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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

QUICK REVISION STUDY MATERIAL OF *CLASS XII - ECONOMICS*

क्षेत्रीय कार्यालय,भोपाल / REGIONAL OFFICE,BHOPAL

कक्षा: बारहवीं / CLASS XII

अर्थशास्त्र ECONOMICS

सत्र- २०२४-२५ / SESSION- 2024-25

संरक्षक / *Patrons*

डॉ. आर. सेंदिल कुमार, उपायुक्त

केन्द्रीय विद्यालय संगठन क्षेत्रीय कार्यालय, भोपाल

DR. R. SENTHIL KUMAR, DEPUTY COMMISSIONER

KVS REGIONAL OFFICE, BHOPAL

श्रीमती किरण मिश्रा

SMT. KIRAN MISHRA

केन्द्रीय विद्यालय संगठन क्षेत्रीय कार्यालय, भोपाल

KVS REGIONAL OFFICE, BHOPAL

श्रीमती निर्मला बुडानिया

SMT. NIRMAL BUDANIYA

केन्द्रीय विद्यालय संगठन क्षेत्रीय कार्यालय, भोपाल

KVS REGIONAL OFFICE, BHOPAL

श्री विजय वीर सिंह

MR. VIJAY VEER SINGH

केन्द्रीय विद्यालय संगठन क्षेत्रीय कार्यालय, भोपाल

KVS REGIONAL OFFICE, BHOPAL

NATIONAL INCOME AND RELATED AGGREGATES – 10 MARKS

Intermediate and Final Goods – Difference

Intermediate-• Under boundary line of production (cloth for making shirt) • May be raw material (flour in Bread making factory) • May be resold (Washing machine in seller's hand) • Value is yet to be added (wood to furniture) • Not included in estimation of national income

Final Goods• Ready for use goods (shirt) • Not a raw material (flour use in home) • Not resold (washing machine in final user (household) hand • Value is not to be added (Furniture in home) • Included in estimation of national income

Consumption goods and Capital goods- Difference

Consumption goods • for direct Satisfaction of human wants (a consumer consume it for his satisfaction) • Used by household • It raises quality of life

Capital goods • Not lead to direct satisfaction of human wants (a producer use it for production of other good) • Used by producers • It rises GDP growth

Stock -A stock is quantity measured at a particular point of time

Ex- 1.Amount of money in Bank Account at a point of time

Flows -A flow is a quantity measured over a specified period of time.

Ex- 1.Amount of money deposit or withdraw from bank

Sectors of the Economy 1. Household Sector 2. Producer Sector 3.Government Sector 4. The External Sector (or Rest of the World)

FACTOR COST, MARKET PRICE AND NET INDIRECT TAX (NIT)

NET INDIRECT TAX (NIT): It is the difference between Indirect Tax and Subsidy. NIT=Indirect Tax- Subsidy Examples: Sales Tax, Value Added Tax (VAT), Service Tax, Import (Custom) Duty, Excise Duty, Goods and Services Tax (GST) etc.

NET FACTOR INCOME FROM ABROAD (NFIA) NET FACTOR INCOME RECEIVED FROM ABROAD (NFIA)

DEF.: It is the difference between factor income received from abroad and factor income paid to abroad

NFIA = Factor Income received from abroad-Factor Income paid to abroad

NFIA = FIFA-FITA

NOTE: 1. Three cases of NFIA

CASE 1: If FIFA>FITA: NFIA is positive.

Case 2: If FIFA<FITA: NFIA is Negative.

Case 3: If FIFA=FITA: NFIA is zero.

Domestic Income: The sum of Factor Income generated in Domestic territory in one year. (Residents doesn't matter) Example: 300

National Income: The sum of Factor Income earned by Normal residents in one year. (Territory doesn't matter)

Important Points ➢ Domestic Income= National Income When NFIA=0

➢ Domestic Income> National Income When NFIA is negative (-)

➢ Domestic Income < National Income When NFIA is Positive (+)

GDP is often considered as an index of welfare of the people .It means sense of **material wellbeing among the people** which depends on greater per head availability of goods and services.

This generalization that GDP is an index of welfare is not always correct.

Limitations of GDP as an index of welfare :(GDP Welfare)

1. **Distribution of GDP:** It means how increase in GDP is being distributed among different section of the society. It is possible that with the increase in GDP the rich are getting richer and the poor are getting poorer, i.e., the gap between the rich and the poor increases. Such type of changes in inequalities is not considered in GDP. So, only increase in GDP can't be regarded as a good index of welfare unless it is accompanied by the equitable distribution of income.

2. Non- Monetary Exchanges: Many activities in an economy are not evaluated in monetary terms and are called non-monetary exchanges/transactions. But, such activities greatly add (influence) to the welfare of the people but they are not counted in GDP as money is not being paid for such activities.

Examples:

1. Services rendered by the housewives to the family.
2. Repairing own electrical appliances or household furniture.
3. Teacher teaching his own son.
4. Doctor giving treatment to his own mother.

3. Externalities: It refers to benefits (or harms) a firm or an individual causes to another for which they are not paid (or penalised).

1. Positive Externalities: Activities which results in benefits to a third-party who are not directly involved in the economic transaction are called positive externalities.

Examples

1. A company provides first aid classes for its employees to increase job safety. This may also save lives outside the factory.
2. Use of public parks by the people for pleasure for which no payments are made by public

Note: GDP does not take into account such positive externalities. In such cases, GDP will underestimate the actual welfare of the economy. So, it's not a good index of welfare.

2. Negative Externalities: Activities which results in harms to a third-party who are not directly involved in the economic transaction are called negative externalities.

Examples:

1. If a firm produces chemicals and causes pollution as a side effect, then local fisherman won't be able to catch fish. This loss of income will be the negative externality.
2. If you drive a car, it creates air pollution and contributes to congestion and risk of accident .These are negative externalities.
3. Noise pollution due to neighbour listening to a loud music.

