard the interest of farmers, the government fixes the minimum support prices of agricultural products, like wheat, rice, etc. Such a price may be regarded as an offer price, at which the Government is willing to buy any amount of grains from the farmers.

2.Maintenance of Buffer Stocks: The Food Corporation of India (FCI) purchases wheat and rice at the procurement prices, to maintain buffer stock. It helps to ensure regularity in supply & stability in prices. (iii) Public Distribution System (PDS): PDS operates through a network of ration shops and fair price shops, which offer essential commodities at a price below the market price, to the weaker sections of the society.

8.Explain the role of microcredit in meeting credit requirements of the poor.

Micro-credit or Self-Help Group (SHG) has emerged as the major micro finance programme in the country In recent years.

1Their focus is largely on those rural poor, who have no sustainable access to the formal banking system. So, their target groups are small and marginal farmers, agricultural and non-agricultural labourers, artisans, etc.

2.SHG promotes thrift in small proportions by a minimum contribution from each member.

3.From the pooled money, credit is given to the needy members at reasonable interest rates, which is to be repaid in small installments

9.What do you mean by Rural Credit system? Explain.

Ans: Rural Credit System

In order to provide credit or loan facilities to farmers for production needs, the government has set up a rural financing system. The National Bank for Agriculture and Rural Development(NABARD) was set up in 1982 as an apex body. The rural banking helps the farmers to avail services, credit facilities

and variety of loans for various needs. The institutional structure of rural banking today consists of a set of multi-agency institutions, namely Commercial Banks, Regional Rural Banks (RRB), Cooperative Credit Societies and Land Development Banks. The major aim of designing this multi-agency system is to dispense adequate credit at cheaper rates.

10. What do you mean by Organic Farming? Write its benefits. What are the limitations of Organic farming?

Ans. The benefits of organic farming are

- **Economical Farming:** Organic Farming offers a means to substitute costlier agricultural inputs (such as HYV seeds, chemical fertilisers, pesticides, etc.) with locally produced cheaper organic inputs.
- **Generates income through exports:** It generates income through international exports as demand for organically grown crops is on a rise.
- **Provides Healthy Food:** It provides healthy food as organically grown food has more nutritional value than food grown through chemical farming.
- **Source of Employment:** Organic farming generates more employment opportunities as it requires more labour input than conventional farming.
- **Safety of environment:** the produce of organic farming is pesticide-free and is produced in an environmentally sustainable way.

The limitations of organic farming are:

1. **Less Popular:** Organic farming needs to be popularised by creating awareness and willingness on the part of farmers, for adoption of new technology. There is a serious need for an appropriate agriculture policy to promote organic farming.
2. **Lack of infrastructure and marketing facilities:** Organic farming faces problems of inadequate infrastructure and marketing facilities.
3. **Low Yield:** Organic farming has a lesser yield in the initial years as compared to modern agricultural farming. As a result, small and marginal farmers find it difficult to adapt to large-scale production.
4. **Shorter food life:** Organic produce has a shorter shelf life as compared to sprayed produce.
5. **Limited choice of crops:** The choice in production of off-season crops is quite limited in organic farming.

11. What is agriculture marketing? Explain problems of agriculture marketing in India. Agriculture marketing is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agriculture commodities across the country.

The present system of agriculture marketing suffers from a number of defects, in spite of the measures taken by government to improve the marketing system. These are: 1) Predominance of private traders. 2) lack of transport facilities. 3) lack of regulated markets. Lack of infrastructural facilities. Long chain of intermediaries

12. Rural economic development is essential for Indian economic development? Do You agree with the given statement? support your answer with valid reason?

- 1) Ans eastructure 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.
- 2) 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.
- 3)Health & Education.

13. Explain the role of non-farm employment in promoting Rural diversification?

The following are the importance of non-farm employment opportunities in promoting rural diversification:

1. A substantial portion of Indian farming is dependent on the monsoon, making it a risky affair to rely upon solely. Hence, non-farm employment opportunities are to be explored to enable the farmers to earn from alternative non-farm occupations. This will lessen the excess burden on agriculture by reducing disguised unemployment.
2. The kharif season opens up ample opportunities for agricultural employment. However, due to lack of irrigation facilities, the farmers fail to get gainful employment opportunities during the Rabi season. Therefore, absence of opportunities in agriculture sector should be compensated in non-farm sectors.
3. Agriculture being over crowded cannot further generate employment opportunities to the farmers. Therefore, the prospects of the non-farm sectors should be opened up in the rural

CHAPTER:6

EMPLOYMENT:GROWTH,INFORMALISATIONANDOTHERISSUES

- **Economic activities:-**Those activities which contribute to the gross national product are called economicactivities. An economic activity refers to the activity performed by people to earn their living. The main three types of economic activities are consumption, production and distribution.
- **Worker:-** All those who are engaged in economic activities are workers. A worker is an individual, who is involved in some productive activity, to earn a living.
- **Production activity** refers to all those activities which are under taken to produce goods and services for generation of income.
- **Labour force:** All persons, who are working (have a job) and those are not working but able to work andwilling to work at the existing wage rate constitutes labour force.
- **Labour Force:** Persons working + persons seeking and/or available for work.
- **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. This includes person between age group of 15-60 years.
- **Labour supply:** It refers to various amount of labour that workers are willing to work, corresponding to a particular wage rate. **Work Force Participation Rate (Ratio):-** It is measured as the ratio between workforce and total population of a country.
- **Types of workers:**
 - Self employed
 - Hired workers
 - Casual Workers

Regular Workers (Salaried)

(a) Self Employed:- The worker who own and operate an enterprise to earn their livelihood are known as self employed.

(b) Hired workers:- Those people who are hired by others and are paid wages or salaries as a reward for their services are called hired workers.

1. Casual Workers:- Those people, who are not hired by their employers on a regular/permanent basis

and do not get social security benefits are said to be casual workers.

2. Regular Workers (Salaried):- When a worker is engaged by someone or by an enterprise and paid his

or her wages on a regular basis, they are known to as regular salaried employees or regular workers.

- **Jobless Growth:** It is defined as a situation where GDP grows faster than the employment Opportunities resulting in unemployment. **Casualisation and informalisation of employment:**
- **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 more 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.
- **Unemployment Rate:** It is calculated as percentage of labour force who are unemployed, not as percentage of total population.