Note: GDP does not take into account such negative externalities. In such cases, GDP will overestimate the actual welfare of the economy. So, it's not a good index of welfare.

Conclusion: GDP can't be said to be a good index of welfare as it doesn't take into account positive externalities and negative externalities and underestimates(due to positive externalities) and overestimates(due to negative externalities) the actual welfare of the economy

Nominal GDP. It is calculated at current year prices (current prices)

. It has inflated value of GDP due to *being affected by current prices.*

. It's not a better indicator of economic growth or doesn't show a true picture of economic growth as *it may increase due to rise in prices without any increase in physical output.*

Real GDP

. It is calculated at base year prices.

. *It changes only when physical output (quantity of goods and services) changes.*

. *It's not affected by change in prices.*

. It is a better indicator of economic growth which shows a true economic growth rate as it increases only when physical output increases.

GDP Deflator (Price Index): It measures the average level of prices of all goods and services that make up the GDP.

Need: Nominal GDP is affected by both changes in price and physical output and Real GDP is affected by change in physical output only.

1. ***To eliminate the effect of price changes and to determine real change in physical output, we use GDP Deflator.***

Formula: $$\text{GDP Deflator (Price Index)} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

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

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

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

Gross value added at mp = GDP at mp

Value Added= Value of output – Intermediate consumption

Value of Output = Sales + change in Stock [Δ Stock = Closing Stock – Opening Stock]

NNPfc = value added – depreciation (CFC) + NFIA-Net Indirect Tax (NIT)

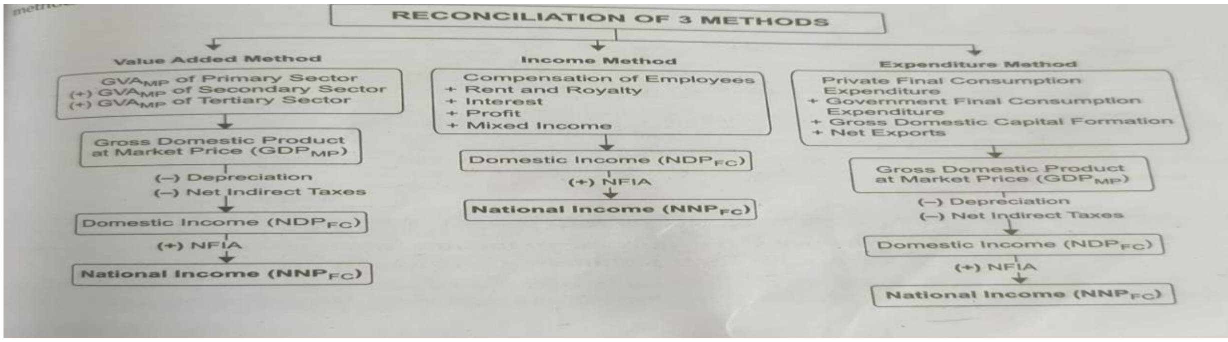
Income Method: - According to this method, national income is estimated in terms of factor payments during an accounting year.

NNPFC = Compensation of Employees + Operating Surplus + Mixed Income + NFIA

Compensation of Employees = Wages and Salaries in Cash + Payments in Kind + Employers' Contribution to Social Security + Pension on Retirement Operating Surplus = Rent + Interest + Profit (Profit = Dividends + Corporate / Corporation Profit Tax + Undistributed Profit)

Mixed Income:- It refers to the incomes of self-employed persons. Expenditure Method: - According to this method, National income is estimated in terms of expenditure on goods and services produced in the economy during an accounting year.

GDPmp = C + G + I + (X – M) (1) Private Final Consumption Expenditure (C) (2) Government Final Consumption Expenditure (G) :-(3) Gross Domestic Capital Formation(I) = Gross Domestic fixed Capital Formation + change in stock (4) Net Exports (X - M)



MONEY AND BANKING -6 MARKS

MONEY SUPPLY: It refers to the total volume of money held by public at a particular point of time in an economy. It is a stock variable.

COMPONENTS OF MONEY SUPPLY:

a) CURRENCY WITH THE PUBLIC: This includes coins and currency notes in circulation.

b) DEMAND DEPOSITS: A deposit on which a cheque can be written.

MEASURES OF MONEY SUPPLY:

M1 =C+DD+OD (C= Currency held by public, DD= Demand deposits with banks; OD= other deposits with RBI.)

M2= M1+Post office saving deposits

M3= M1 + Time deposits of all commercial banks and co-operative banks

M4= m3+ total deposits with the post office saving organization (excluding NSC)

M1 is referred as Narrow Money and M3 is referred as Broader measures of money supply.

M1 is the most important measures of money supply. M1is the most liquid whereas M4is the least liquid.

IMPORYTANT NOTES: Although money is supplied by Govt, commercial bank and RBI, but RBI is the principal supplier of money on the basis of minimum reserve system .Under this RBI maintain a reserve of 200 crores in the form of gold and foreign securities . Of this reserve, value of gold must be of 115 crores.

CREDIT CREATION BY COMERCIAL BANK

COMMERCIAL BANK: it is a financial institution that accepts deposits from the public and gives loan to purpose of consumption and investment.

MONEY /CREDIT CREATION: Credit creations mean the multiplication of loans and advances.

Let's understand this process with the help of an example:

Suppose there is an initial deposit of Rs 1000 and legal reserve ratio (LRR) is 20% that is the bank has to keep 200 and lend rest 800. It is assumed that all the transactions are routed through banks. The borrower withdraws his 800 for making payments which are routed through bans in the form of deposits accounts.

The bank receives 800 as deposits and keeps 20% of it that is 160 as reserves and lends 640. Again the borrower uses this payment which flows back into the banks there by increasing the flow of deposits.

ROUND DEPOSITS LOANS LRR Initial deposit Further deposits Further deposits : : 1,000 800 640 : : 800 640 152 : : 200 160 128 : : Total 5,000 4,000 1,000 MONEY MULTIPLIER = 1/LRR=1/20%=5

TOATAL DEMAND DEPOSITS= MONEY MULTIPLIER X CASH RESERVES = 5X1, 000=5000

CRR+SLR=LRR

CASH RESEVES RATIO (CRR): The fraction of deposits that bank has to keep with the central bank.

Statutory LIQUIDITY RATIO (SLR): The fraction of deposits that bank has to keep with themselves in the form of cash, gold and approved securities.

CENTRAL BANK: It is an apex body that control, operates, regulates and directs the entire banking and monetary system of the country.

FUNCTIONS OF RBI: • MONETORY AUTHORITY: It controls the supply of the money in the economy to stabilize exchange rate, maintain BOP ,control inflation and strengthen the banking system. • THE ISSUER OFCURRENCY; It is the sole authority to issue currency. It also takes action to control the circulation of the fake currency

• **THE ISSUER OF BANKING LICENSE:** As per sec. 22 of banking regulation act, every bank has to obtain a banking license from RBI to conduct banking business in India.

• **BANKER TO THE GOVT;** It act banker to both central and state govt. It provides short term credit .It advises the govt. on banking and financial subjects.

• **BANKERS TO THE BANK**: It acts as a banker to the other banks and performs following functions; a) Custodian of the cash reserves of the commercial banks. b) Lender of the last resort in the sense that if commercial bank fails to generate enough cash from its own resources then they approaches the central banks as a last resort. The banks can borrow from RBI by keeping eligible securities as collateral at the time of need or crises, when there is no other source.

• **CUSTODIAN OF FOREIGHN EXCHANGE RESERVES:** It acts as a custodian of country's stock of gold reserves and foreign exchange reserves and thus helps stabilizing the external value of money. RBI controller of money supply and credit:

QUANTITATIVE MEASURES:

BANK RATE: It refers to the rate at which the central bank lends money to commercial bank as the lender of the last resort. During inflation the central bank increases the bank rate and reduces it at time of deflation.

REPO RATE : It may be defined as the rate at which central bank lends money to the commercial bank in the events of any short falls of the funds in the short run.

Increase in the repo rate discourages commercial bank to borrow from central bank and thus reduces money supply in the economy whereas decrease in the repo rate encourages borrowing by commercial banks and thus increases the money supply in the economy.

REVERCE REPO RATE: It is the rate at which central bank of a country borrows money from commercial bank.

Increase in the reverse repo rate encourages commercial banks to deposits their funds with central bank. This helps in curtailing money supply in the economy and vice- versa.

OPEN MARKET OPERATIONS: It refers to the buying and selling of securities by the central bank from/to the public and commercial bank. It sells govt. securities during excess demand and buys securities during deficient demand

LEGAL RESERVE RATIO: Central bank can influence their credit creation power of commercial banks by making changes in the CRR and SLR.

CASH RESERVE RATIO (CRR): It refers to the minimum percentage of net demand and time deposits which commercial banks keep with the central banks. During inflation, when money supply has to be reduced, central banks increases CRR and decreases during deflation.

STATUTORY LIQUIDITY RATIO (SLR): It refers to the minimum percentage of net demand and tie deposits which commercial banks are required to keep with it in the form of cash reserves. By changing SLR, the amount of credit and hence money supply can be greatly affected.

QUALITATIVE INSTRUMENTS:

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

SELECTIVE CREDIT CONTROL: Central bank gives directions to the other banks to give or not to give credit for certain purposes to particular sectors.

MORAL SUASION: It is combination of persuasions and pressure that central bank applies on the banks in order to get them to act in accordance with its policies.

BUDGET AND ITS COMPONENTS - 6 MARKS

There is a constitutional requirement in India **(Article 112)** to present before the Parliament a statement of estimated receipts and expenditures of the government in respect of every **financial year which runs from 1 April to 31 March.**

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

Objective of Budget:-

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

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

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

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

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

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

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

Revenue Receipts: - Those monetary receipts of Govt. which neither create a liability to the govt., nor cause any reduction in the assets of Govt. Taxes, Fees, License and Permit, Escheat etc.

Capital Receipts: - Those monetary receipts which either create liability for the govt. or cause reduction in the assets of the government. Example/components: - Borrowings, Recovery of Loans and Advances etc.

Revenue Expenditure:-Those expenditures of Govt. which neither reduce a liability to the govt., nor creates any assets for the govt. Expenditure on Construction of school building, hospital, road, dam etc.

Capital Expenditure: - those expenditures of Govt. which reduce a liability to the govt. Or creates any assets for the govt. Example/components: - salaries and wages of govt. employees, expenditure on administration defense etc.

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

Direct Tax: - These taxes are imposed on income and wealth. Its burden cannot be transferred its burden can be transferred Example: income tax, corporate tax, wealth tax etc.

Indirect tax:-These taxes are imposed on Goods and services. It cannot be transferred it can be transferred Excise duty, custom duty, VAT, entertainment tax etc.