Types of unemployment:

1. Rural unemployment

a. Seasonal Unemployment

b. Disguised Unemployment

2. Other types of unemployment

a. Open

b. Frictional

c. Structural

d. Cyclical

3. Urban Unemployment

a. Industrial Unemployment

b. Educated Unemployment

c. Technological Unemployment

- **Frictional unemployment** is defined as the unemployment that occurs because of people moving or changing occupations.
- **Structural unemployment** is defined as unemployment arising from technical change such as automation, or from changes in the composition of output due to variations in the types of products people demand. For example, a decline in the demand for typewriters would lead to structurally unemployed workers in the typewriter industry.
- **Cyclical unemployment** is defined as workers losing their jobs due to business cycle fluctuations in output, i.e. the normal up and down movements in the economy as it cycles through booms and recessions over time.
- **Open Unemployment** refers to that situation wherein the worker is willing to work and has the necessary ability to work yet he does not get work and remains unemployed for full time.

- **Seasonal Unemployment:-** It refers to a situation where a number of person that are not able to find a job in a particular season.
- **Disguised unemployment** is a kind of unemployment in which some people look like being employed but are actually not employed fully. This situation is also known as **Hidden Unemployment**. In such a situation more people are engaged in a work than required. In other words it refers to a situation of employment with surplus manpower in which some workers have zero marginal productivity. For example in rural areas, this type of unemployment is generally found in agricultural sector.
- **Technological Unemployment:-** A somewhat structural unemployment may take place in an economy as a result of technological improvement. Such unemployment may be described as **technologicalunemployment**. Due to the introduction of new machinery, improvement in methods of production,
- labour-saving devices etc., some workers tend to be replaced by machines. Their unemployment is termed as “**technological unemployment.**”
- **Educated Unemployment:-** Among the educated people, apart from open unemployment, many are underemployed because their qualification does not match the job. Faulty education system, mass output, preference for white collar jobs, lack of employable skills and dwindling formal salaried jobs are mainly responsible for unemployment among educated youths in India. Educated unemployment may be either open or underemployment.

Causes of unemployment:

- a. Slow rate of economic growth
- b. Population explosion
- c. Underdeveloped agriculture
- d. Defective educational system
- e. Slow growth of Industry
- f. Decline of cottage and small industry.
- g. Faulty planning
- h. Inadequate employment planning.
- i. Low capital formation.
- j. Excessive use of Foreign Technology
- k. Lack of financial resources
- l. Increase in labour force

**Remedial measures for unemployment: **

- a. Accelerating growth rate of GDP
- b. Control of population growth
- c. Development to small scale enterprises.
- d. Encouragement in infrastructure.
- e. Special employment programmes.
- f. Rapid industrialisation.

Q.1	<p>Why is the worker –participation ratio in urban areas lower than in rural areas in India ?</p> <p>Answer: People in rural areas have limited resources to earn a higher income and participate more in the employment market. Whereas in urban areas people seek higher skills before they join the employment market. Urban people have variety of employment opportunities and look for appropriate job to suit their qualifications and skill. In rural areas, women also actively participate in farm and non –farm jobs to supplement the income of the family.</p>	3
Q.2	Define the followings: (a) Labour force (b) Workforce (c) Labour supply	3

	<p>Answer: Labour Force: Persons working + persons seeking and/or available for work. 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. This includes person between age group of 15-60 years. Labour supply: It refers to various amount of labour that workers are willing to work, corresponding to a particular wage rate.</p>	
Q.3	<p>What is workforce ? Write its participation rate. Answer : 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. This includes person between age group of 15-60 years. Work Force Participation Rate(Ratio):- It is measured as the ratio between workforce and total population of a country. Workforce/ Total population X 100</p>	3
Q.4	<p>How does jobless growth happen? Answer: Jobless Growth: It is defined as a situation where GDP grows faster than the employment opportunities resulting in unemployment. This means that in the Indian economy, without generating employment we have been able to produce more goods & services. The gap between the growth rate of GDP and employment has particularly widened after the reforms in 1991.</p>	3
Q.5	<p>Why are less 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, where 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 workforce. 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.</p>	4
Q.6	<p>Why 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 opportunity in the formal sector rather than in the informal sector.</p>	6

Q.7 How does the government generate employment?
Answer : The government generates employment through direct and indirect efforts . The government makes direct efforts at employing people in various departments for administrative purposes. It runs various enterprises and when they result in increased output of goods and services they lead to further increase in employment. The various private enterprises that are linked to the government enterprises might also benefit from increased output of these enterprises and thus increase their output and employment also. This way government indirectly also generates employment.

3

Q.8 Briefly explain the problems associated with informal sector.
Answer:
 The main problems associated with informal sector are :
 (1)Workers and enterprises in the informal sector do not get regular income.
 (2) They do not have any protection or regulation from the government.
 (3)Such workers have the risk of being dismissed without any compensation.
 (4) They do not have regular job.
 (5) Informal sector uses outdated technology and do not maintain any accounts.

4

Q.9 The following table shows distribution of Worker Population Ratio in India for the year 2017-18. Analyse it and give reasons for the nature of worker Population Ratio.

6

Sex	Worker population Ratio		
	Total	Rural	Urban
Men	52.1	51.7	53
Women	16.5	17.5	14.2
Total	34.7	35	33.9

Answer :
 This table shows:
 -Compared to urban sector people in rural areas have limited resources to get education at higher levels, so they participate more in the employment market. Urban people look for the appropriate job to suit their qualifications and skills. In rural areas people can not stay at home as their economic condition may not allow them to do so.
 -Number of men workers in rural areas(51.7%) is less than the men workers in urban areas (53%) which shows migrants from rural areas.
 -Number of women workers in rural areas (17.5%) is more than the women workers in urban areas(14.2%).It is because of poor economic condition of rural people.
 -Compared to females, more males are found to be working.



4

Study the given image carefully :
 Identify the situation depicted in the image and suggest the impact of the indicated situation in the Indian economy.
Answer: The given image represents the situation of employment in informal sector. In the formal sector , workers can form trade unions and are entitled to fair wages and other social security measures, whereas, workers in informal sector do not get regular income ,job

	<p>protection from the government. Many a time workers may be dismissed without any compensation. hence formal sector employees are generally in a better position as compared to informal sector employees. Therefore it is essential to generate employment in the formal sector rather than the informal sector.</p>	
11	<p>What is unemployment rate ? Explain different types of unemployment. Answer: Unemployment Rate: It is calculated as percentage of labour force who are unemployed, not as percentage of total population. Types of unemployment: 1. Rural unemployment a. Seasonal Unemployment b. Disguised Unemployment 2. Other types of unemployment a. Open b. Frictional c. Structural d. Cyclical 3. Urban Unemployment a. Industrial Unemployment b. Educated Unemployment c. Technological Unemployment Frictional unemployment is defined as the unemployment that occurs because of people moving or changing occupations. Structural unemployment is defined as unemployment arising from technical change such as automation, or from changes in the composition of output due to variations in the types of products people demand. For example, a decline in the demand for typewriters would lead to structurally unemployed workers in the typewriter industry. Cyclical unemployment is defined as workers losing their jobs due to business cycle fluctuations in output, i.e. the normal up and down movements in the economy as it cycles through booms and recessions over time. Open Unemployment refers to that situation wherein the worker is willing to work and has the necessary ability to work yet he does not get work and remains unemployed for full time. Seasonal Unemployment:- It refers to a situation where a number of person that are not able to find a job in a particular season. Disguised unemployment is a kind of unemployment in which some people look like being employed but are actually not employed fully. This situation is also known as Hidden Unemployment. In such a situation more people are engaged in a work than required. In other words it refers to a situation of employment with surplus manpower in which some workers have zero marginal productivity. For example in rural areas, this type of unemployment is generally found in agricultural sector. Technological Unemployment:- A somewhat structural unemployment may take place in an economy as a result of technological improvement. Such unemployment may be described as technological unemployment. Due to the introduction of new machinery, improvement in methods of production, labour-saving devices etc., some workers tend to be replaced by machines. Their unemployment is termed as "technological unemployment." Educated Unemployment:- Among the educated people, apart from open unemployment, many are underemployed because their qualification does not match the job. Faulty education system, mass output, preference for white collar jobs, lack of employable skills and dwindling formal salaried jobs are mainly responsible for unemployment among educated youths in India. Educated unemployment may be either open or underemployment.</p>	6
Q.12	<p>"Workers working in formal sector earn more than those in the informal sector." Defend or refute the given statement with valid arguments. Answer:</p>	3

	<p>The given statement can be defended as the formal workers are protected through various labour laws. They have better bargaining power for higher wages and other social security benefits with the presence of trade unions. On the other hand, informal workers are generally low paid with lesser job security. They also do not get social security benefits.</p>	
Q.13	<p>'In recent times, the Indian Economy has experienced the problem of Casualisation of the workforce. This problem has only been aggravated by the outbreak of COVID-19: Do you agree with the given statement? Discuss any two disadvantages of casualisation of the workforce in the light of the above statement.</p> <p>Answer: The given statement is quite appropriate with reference to the 'casualisation of labour' in India.</p> <p>Ans. (i) For casual workers, the rights of the labour are not properly protected by labour laws. Particularly, during pandemic times, as demand for goods and services fell, the casual workers were left jobless, without any compensation or support.</p> <p>(ii) During the COVID-19 lockdown, millions of casual workers lost their jobs, raising the question of their survival. Also, additional health expenditure added to their troubles. Had such workers been working under the formal sector, it would have given them some respite in their difficult times.</p>	4
Q.14	<p>Give a brief note on the National Rural Employment Guarantee Act 2005.</p> <p>Answer: 15. The National Rural Employment Guarantee Act 2005(NREG) was passed by the government in the Parliament to generate employment for those in need of jobs in rural areas. It promises 100 days of guaranteed wage employment to all adult members of rural households who volunteer to do unskilled manual work. The families which are living below poverty line are covered in this scheme.</p>	3
Q.15	<p>What is the importance of employment generation programmes?</p> <p>Answer: Government has also implemented a number of "Employment Generation Programmes", like National Rural Employment Guarantee Act-2005, Prime Minister's Rozgar Yojana, Swarna Jayanti Shahri Rozgar Yojana, etc.</p> <p>* Government aims to alleviate poverty through such employment generation programmes. *All these programmes aim at providing employment, services in primary health, education, rural shelter, etc. *These programmes also aim to assist people in buying income and employment generating assets, developing community assets and construction of houses and sanitation.</p>	4
Q.16	<p>What are the causes of unemployment?</p> <p>Answer:</p> <ol style="list-style-type: none"> 1. Slow Rate of Economic Growth: The actual growth rate always lies far below the rate targeted in the five decades of planning. Employment opportunities created under the plans could not keep pace with the additions to the labour force. 2. Population Explosion: The rapid rate of population growth has been another cause of increasing unemployment in the country. It has not been possible to generate so many employment opportunities to absorb the large growing labour force. 3. Underdeveloped Agriculture: Heavy pressure of population on land and the primitive methods of agricultural operations are responsible for massive rural unemployment and underemployment in the country. 4. Defective Educational System: The prevailing education system in India is full of defects. The large number of engineering, management and other educational institutes provide 	6

	<p>numerous engineers, MBAs, etc. But due to lack of technical and vocational training, such educated people are unable to meet the requirements of the firm and remain unemployed</p> <p>5. Slow Growth of Industry: Due to shortage of capital and lack of modern and advanced technology, industrial sector could not gain its momentum and could not generate sufficient employment opportunities in the country.</p> <p>6. Decline of Cottage and Small-scale Industries: A number of traditional village and cottage industries have declined over the years due to change in the demand preferences and emergence of more efficient modern industries. As a result, a large number of people have become unemployed.</p> <p>7. Faulty Planning: The plans could not stop the migration of the rural population into urban areas. The plans were unable to encourage use of labour-intensive techniques of agricultural and industrial production. The plans have failed to put due emphasis on employment generating programmes like development of dairies, fisheries and poultry farming. Insufficient infrastructure facilities (power, transportation, communication, roads, etc.) have greatly hampered the expansion of work opportunities.</p> <p>8. Inadequate Employment Planning: Low priority has been given to employment objective in the plans. There has been complete absence of any legal provision to implement employment generating schemes.</p> <p>9. Low Capital Formation: Low rate of capital formation has hampered the growth potential in the agricultural and industrial sectors. Consequently, job-creation capabilities of both the sectors have been affected adversely.</p>									
Q.17	<p>Distinguish between formal sector and informal sector?</p> <p>Answer:</p> <table border="1" data-bbox="204 1227 1433 1659"> <thead> <tr> <th data-bbox="204 1227 815 1267">Formal sector</th> <th data-bbox="823 1227 1433 1267">Informal sector</th> </tr> </thead> <tbody> <tr> <td data-bbox="204 1272 815 1424">1. It is an organised sector which includes all the public sector enterprises and private enterprises which employ 10 or more than 10 workers.</td> <td data-bbox="823 1272 1433 1424">It is an unorganised sector which includes all the private sector enterprises which employ less than 10 workers.</td> </tr> <tr> <td data-bbox="204 1429 815 1503">2. Employees working in this sector are known as formal workers.</td> <td data-bbox="823 1429 1433 1503">Employees working in this sector are known as informal workers.</td> </tr> <tr> <td data-bbox="204 1507 815 1659">3. The workers are entitled to social security benefits. The workers in this sector can form trade unions.</td> <td data-bbox="823 1507 1433 1659">The workers are not entitled to social security benefits. The workers in this sector cannot form trade unions.</td> </tr> </tbody> </table>	Formal sector	Informal sector	1. It is an organised sector which includes all the public sector enterprises and private enterprises which employ 10 or more than 10 workers.	It is an unorganised sector which includes all the private sector enterprises which employ less than 10 workers.	2. Employees working in this sector are known as formal workers.	Employees working in this sector are known as informal workers.	3. The workers are entitled to social security benefits. The workers in this sector can form trade unions.	The workers are not entitled to social security benefits. The workers in this sector cannot form trade unions.	3
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Q.18	<p>1. Read the following statements: Assertion (A) and Reason (R). Choose one of the correct alternatives:</p> <p>Assertion (A): Ratio of women workers in rural areas is more than the women workers in urban areas.</p> <p>Reason (R): Women in rural areas cannot stay at home due to their poor economic condition.</p> <p>alternatives:</p> <p>(a) Both Assertion (A) and Reason (R) are True and Reason</p> <p>(b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A).</p> <p>(c) Assertion (A) is True but Reason (R) is False.</p> <p>(d) Assertion (A) is False but Reason (R) is True.</p> <p>Answer: A</p>	1								