2. Non- Tax Revenue: - Sources other than taxes (i) Fees, License and permit, Fines and Penalties,

Escheats: It refers to claim of government on the property of a person who dies without leaving behind any legal heir or a will. Gifts and Grants, Interest from state Govt. etc., profits and dividend from Public enterprises and Govt departmental enterprises like rail. Examples: - Salaries, pension, interest payment, subsidy grants to state govt. etc**. Budget Deficit** = Total Expenditure - Total Receipts

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

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

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

FD = TE- TR (other than borrowings)

Primary Deficit: - Fiscal Deficit – Interest Payments

<u>BALANCE OF PAYMENT-6 MARKS</u>

Balance of payments is a statement of accounts showing all monetary or economic transactions of a country with the rest of the world during a period of time, generally one year

Current account records receipt and payment of foreign exchange on account of such transactions which do impact asset-liability status of a country in relation to rest of the world. Liabilities or assets of a country (in relation to rest of the world) are neither raised nor reduced

1. Export and Import of Goods (Visible Trade):

It includes the exports and imports of all physical goods. The difference in the value of exports and imports of goods is called as trade balance. Therefore –

Trade balance = balanced (if Imports = Exports)

= Surplus (if Imports < Exports)

= Deficit (if Imports > Export

Trade in services is called invisible trade. Because they cannot be seen to cross national borders. It can be divided in to two following sub-groups:

Factor Income – It includes factor payments (wages, salaries, interest, rent, royalty and profit).

Non-factor Income – It includes payments for a number of services rendered and received by the residents of a country from or to the countries of rest of the world. (Transportation services, financial services such as insurance and banking, service provided by foreign tourists and students

Transfer payments refer to those receipts or payments which take place without getting anything in return.

These payments includes unilateral transfers like foreign gifts, donations, military aid, and foreign assistance. Transfer payments are of two types:

(i) Official transfer payments given by foreign governments.

(ii) Private transfer payments given by the foreign residents.

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

Capital Account: - it records all such transactions between resident of country and rest of the world which cause change in the asset or liability status of the residents of country or its Govt Capital account records receipts and payments of such transactions which causes an impact on assets-liability status of a country in relation to rest of the world. Liabilities of assets of a country (in relation with rest of the world) are either raised of reduced.

1. Borrowing: Borrowings and lending of funds is an important component of India's capital account. These are of two types:

(a) **Commercial Borrowings** – Borrowings by government and the private sector from world money market at higher rate of interest.

(b) **External Assistance-** it means borrowings from foreign countries under concessional rate of interest.

It includes portfolio investment and foreign direct investment.

(a) **Portfolio Investment** basically refers to Foreign Institutional Investment. It is investment by rest of the word in shares and bonds of domestic companies.

(b) **Foreign Direct Investment** related to ownership of enterprises (in the domestic economy) by rest of the world. Example: Walmart stores in India.

Such NRI deposits are to be considered as component of capital account which are made in the domestic economy. Thus non-resident Indians should make deposits in India.

NOTE – If money sent by the NRIs to their families in India is to be treated as current transfer (unilateral payments) and are to be recorded in current account of BOP.

It refers to foreign assets held by the commercial banks. Due to drawdown of foreign assets of the commercial banks (the commercial banks converting their foreign assets into liquidity), inflow of foreign exchange into the domestic economy tends to rise.

It arises on account of purchases in the international market without making immediate payment

Overall balance of payment is the sum total of BOP on current account and BOP on capital account. Balance of Payment of a country is always in balance because of the following:

Balance of Payment = Current account Balance + Capital account Balance

Current Account (**Surplus**) + Capital Account (**Deficit**)

Or

Current Account (**Deficit**) + Capital Account (**Surplus**)

In case capital account surplus is more than the current account deficit, the balance will be transferred to foreign exchange reserves.

In case the value of capital account surplus is not equal to the value of current account deficit, the country will take resort to its foreign exchange reserves.

Autonomous Items in BOP – Autonomous transactions refer to those international economic transactions which are taken with the motive of profit. These items are often called **above the line** items in the BOP. The main autonomous items are:

(i) Imports and exports of goods and services.

(ii) Unilateral transactions (receipts and payments)

(iii) Capital transactions (receipts and payments)

Accommodating Items in BOP – Accommodating transactions refers to those transactions which are taken up by the government in order to keep the balance of payments, balanced. Such as addition and withdrawal of foreign reserves. These items are often called **below the line** items in the BOP.

Foreign Exchange Market – The market in which foreign currencies are bought and sold is called foreign exchange market.

Foreign Exchange Rate – The rate at which one currency is exchanged for the other is known as the rate of exchange or foreign exchange rate. It expresses currency's external value or purchasing power in terms of foreign currency.

Fixed Exchange Rate – When the central bank of a country fixes the value of exchange rate, it is called fixes exchange rate system. It has two variants:

(I) Gold Standard System and

(II) Bretton Woods System

Merits of Fixes Exchange Rate system –

(i) Stability in exchange rate encourages international trade.

(ii) International investment is promoted through the system of stable exchange rate.

(iii) It removes the possibilities of speculation.

Demerits of Fixes Exchange Rate system –

(i) Central bank has to intervene to finance balance of payment deficit and to maintain the fixed exchange rate.

(ii) When speculators come to know that the fixed exchange rate cannot be held for long their demand for foreign exchange would rise. This cause a further deficit in balance of payment.

FLOATING EXCHANGE RATE ;-The system of exchange rate in which the value of a currency is allowed to adjust freely or to float as determined by demand for and supply of foreign exchange is called a flexible or floating exchange rate

Merits of flexible exchange rate –

(i) There is no need for central bank to have foreign reserves under the system of flexible exchange rate. Thus the cost of keeping and acquiring reserves can be avoided.

(ii) Flexible exchange rates remove hurdles in the way of international trade capital movement.

(iii) Flexible exchange rate provides opportunity for the optimum utilization of resources.

(iv) It facilitate adjustment in the basic balance of payment and provide more incentive for equilibrating speculation.

Demerits of flexible exchange rate

i. Under this system the price of foreign exchange is quite uncertain. As a result, people are unable to take proper decisions regarding exports and imports of goods.
ii. Under this system there is widespread speculation regarding exchange rates of currencies which has a large destabilizing effect on these rates.

MANAGED FLOATING EXCHANGE RATE;-Under this system floating of exchange rate is not completely free, it is managed by the monetary authority of the country in the best interests of the economy.