Q.19	<p>Mention the salient features of the unemployment situation in India.</p> <p>Answer: Some of the salient features of the unemployment situation in India are mentioned below:</p> <ul style="list-style-type: none"> i. The incidence of unemployment is much higher in urban areas than in rural areas. ii. Underemployment is higher in case of women. iii. Unemployment rates for women are higher than those for men. iv. Incidence of unemployment among the educated is much higher. 	3
Q.20	<p>Why is employment an important component of the Indian development policy?</p> <p>Answer:</p> <p>Employment is considered important in the Indian development policy because of the following reasons:</p> <p>More employment will lead to higher level of national income since, production and employment are directly related.</p> <p>Employment is crucial to removal of poverty.</p>	3

CHAPTER: 7

Environment and Sustainable Development

Environment and Sustainable Development all the Environment:- Environment is defined as the total planetary inheritance and the totality of all resources.

It includes biotic and abiotic elements that influence each other.

Biotic:- All living elements-the birds, animals and plants, forests, fisheries etc. are biotic elements.

Abiotic:- Abiotic elements of the environment includes non-living elements like air, water, land, rocks and sunlight etc. **Functions of the Environment**

(i) Environment supplies resource.

(ii) Environment assimilates waste,

(iii) Environment sustains life.

(iv) Environment enhances quality of life.

The environment is able to perform these functions without any interruption as long as demand on these functions is within its carrying capacity.

Carrying capacity:- Carrying capacity implies two things:

(i) Resource extraction should remain below the rate of resource regeneration.

(ii) Generation of wastes should remain within the absorption capacity of the environment. If these two conditions are not fulfilled, then environmental crisis occurs.

Absorptive capacity:- Absorptive capacity of the environment means the ability of the environment to absorb degradation. **Reasons for environmental crisis:** The various reasons for environmental crisis are as under:

(i) Population explosion and advent of industrial revolution.

(ii) The intensive and extensive extraction of both renewable and nonrenewable resources.

(iii) The affluent consumption and production standards of developed countries.

Renewable resources:- Renewable resources are those which can be used without the possibility of the resource becoming depleted or exhausted. That is, a continuous supply of resource remains available for e.g. trees in forest and the fish in the oceans

Non renewable resources:- Non renewable resources are those which get exhausted with extraction and use. For example- fossil fuel.

Problems related to environment: Two basic problems related to environment are

(i) Problem of pollution.

(ii) Problem of excessive exploitation of natural resources.

Pollution:- Pollution is contamination of useful things such as air, water, land etc. with undesirable or harmful materials like foul gases, smoke, poisonous chemicals, etc. The major forms of pollution are as follow

(i) Air pollution (ii) Water Pollution (iii) Noise Pollution (iv) Land Pollution Global warming:- Global warming is a gradual increase in the average temperature of the earth's lower atmosphere. Global warming is caused by man-made increase in carbon dioxide (Co₂) and other greenhouse gases through the burning of fossil fuels and deforestation.

Some of the long term results of global warming are as follow:

(i) Melting of polar ice with a resulting rise in sea level and coastal flooding.

(ii) Extinction of species as ecological niches disappear

(iii) More frequent tropical storms

(iv) An increased incidence of tropical diseases. Ozone depletion: The problem of Ozone depletion is caused by high levels of CFC used as cooling substances in air conditioners and refrigerators or as aerosol propellants and bromofluoro-carbons used in fire extinguishers. As a result of depletion of the ozone layer, more ultra violet (UV) radiation comes to earth causing damage to living organism. The threat to India's environment poses a dichotomy-threat of poverty-induced environmental degradation and, at the same time, threat of pollution from affluence and rapidly growing industrial sector. Air pollution, water contamination, soil erosion, deforestation and wildlife extinction is some of the most pressing environmental concerns of India.

The priority issues identified in India are:

(i) Land degradation

(ii) Biodiversity loss

(iii) Air pollution with special reference to vehicular pollution in urban cities.

(iv) Management of fresh water. (v) Solid waste management. Land degradation: Land degradation refers to a decline in the overall quality of soil, water or vegetation condition, commonly caused by human activities.

Some of the factors responsible for land degradation are:

(i) Loss of vegetation occurring due to deforestation.

(ii) Forest fires and over grazing.

(iii) Improper crop rotation.

(iv) Encroachment into forest lands.

(v) Shifting cultivation.

vi) Indiscriminate use of agrochemical such as fertilizers and pesticides.

(vii) Improper planning and management of irrigation systems.

(viii) Extraction of ground water in excess of the recharge capacity.

(ix) Poverty of the agriculture-dependent people.

(x) Non-adoption of adequate soil conservation measures.

Chipko and Appiko movements. — Chipko Movement, aimed at protecting forests in the Himalayas. — In Karnataka, a similar movement took a different name, 'Appiko', which means to hug. On 8 September 1983, when the felling of trees was started in Salkani forest in Sirsi district, 160 men, women and children hugged the trees and forced the woodcutters to leave.

Central Pollution Control Board: In order to address two major environmental concerns in India, viz, water and air pollution, the government set up the Central Pollution Control Board (CPCB) in 1974. Board investigate, collect and disseminate information relating to water, air and pollution, lay down standards of sewage/trade effluent and emissions.

Functions of the Central Board at the National Level

- Advise the Central Government on any matter concerning prevention and control of water and air pollution and improvement of the quality of air.

- Plan and cause to be executed a nation-wide programme for the prevention, control or abatement of water and air pollution;

- Co-ordinate the activities of the State Board and resolve disputes among them;

- Provide technical assistance and guidance to the State Boards, carry out and sponsor investigation and research relating to problems of water and air pollution, and for their prevention, control or abatement;

- Plan and organise training of persons engaged in programme on the prevention, control or abatement of water and air pollution;

- Organise through mass media, a comprehensive mass awareness program me on the prevention, control or abatement of water and air pollution;

- Collect, compile and publish technical and statistical data relating to water and air pollution and the measures devised for their effective prevention, control or abatement;

- Prepare manuals, codes and guidelines relating to treatment and disposal of sewage and trade effluents as well as for stack gas cleaning devices, stacks and ducts;
 - Disseminate information in respect of matters relating to water and air pollution and their prevention and control;
 - Laydown, modify or annul, in consultation with the State Governments concerned, the standards for stream or well, and lay down standards for the quality of air; and
 - Perform such other function as may be prescribed by the Government of India.
- What is Sustainable Development?
- ‘Development which meets the needs of the present without compromising the ability of future generations to meet their own needs’.
 - This most widely accepted definition of Sustainable Development was given by the Brundtland Commission in its report Our Common Future (1987).

Main features of sustainable development is as under:

- (i) Sustained rise in Real per Capita Income and Economic welfare.
- (ii) Rational use of natural resources.
- (iii) No reduction in the ability of the future generation to meet their own needs.
- (iv) Check on pollution.

Strategies for Sustainable Development.

- (i) Use of non-conventional sources of energy.
 - (ii) Use of cleaner fuels: LPG, Gobar gas in rural areas and CNG in Urban areas.
 - (iii) Use of Solar energy and wind power.
 - (iv) Shift to organic farming.
 - (v) Recycle the wastes
 - (vi) Public means of transport.
 - (vii) Traditional knowledge and practices.
 - (viii) Establishment of Mini-Hydel plants.
 - (ix) Bio pest Control
- Sustainable Development Goals → To promote the kind of development that minimizes environmental problems. → To meet the needs of the existing generation without compromising with the quality of the Achieving Sustainable Development .

What is Environmental Crisis? Environmental crisis refers to a situation when an environment fails to perform its vital function of life sustenance. The environment becomes suitable as soon as the following happens: Resource extraction remains below the rate of resource generation. Generation of waste remains within the absorption capacity of the environment. Reasons for Environmental Crisis

- (1) Population explosion The high rate of growth of population adversely affects the environment. It increases the demand for environmental resources, but their supply is limited. This results in overuse and misuse of resources.
- (2) Rise in economic activity The rise in economic growth results in affluent consumption and production of goods and services. It generates wastes that are beyond the absorptive capacity of the environment.
- (3) Rapid industrialization Rapid industrialization has led to deforestation, and depletion of natural resources. It leads to contamination of water due to the accumulation of increasing quantity of toxic substances and industrial wastes in the water bodies.

1. The concept of sustainable development was emphasised by the United Nations Conference on Environment and Development (UNCED), which defined it as: ‘Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs’.

_____ refers to the development that meets the needs of the present generation without compromising the ability of future generations to meet their needs.

(Fill in the blank with the correct alternative).

- (a) Environmental impacts
- (b) Sustainable development
- (c) Global warming
- (d) None of the above

Ans. (b) Sustainable development

2. A UN Conference on Climate Change, held in _____ in 1997, resulted in an international agreement to fight global warming which called for reductions in emissions of greenhouse gases by industrialised nations.

- a) China
- b) USA
- c) Japan
- d) Brazil

ans. c) Japan

3. Assertion: The use of CFC is banned throughout the world.

Reason: CFC is the main reason for Ozone depletion.

(A) Both Assertion and reason are true and reason is correct explanation of assertion.

(B) Assertion and Reason both are true but reason is not the correct explanation of assertion.

(C) Assertion is true, reason is false.

(D) Assertion is false, reason is true.

Ans. (A) Both Assertion and reason are true and reason is correct explanation of assertion.

4. The government set up the Central Pollution Control Board to control _

(A) noise pollution

(B) air pollution

(C) deforestation

(D) land pollution

Ans. (B) air pollution

5. Montreal Protocol is associated with the banning of the use of:

(A) CFC

(B) Halons

(C) Both (a) and (b)

(D) None of these

Ans. (C) Both (a) and (b)

Absorptive Capacity is defined as:

(A) Ability of the environment to absorb degradations

(B) Recourse generation within the assimilating capacity of the environment.

(C) Average number of organisms living in a given environment

(D) The Minimum population surviving in the world as a whole.

Ans. (A) Ability of the environment to absorb degradations

6. Statement-1: Deforestation is continuous and substantial decrease in forest cover.

Statement-2: If there is loss to forest cover, it fails to act as a good indicator of quality of land.

A- Both the statements are true

B- Both the statements are false

C- Statement-1 is true but statement-2 is false

D- Statement 2 is true but statement-1 is false

Ans. A- Both the statements are true

7. Statement-1: The Kyoto Protocol has banned the use of CFC Compound.

Statement-2: Depletion of ozone layer allows greater ultraviolet radiations to reach the earth's surface and is in turn a danger to living organisms.

A- Both the statements are true

B- Both the statements are false

C- Statement-1 is true but statement-2 is false

D- Statement 2 is true but statement-1 is false

Ans. D- Statement 2 is true but statement-1 is false

8. What do we mean when we say "think globally, act locally" in relation to environmental problems?

i) Global environmental problems are essential issues

ii) Environmental problems have to be thought about at a global level

iii) Extensive research and thinking has been carried out by global level

iv) Think about global impact of local activities

ans. iv) Think about global impact of local activities

9. Assertion (A): The environmental degradation in India points to a paradoxical situation in the country.

Reason (R): It is occurring and expanding owing to its staggering poverty as well as rapid growth of production activity.

(A) Both Assertion and reason are true and reason is the correct explanation of assertion.

(B) Assertion and reason both are true but reason is not the correct explanation of assertion.

(C) Assertion is true, reason is false.

(D) Assertion is false, reason is true.

Ans. (A) Both Assertion and reason are true and reason is the correct explanation of assertion.

10. Which of the following is a cause of ozone depletion?

A. Noise pollution

B. water pollution

C. Air pollution

D. None of these

Ans. C. Air pollution

11. Which of these is included in the physical environment?

A. Land B. Water C. Air D. All of those

Ans. D. All of those

12 'Green GNP' Concept is related to.....