DEMAND FOR FOREIGN EXCHANGE

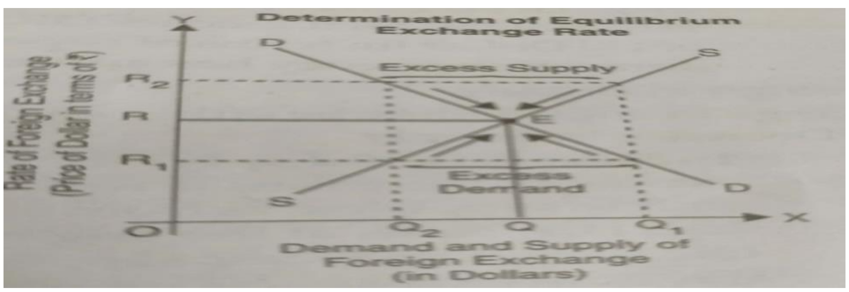
1. Imports of goods and services from foreign countries.
2. Purchase of assets in foreign countries.

3. Sending gifts abroad.
4. Speculation on the value of foreign currencies.
5. Other payments involved in international transactions like expenditure on embassies and other organizations.

- **Supply of foreign exchange** –

1. Export of goods and services to foreign countries.
2. Investment by foreign countries in the domestic country or purchase of assets by foreigners.
3. Receiving gifts from rest of the world.
4. Inward movement of foreign currencies due to currency dealers and speculators.

Equilibrium exchange rate is determined where the demand for foreign exchange becomes equal to its supply or where the foreign exchange demand curve and foreign exchange supply curve intersect each other. In the diagram DD demand curve intersects SS supply curve at point E, hence the equilibrium exchange rate is determined as OR. Thus, the rate at which demand for foreign exchange becomes equal to supply of foreign exchange is termed as equilibrium rate of exchange.



- **Appreciation** – If the value of a currency in terms of foreign currency is increased in a flexible exchange rate system, it is called **appreciation** of the currency.
- When he value of domestic currency appreciate then export decreased and imports increased
- **Depreciation** – If the value of a currency in terms of foreign currency falls in a flexible exchange rate system, it is termed as **depreciation** of the currency.
- When the value of domestic currency depreciates then export increased and imports decreased.

- **Revaluation** – If a country in fixed exchange rate system raises the value of its currency in terms of foreign currency by official action, it is called **revaluation.**
- **Devaluation** – If a country in fixed exchange rate system lowers the value of its currency in terms of foreign currency by official action, it is called **devaluation**

DETERMINATION OF INCOME AND EMPLOYMENT – 12 MARKS

Equilibrium level of national income and output is determined where; Aggregate Demand is exactly equal to Aggregate Supply. AS = AD In a two sector economy AD=C+I, AS=Y,

AS=AD So, Y=C+I

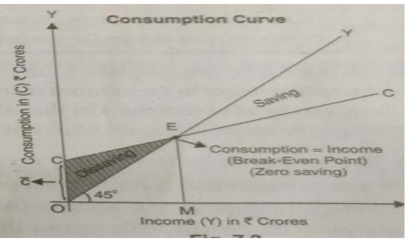
Consumption function- it refers to functional relationship between consumption and national income. C =f(Y) , C= a + bY Where C=Consumption a= autonomous consumption Y=National Income and f=Functional Relationship

Note-There is direct relation between Consumption and Income.

Consumption schedule:-It is table showing consumption and Income.

Table 7.3 Consumption Schedule

Income (Y) (₹ Crores)	Consumption (C) (₹ Crores)
0	40
100	120
200	200
300	280
400	360
500	440
600	520



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

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

PROPENSITY TO CONSUME There are two aspects of propensity to consume

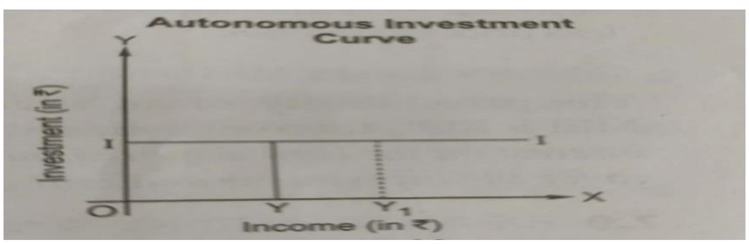
1- **Average propensity to consume (APC)** --it is the ratio of consumption and income. APC=C/Y

2- **Marginal propensity to consume (MPC)-**it is the ratio of change in consumption and change in income. MPC=Change in Consumption/Change in. MPC = $\Delta C/\Delta Y$

Autonomous Investment 1-not affected by change in level of income

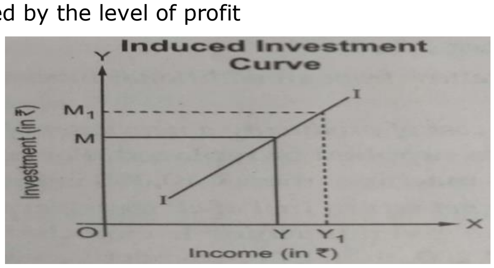
2-not induced by the level of profit

3- generally done by the government



Induced Investment 1-affected by change in level of income

2-induced by the level of profit



3-generally done by the private sector

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

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

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

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

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

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

1-Private Consumption Expenditure (C)

2-Savings

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

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

S =f(Y) S = -a + (1-b) Y

Note-There is direct relation between saving and Income.