- A. Economic Development
- B. Sustainable development
- C. Green Colour
- D. None of these

Ans. B. Sustainable development

13 Structural changes are related to.....

- A. Economic development
- B. Quality of life
- C. Economic growth
- D. Sustainable development

Ans. D. Sustainable development

14 development meet the needs of the present generation without compromising the ability of future generations to meet their needs.

- (a) Economic (b) Political (c) Sustainable (d) None of these

Ans. (c) Sustainable

Short Answer Type Questions

1. What are the functions of environment?

Functions of Environment -

1. It provides resources for production: - Resources such as renewable and non-renewable are supplied by the environment.

2. Environment assimilates wastes.

3. It sustains life by providing essential elements like sun, soil, air, water etc.

4. It provides aesthetic services: - It includes land, forest, water bodies, rainfall, mountain etc. with this people enjoy the beauty of hill station and to improve the quality of life.

2. What do you mean by carrying capacity of the environment?

Carrying capacity implies two things :-

Capacity of the environment to assimilate waste and withstand the extraction of resources.

i) Resource extraction should remain below the rate of resource regeneration.

ii) Generation of wastes should remain within the absorption capacity of the environment.

3. What is environmental Crisis? What are the factors responsible for the Crisis?

Environmental Crisis:- When the rate of resources extraction exceeds that of their regeneration then environment fails to perform its vital function of life substance and it leads to the situation of Environmental Crisis. The various reasons for environmental crisis are as under:-

i) Population explosion and advent of industrial revolution.

ii) The intensive and extensive extraction of both renewable and non-renewable resources.

iii) The affluent consumption and production standards of developed countries

4. What are the two major environmental issues facing the world today? Explain each.

The traditional practices can help in controlling contamination without the use of chemical fertilizers, as follows

i) Neem trees and its by products are a natural pest controller, which has been used since ages in India. Recently the government promoted the sale of Neem coated urea as a measure of natural pest control.

ii) Large variety of birds should be allowed to dwell around the agricultural areas, they can clear large varieties of pests including insects.

5. What are functions of Central Pollution Control Board?

The government set up central pollution control board (CPCB) in 1974. The main functions are as follows:

a) The board investigates, collects and disseminates information relating to pollution.

b) They provide technical assistance to the government in implementing the rules related to pollution control.

c) They carry out awareness program through mass media.

d) They prepare code and guidelines related to the control of pollution. e) They assess air quality through regulation of 6.

Long Answer Type Questions

Q1. What are the functions of the environment?

Ans. The environment performs four vital functions:

1. Environment Supplies Resources. Resources include both renewable and non-renewable resources. Renewable resources are those which can be used without the possibility of the resource becoming depleted or exhausted. In other words, a continuous supply of the resource remains available. Examples of renewable resources are trees in the forest and fish in the ocean. Nonrenewable resources are those which get exhausted with extraction and use. Example, fossil fuels.

2. Environment Sustains Life. Environment includes sun, soil, water and air which are essential ingredients for the sustenance of human life. The carrying capacity of the environment implies that the resource extraction is not above the rate of regeneration of the resources and the waste generated are within the assimilating capacity of the environment. Carrying capacity of the environment helps to sustain life. Absence of carrying capacity of environments means absence of life.

3. Environment Assimilates Waste. Production and consumption activities generate waste. This occurs mostly in the form of garbage. Environment absorbs garbage. 4. Environment Enhances Quality of Life. Environment includes oceans, mountains, deserts, etc. Man enjoys these surroundings, adding to the quality of life.

Q2. Identify six factors contributing to land degradation in India

. Ans. Some of the factors responsible for land degradation are:

1. Loss of vegetation occurring due to deforestation

2. Unsustainable fuel wood and fodder extraction.

3. Shifting cultivation

4. Encroachment into forest lands

5. Forest fires and over grazing

6. Non-adoption of adequate soil conservation measures.

Q3. Outline the steps involved in attaining sustainable development in India.

Ans. Steps and Strategies to Achieve Sustainable Development in India:

1. Use of Non-Conventional Sources of Energy

2. LPG, Gobar Gas in Rural Areas

3. CNG in Urban Areas

4. Wind Power

5. Solar Power through Photovoltaic Cells

6. Mini-Hydel Plants

7. Traditional Knowledge and Practices

8. Biocomposting &

9. Bio pest Control.

Q4. India has abundant natural resources—substantiate the statement.

Ans. India has rich quality of natural resources in plenty. It is clear from the following points:

1. India has rich quality of soil, hundreds of rivers and tributaries, lush green forests, abundant mineral deposits under the land surface, vast stretch of the Indian Ocean, mountain ranges, etc

2. The black soil of the Deccan Plateau is particularly suitable for cultivation of cotton. It has led to concentration of textile industries in this region.

3. The Indo-Gangetic plains — spread from the Arabian Sea to the Bay of Bengal — are one of the most fertile, intensively cultivated and densely populated regions in the world.

4. India's forests provide green cover for a majority of its population and natural cover for its wildlife.

5. Large deposits of iron-ore, coal and natural gas are found in the country. India alone accounts for nearly 20 per cent of the world's total iron-ore reserves.

6. Bauxite, copper, chromate, diamonds, gold, lead, lignite, manganese, zinc, uranium, etc. are also available in different parts of the country.

CHAPTER:- 8

(COMPARATIVE DEVELOPMENT EXPERIENCES OF INDIA AND ITS NEIGHBOURS)

India, Pakistan and China have many similar developmental strategies:

1. All the three nations have started towards their developmental path at the same time. While India and Pakistan became independent nations in 1947, People's Republic of China was established in 1949.
2. All the three countries adopted economic planning as their core development strategies.
 - India announced its first Five Year Plan for 1951–56 in 1951.
 - Pakistan announced its first five year plan in 1956.
 - China announced its First Five Year Plan in 1953.
3. Till the 1980s, all the three countries had similar growth rates and per capita incomes.

Appraisal of the developmental journey of Pakistan since 1947

- In the late 1950s and 1960s, Pakistan introduced import substitution policy based industrialisation for protection their domestic industries from foreign competition.
- In the 1970s, nationalisation of capital goods industries, whereas in the late 1970s and 1980s denationalisation and encouragement of private sector.

- In 1988, economic reforms were initiated in the country. However, decline in economic growth.