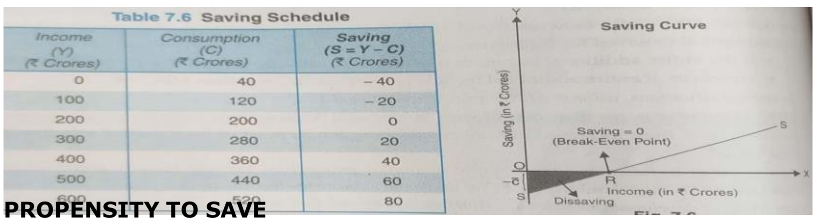


Table 7.6 Saving Schedule

Income (Y) (₹ Crores)	Consumption (C) (₹ Crores)	Saving (S = Y – C) (₹ Crores)
0	40	– 40
100	120	– 20
200	200	0
300	280	20
400	360	40
500	440	60
600	520	80

PROPENSITY TO SAVE

THERE ARE TWO ASPECTS OF PROPENSITY TO SAVE

1-Average propensity to save (APS) APC=S/Y

APC+APS=1

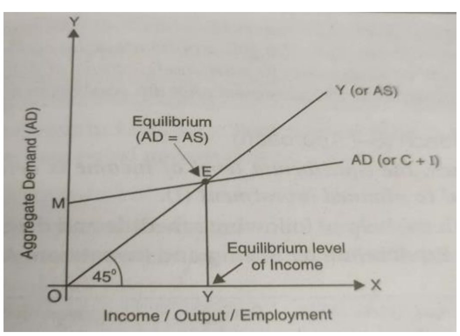
2-Marginal propensity to save (MPS) MPS = ΔS/ΔY

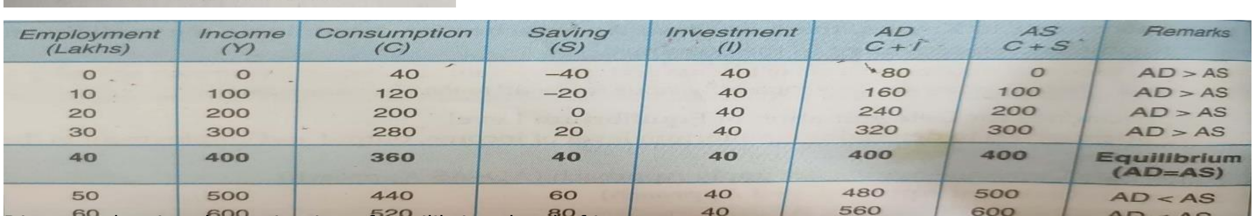
MPC+MPS=1

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

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

I - Aggregate Demand and Aggregate Supply Approach (AD=AS Approach) According to this approach the equilibrium level of the economy is determined when aggregate demand is equal to the aggregate supply. AD=AS It can be explained with the help of the schedule and diagram.





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

Diagram showing determination of equilibrium level of income

The above table shows the equilibrium level of income at Rs 400 because at this level of income AD (400) =AS (400)

II- Saving -Investment Approach (S=I) Approach: - According to this approach the equilibrium level of the economy is determined at the level when planned saving (s) is equal to the planned investment (I).

Income (Y)	Consumption (C)	Saving (S)	Investment (I)	Remarks
0	40	– 40	40	S < I
100	120	– 20	40	S < I
200	200	0	40	S < I
300	280	20	40	S < I
400	**360**	**40**	**40**	**Equilibrium (S = I)**
500	440	60	40	S > I
600	520	80	40	S > I

The above table and diagram shows the equilibrium level of income at Rs 200 because at this level SAVING (40) is equals to INVESTMENT (40).

Meaning of Investment Multiplier:-Investment multiplier is a ratio between change in income and change in investment.

K = ΔY/ ΔI

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

Relation between MPS and Multiplier $K = 1/\ MPS$

There is direct or positive relation between MPC and investment multiplier. It means if MPC increases than K will also increase and if MPC decreases than K will also decreases

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

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

Working of Multiplier Investment:-multiplier works on the fact that the expenditure of one person is income of another person. The working of multiplier can be explained with the help of one numerical example. Here we assume that initially investment is increased by Rs. 100 crore and MPC is 0.75

Following table will explain the working of K Working of investment multiplier

Working of investment multiplier The table shows that as additional investment increases by Rs. 100 crore there will be change in income by Rs. 100 Crore in first round, MPC is 0.75 therefore consumption will increase by 100 X 0.75 =25 crore , the remaining amount will be saved.

MULTIPLIER PROCESS

Round	Increase in Investment (ΔI)	Increase in Income (ΔY)	Increase in Consumption (ΔC) (MPC = 0.75)	Increase in Savings (ΔS)
I	100	100	$100 \times \frac{3}{4} = 75$	25
II	—	75	$75 \times \frac{3}{4} = 56.25$	18.75
III	—	56.25	$56.25 \times \frac{3}{4} = 42.19$	14.06
IV	—	42.19	$42.19 \times \frac{3}{4} = 31.64$	10.55
V	—	31.64	—	—
:	:	:	:	:
:	:	:	:	:
Total	100	400	300	100

This increased consumption (25 crore) will increase the income by 25 crore in the second round This process of income generation will go on and the consumption and income will increase in every round till total income increase by Rs. 400 crore as MPC is 0.75

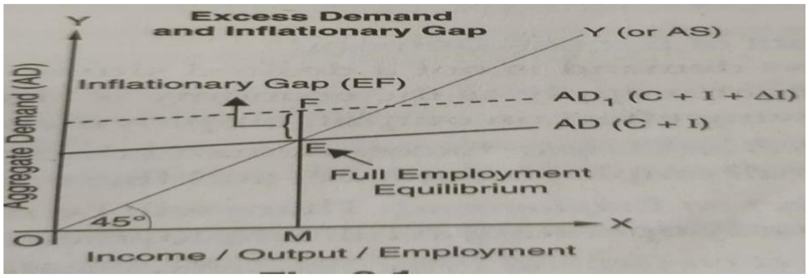
Full Employment: - Refers to a situation in which all those people, who are willing and able to work at the existing wage rate, get work without any undue difficulty.

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

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

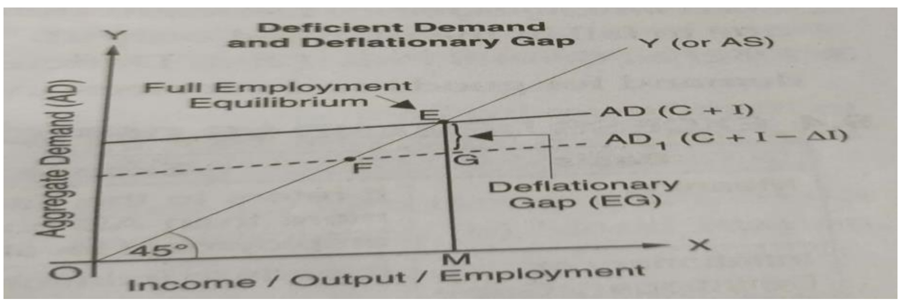
• It creates the situation of inflationary Gap

• Inflationary Gap refers to the difference between Actual AD and required AD at full employment level.



Impact of Excess Demand: (i) No change in output (ii) General price level continuously rise (Wage price spiral). **Deficient Demand: -** It refers to the situation when aggregate demand (AD) is less than Aggregate supply corresponding to full employment level in the economy.

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



Impact of deficient Demand: (i) Increase in employment, output and income. (ii) General Price level is low (low level equilibrium trap).

PART – B (INDIAN ECONOMIC DEVELOPMENT)

UNIT – 6 INDIAN ECONOMY ON THE EVE OF INDEPENDANCE (DEVELOPMENT EXPERIENCE 1947-90 AND ECONOMIC REFORMS SINCE 1991) - (12 MARKS)

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

1. Agriculture sector on the Eve of Independence – Despite an agrarian economy the agriculture sector suffered from stagnation and low productivity caused mainly because of the various system of land settlement that Britishers introduced in India.

Causes of stagnation of agricultural sector -

a. Permanent settlement or Zamindari system,Under this profits of agriculture sector went to the zamindars in the form of LAGAAN (Rent) .Zamindar's interest was only to collect lagan.

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

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

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

(A) De-industrialization of Indian handicraft industry:

Two-fold motive of British govt were -

(i) Mere exporter of raw material – To get raw material from India at cheap rates to be used by upcoming modern industries in Britain.

(ii) Importer of finished goods – To sell finished products of British industries in Indian market at high price.

(B) Decay of indigenous handicraft industries was due to- (i) Discriminatory Tariff Policy. (ii) Low priced machine made goods, (iii) fall in encouragement to Indian handicraft.

3. Foreign Trade on the Eve of Independence

(i) Monopoly control of Britain on foreign trade – Opening of Suez Canal in 1869 gives speed to foreign trade with Britain.

(ii) Drain of Indian wealth – Due to excess exports of raw material from India to Britain, India has a huge export surplus which was used for -

a) Office setup by British Govt. in India; (b) Meet expenses of war fought by British government; (c) To import invisible items.

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

(i) High birth and death rate- Birth rate refers to number of children born per thousand in a year.

Death rate refers to number of people dying per thousand persons in a year.

Both birth rate and death rate were very high as **48 and 40** per thousand respectively.

(ii) High infant mortality rate – It refers to infants dying before reaching one year of age per thousand live births in a year. It was **218/1000.**

(iii) Low life expectancy ratio – It refers to the average number of years for which people are expected to live. It is based on the birth year, demographic factors, its age and gender. **The life expectance was 44 years at the eve of independence.**

(iv) Low literacy rate – Total literacy was **less than 16 percent**. Female literacy was about **7 %.**

5. Occupational structure on the eve of independence - Occupational structure refers to distribution of working population across different industries and sectors. (i) Pre-dominance of agricultural sector – This sector accounted nearly 75% share of workforce. Service and manufacturing sector accounted for remaining 25%. (ii) Growing regional variation – The states of Tamil Nadu, Andhra Pradesh, Maharashtra, Kerala, Karnataka and west Bengal witnessed a decline in dependency of workforce on agriculture sector.

6. Infrastructure on the eve of independence - (i) Railway – Railways introduce in 1850. First train run between Mumbai to thane in 1853. It enabled:

(a) People to travel long distance; and

(b) Fostered commercialization of Indian agriculture.

(ii) Roads – Built primarily for the purpose of mobilizing the army within the country and send raw material to the nearest port.

(iii) Water and Air Transport – This is developed but proved uneconomical and failed to compete with railways. (iv)Communication System – Post and telegraph were developed to maintain law and order in country. First stamp was released in 1952 and first telegraph line was started in 1953. 7. Positive contribution of British rule –

(i) Self-sufficiency in food grain production,

(ii) Better means of transportation,

(iii) Check on famines,

(iv) Shift to monetary economy, and

(v) Effective administration set up.

INDIAN ECONOMY (1950-1990) Indian Planning Commission - The Planning Commission of India was established on **15th March 1950.** Chairman of planning commission was/is Prime Minister. The Planning Commission of India has now been **dissolved in 2015** and replaced with **National Institution for Transforming India (NITI) Aayog.** Objectives / Common Goals of Planning in India –

(i) Growth – GDP is the indicator of growth .Primary, Secondary and Tertiary sector contribute in GDP is known as structural composition.

(ii) Modernisation – To adopt new technology with change in social outlook i.e. women also have same rights as men. * Adoption of New Technology * Change in Social Outlook

(iii) Self-reliance – Non-dependency on foreign for factors of production and new technology as well as self-reliance in food grain production.

* Overcoming from the external assistance;

* Development through domestic resources;

* To reduce foreign dependency

* To avoid foreign interference.

(iv) Economic equity – Every Indian should have meet basic needs like Food, shelter , Housing, education, health and sanitation. Improve standard of living of weaker section of society and reducing regional inequalities. * Every Indian should be able to meet his or her basic need. * Ensure reduction in inequality in income and wealth. Equity aims to raise standard of living of all people and promote social justice.