Reasons for the slowdown of economic growth and re-emergence of poverty in Pakistan's economy:

1. Volatile performance of the agricultural sector
2. Over-dependence on remittances and foreign aid/loans
3. Political instability

DEVELOPMENT JOURNEY OF CHINA SINCE 1949

- In 1949, establishment of People's Republic of China
 - In 1953 China announced its first Five Year Plan.
 - In 1958, the Great Leap Forward (GLF) campaign was initiated, aimed at industrialising the country on a massive scale. A severe drought caused havoc in China killing about 30 million people.
 - In 1965, Great Proletarian Cultural Revolution (1966-76).
 - The present day fast industrial growth in China can be traced back to the reforms introduced in 1978.
- (i) China introduced reforms in phases. Initial phase: Reforms were initiated in agriculture, foreign trade and investment sectors. Later phase: Reforms were initiated in the industrial sector.
- (ii) 'Dual Pricing' — fixing the prices in two ways; farmers and industrial units were required to buy and sell fixed quantities of inputs and outputs on the basis of prices fixed by the government and the rest were purchased and sold at market prices.
- (iii) In order to attract foreign investments and technology, Special Economic Zones (SEZs) were set up.

Why did China introduce structural reforms in 1978?

1. The new leadership in China was not happy with the slow pace of growth and lack of modernization in the Chinese economy under the Maoist rule.
2. They felt that Maoist vision of economic development based on decentralization, self-sufficiency and shunning of foreign technology, goods and capital had failed.

INDIA, PAKISTAN AND CHINA HAVE TRAVELLED SEVEN DECADES OF DEVELOPMENTAL PATH WITH VARIED RESULTS.

India: India's GDP growth rate increased from 5.7% p.a. to 7.3% p.a. during 1980-2018. Infrastructure is lacking and more than 20% of its population still live below poverty line.

Pakistan: There has been a decline in the annual growth of GDP. Yet, last five years; economic recovery showing moderate growth rates.

China:

- Establishment of infrastructure in the areas of education and health.
- Land reforms — Through the commune system, individual households were allowed to keep all income from the land after paying stipulated taxes.
- Long existence of decentralised planning
- When many developed countries were finding it difficult to maintain a growth rate of even 5% p.a., China was able to maintain near double-digit growth (10.3% p.a.) during 1980s.

DEMOGRAPHIC INDICATORS , 2017-18 Annual Growth of Population:

- The annual growth rate of population is maximum in Pakistan standing at 2.05%,
- whereas, only 0.46% in case of China. China could arrest its annual population growth rate with the implementation of 'One Child Norm'.

- The annual population growth rate of India (1.03%) is in the danger zone of more than 1% p.a. Gender Ratio (or Sex Ratio): Gender ratio is low and biased against females in all three countries — India, China and Pakistan. ‘Son Preference’, i.e. preference for a male child is the reason.

ASSERTION & REASON

Alternatives:

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

Q1. ASSERTION (A): Great Leap Forward (GLF) campaign initiated in China brought a new era of industrialisation and agricultural development.

REASON (R): Students and professionals were sent to countryside under the Great Leap Forward (GLF) campaign.

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

Q2. ASSERTION (A): GLF campaign initiated in 1958 aimed at industrializing the country on a massive scale.

REASON (R): Under the commune system, people collectively cultivated lands.

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

Q3. ASSERTION (A): India adopted a mixed economy model of growth.

REASON (R): People’s Republic of China as a growth model was established in 1949.

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

Q4. ASSERTION (A): China’s rapid industrial growth can be traced back to its reforms

introduced in 1978. REASON (R): Private Sector firms and township and village enterprises (enterprises which were owned and opened and operated by local collectives) were allowed to produce goods.

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

Q5. ASSERTION (A): India is moving ahead of both China and Pakistan.

REASON (R): India introduce economic reforms like GLF campaign of China , to industrialize the country on a massive scale.

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

MCQ

Question 1: Arrange the following events in chronological order and choose the correct answer from the given alternatives: (CBSE 2020)

- (i) Establishment of People’s Republic of China
 - (ii) Creation of Pakistan
 - (iii) First Five-Year Plan of India
 - (iv) First Five-Year Plan of China
- Alternatives :
- (A) (i), (iv), (ii), (iii)
 - (B) (iii), (ii), (i), (iv)
 - (C) (ii), (i), (iii), (iv)
 - (D) (iv), (iii), (ii), (i)

Answer: (C) (ii), (i), (iii), (iv)

Q2. The main aim of ‘Great Leap Forward’ was to ensure rapid increase in (primary/secondary/tertiary) sector in China. (CBSE 2020)

Ans. Secondary

Q3- Mao initiated the ‘Great Leap Forward’ in the year----- (CBSE 2020)

- (A) 1951 (B) 1955 (C) 1958 (D) 1962

Ans. (C) 1958

Q4. India is not a member of which of the following regional / global economic group: (CBSE 2020)

(a) European Union (b)BRICS (c) G-20 (d)SAARC

Ans. (a) European Union

Q5. GLF with respect to the People's Republic of China is referred to as _____ (CBSE 2020)

(a) Giant Leap Forward (b)Great Lead Forum (c) Great Leap Forward (d)Giant Lead Forum

Ans. (c) Great Leap Forward

Q6. Introduction of economic reforms in China took place in the year _____ (CBSE 2020)

(a) 1978 (b)1980 (c) 1988 (d)1991

Ans. (a) 1978

Q7. The main aim of Great Leap Forward in China was to ensure rapid increase of _____. (CBSE 2020)

(a) Agriculture (b)Industries (c) Services (d)Export

Ans. (b) Industries

Q8. Which of the following countries adopted One Child Policy as a measure to control population? (CBSE 2020)

(a) India (b)China (c) Pakistan (d)Russia

Ans. (b) China

Q9. Which of the following countries has the highest population growth rate? (A) India (B) China (C) Pakistan (D)

All of these: Ans. (C) Pakistan

Q10. in which year, China announced its first five-year plan?

(a) 1950 (b) 1951 (C) 1953 (d) 954

Ans. (C) 1953

11) India introduced economic reforms in

(a) 1990 (b) 1991 (c) 1992 (d) 1995

Ans. (b) 1991

Q12. Chinas great leap forward was in the year.

(a) 1953 (b) 1955 (c) 1958 (d) 199

Q13. Commune system is the feature of

(a) India (b) China (c) Pakistan (d) All the above

Ans. (b) China

Q14. Reforms in were introduced in 1978.

(a) China (b) Pakistan, (c) India) (d) None of these

Ans. (a) China

Q15. Great Proletarian Cultural Revolution was introduced under the leadership of _____.

(a) Mao Zedong (b)J.L. Nehru (c) M.K. Gandhi (d)M.A. Jinnah

Ans. (a) Mao Zedong

Q16.The system in which people collectively cultivated land in China is known as. (CBSE 2020)

Answer: Commune System

Q17. Maternal mortality rate is high in _____ (CBSE 2020)

Ans. Pakistan

Q18.State whether the following statement is true or false: (CBSE 2020)

'As per the HDI, 2018India was ranked at 180th position'

Ans. False

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

Q1. "India, China and Pakistan have travelled more than seven decades of development path with varied result." Explain the given statement with valid argument. (CBSE 2020)

Ans. India, China and Pakistan have travelled more than seven decades of development path simultaneously, but the result is substantially different. China as edge both India and Pakistan, both are lagging far be India, China and Pakistan have travelled more than seven decades of development path with varied hind. The principal reasons are as under. Great Leap Forward (GLF 1958) campaign of China:- 1.GLF was started in 1958 with a view to propelling the pace of economic and industrial development 2. Which aimed at

Country's industrialization and agriculture on a large scale 3. China resorted to "Commune System of Production" under which people cultivated land collectively 4. Mao (Chinese communist revolutionary) believed that both had to grow to allow the other to grow Mao introduced the Great Proletarian Cultural Revolution (1966–76) under which students and professionals were sent to work and learn from the countryside. 5. It focused on widespread industrialization of the economy 6. People to set-up household industry in their back yard.

2. One Child policy in China:- OCP adopted by China in 1979 has been very successfully pursued. Consequently, 1. Growth rate of population has reduced to nearly half, from per cent in 1979 to 0.47 per cent in recent past 2. With a check on population growth, China focus on raising the quality of life.

3. Growth story of China :- (i) In 2017, GDP in China was estimated to be 12.40 trillion.

4. Special Economic Zones (SEZ) in China

5. High Labour Supply in China.

Q3. India and Pakistan initiated their journey of development, nearly at the same time, yet the two economies have travelled different distances. Justify the given statement with the valid arguments. (3

Marks CBSE Term-2 2022) (NCERT)

Ans. It is true that India and Pakistan started their journey of development nearly at the same time, in a similar way. Both the nations adopted policies like economic planning, dominance of public sector, high public expenditure etc. In the post 1947 period. There has been a decline in the annual growth of GDP in Pakistan over the years, where as India met with moderate increase in GDP. The probable reasons for slower growth in Pakistan are political instability, overdependence on remittance and foreign aid along with volatile performance of agricultural sector. However, India met with greater success owing to efficient economic planning and better implementation vis-à-vis Pakistan. Over the last three decades, the three countries have taken different levels of

development India has performed moderately over the years. Majority of its people still depend on agriculture. Infrastructure is lacking and more than one fourth of its population live below poverty line. Pakistan performed low because of political instability, overdependence on remittances and foreign aid along with volatile performance of agriculture. China has used the market system to succeed in raising the rate of growth in economy with stress on alleviation of poverty.

Q6. Explain the Great Leap Forward campaign of China as initiated in 1958.

Answer. Communist China or the People's Republic of China, as it is formally known, came into being in 1949. There is only one party, i.e., the Communist Party of China that holds the power there. All the sectors of economy including various enterprises and all land owned by individuals was brought under governmental control. A programme called 'The Great Leap Forward' was launched in 1958. Its aim was to industrialize the country on a large scale and in as short a time as possible. For this, people were encouraged to set up industries in their backyards. In villages, village Communes or cooperatives were set up. Communes mean collective cultivation of land. Around 26000 communes covered almost all the farm population in 1958. The Great Leap Forward programme faced many problems. These were:

(i) In the earlier phase, a severe drought occurred in China and it killed some 3 crore people.

(ii) Soviet Russia was a comrade to communist China, but they had border dispute. As a result, Russia withdrew its professionals who had been helping China in its industrialisation bid.

Q 7. Compare and contrast India and China's sectoral contribution towards GDP. What does it indicate?

"India, China and Pakistan have travelled more than seven decades of developmental path with varied results." Explain the given statement with valid arguments.

Answers- (i) Till the late 1970s, all the three countries were maintaining the same level of low development. Same level of low development. (ii) Over the last three decades, the three countries have taken different levels of development India has performed moderately over the years. Majority of its people still depend on agriculture. Infrastructure is lacking and more than one fourth of its population live below poverty line. Pakistan performed low because of political instability, overdependence on remittances and foreign aid along with volatile performance of agriculture. China has used the market system to succeed in raising the rate of growth in economy with stress on alleviation of poverty.

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Q 7. Compare and contrast India and China's sectoral contribution towards GDP. What does it indicate?

Answer. Sectoral Distribution of Output and Employment:

- (i) Agriculture Sector. China has more proportion of urban people than India. InChina in the year 2009, with 54 per cent of its workforce engaged in agriculture,its contribution to GDP is 10 per cent. In India's contribution of agriculture toGDP is at 17 per cent.
- (ii) Industry and Service Sectors. In both India and China, the industry and service sectors have less proportion of workforce but contribute more in terms of output. In China, manufacturing contributes the highest to GDP at 46 per cent whereas in India it is the service sector which contributes the highest. Thus, China's growth is mainly contributed by the manufacturing sector and India's growth by service sector.

Q8. Briefly explain the development strategies followed by china for its development Policies followed by china are:

- a) Great leap forward (GLF) – The campaign initiated in 1958 aimed at industrialising the country on a massive scale. People were encouraged to setup industries in their backyards. There were no restrictions which provide momentum for economic growth.
- b) Commune system – In rural areas, people collectively cultivate lands, In1958, there were 26,000 communes covering almost all the farm population
- c) Great Proletarian Cultural Revolution (1966-1976) – Under this revolution, students and professionals were sent to work and learn from the countryside.
- d) One child policy – One child policy norm introduced in china to control its population growth.
- e) Setting up of Special economic zones and opening up of economy in 1978

Q9. Mention the salient demographic indicators of China, Pakistan and India. Ans: . Following are the salient demographic indicators of China, Pakistan and India:

- i) Population: The population of Pakistan is very small and accounts for roughly about one- tenth of China and India.
- ii) Population Density: Though China is the largest nation geographically among the three, but its density is the lowest.
- iii) Population Growth: Population growth is highest in Pakistan followed by India and China. One-child norm introduced in China in the late 1970s is the major reason for low population growth. But this measure led to a decline in the sex ratio.iv) Sex Ratio: The sex ratio low and biased against females in all the three countries. There is strong son-preference prevailing in all these countries as the reason.

Q10. Define the liberty indicator. Give some examples of liberty indicators. Ans. Liberty Indicator may be defined as the measure of the extent of demographic participation in the social and political decision making. Examples of liberty indicators: (i) Measures of the extent of the Constitutional Protection Rights given to the citizens; (ii) Extent of the Constitutional Protection of the independence of the Judiciary and Rule of Law.