AGRICULTURE FEATURES, PROBLEMS AND POLICIES LAND REFORMS Land Reforms - Land reforms refer to change in the ownership of holdings.

Land Reform Measures (Institutional reforms) - 1. Abolition of Intermediaries – Intermediaries, popularly known as Zamindars have been abolished. Ownership rights have been referred to the actual tillers. This has been done with a view to stopping exploitation by the zamindars.

2. Regulation of rent – Now rents have been fixed by the government which is not generally exceeds to 1/3 of the crop value.

3. Cooperative Farming – This was encouraged to enhance to bargaining power of small farmers. Together they can by inputs at lower rates and can sell their products at a high price.

4. Land Ceiling - fixation of maximum size of land which would be owned by an individual. So that concentration of land ownership in a few hands can be reduced.

5. Consolidation of Land Holdings (Chakbandi) – Under this policy, a farmer is given one consolidated land holding equal in area to all his split land holdings.

Green Revolution (New Agricultural Strategy) - Increase in agriculture production and productivity by using modern technology and inputs like HYV seeds, pesticides and insecticides etc.

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

Achievements of Green Revolution – 1. Rise in Production and Productivity

2. Increase in Income / Marketable Surplus – It refers to that part of agricultural produce which is sold in the market by the farmers after meeting their own consumption requirements.

3. Buffer Stock of Food Grains

Shortcomings of Green revolution –

1. Increase in disparities between small and big farmers

2. Risk of pest attack of HYV crops

3. Limited crops –There has been no similar rise in production of pulses and commercial crops like jute, cotton, tea etc.

4. Regional imbalances

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

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

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

INDUSTRIAL POLICY RESOLUTION, 1956 On 30th April, 1956, a second Industrial Policy Resolution was adopted in India.

IPR-1956 has the following objectives:

* Classification of industries into public and private sectors, * Stress on the role of cottage and small scale industries, * Reduction in regional disparities

CLASSIFICATION OF INDUSTRIES:-According to IPR-1956, the industries were reclassified in to three categories. 1. Public sector industries 2. Joint sector industries 3.Private sector industries.

OUTCOMEs OF IPR-1956

* Scope of the public sector in India got widened

* Provision of compulsory licensing was enacted.

* The policy paved the way of development of public sector in India.

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

SMALL SCALE SECTOR IN INDIA- **In 1955**, the Village and Small Scale Industries Committee **(Karvey Committee)** was established.

Features of small Scale Industries

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

Role of Small Sector in Indian Economy

1. Provide Economic equality; 2. Need less technology; 3.Increase employment; 4.Protection from bad effects of urbanization and industrialization;

* Various types of **concession given to the SSIs s**uch as lower excise duty, bank loan at a lower rate, tax benefits, water and electricity supply at a lower rate etc.

INWARD LOOKING TRADE STRATEGY / (IMPORT SUBSTITUTION STRATEGY):-This policy is also called Import Substitution Policy. Import Substitution - It refers to a policy of substitution of imports by domestic production. Export Promotion – It is a strategy to earn foreign exchange by promoting domestic exports. Need for Import Substitution – 1. Scarcity of foreign exchange,

2. Un-favourable balance of Trade,

3. Need for industrial development,

4. To protect domestic goods

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

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

CH. - 3 LIBERALISATION, PRIVATISATION AND GLABALISATION: AN APPRAISAL

Economics crisis: A situation where govt. expenditure is much more than its revenue and no any source is ready to lend as borrower already has a large outstanding loan to repay with interest.

Causes of Economics Crisis.

1. Spending of govt .on development programmers and not getting any income.

2. Inability of govt. to generate sufficient income from taxation.

3. Expenditure on PSU was much more than its income. 4. Govt. expenditure on social services and defense do not give immediate return and govt. failed to invest the rest of resources in proper way. 5. Borrowing of foreign exchange from other countries and foreign institution was used in consumption needs and payment of other loans.

ECONOMICS CRISES LEADS TO NEW ECONOMICS POLICY MEANS IMPLEMENTATION OF LPG

Adverse balance of payment, increase in fiscal deficit ,rising prices, poor performance of PSU and depletion of foreign exchange reserve compelled India to present its condition before world bank and IMF because at that time India had foreign exchange reserves only for two weeks import ,it was really an alarming situation . World bank and IMF come forward for help but with some important terms and conditions that leads to liberalize and open up the Indian economy by removing restrictions on private sectors and removing trade barriers'.

After getting on agree India got $7million loan to manage the economic crises in India.

LIBERALISATION: Liberalization of the economy means freedom from direct and physical control of the govt. on various sector especially private sector.

OBJECTIVE:

1. To increase competition among domestic industries. 2. To expand size of the market. 3. To decrease debt burden on the country. 4. To encourage the international trade of goods and services.

REFORMS UNDER LIBERLISATION:

1. INDUSTRIAL SECTR REFORMS: This includes reduction in industrial licensing, decrease in the role of public sector and deresersvation of small scale sector industries. • Industrial licensing was abolished for almost all products except of alcohol, cigarettes, hazardous chemical. • To decrease the role of public sector, only three industries are reserved for public sector that are defense equipment, atomic energy and railway. • De-reservation of production by small scale industries. • Import of capital goods and technology to develop infrastructure of country.

2. FINANCIAL SECTOR REFORMS: It includes reforms in banking sector, stock exchange and foreign exchange market.

• RBI was converted from regulator to facilitator.

• Set up of private sector banks to increase competition. • Foreign investment limit was increased to 51%. • The banks which fulfilled certain conditions were allowed to set up new branches without approval of RBI.

3. FISCAL / TAXATION REFORMS: These reforms related to the revenue and expenditure of government. • Decrease the direct taxes like income and corporate tax. • Simplification of tax paying procedure to encourage the tax payers.

4. FOREIGN EXCHANGE REFORMS: • Devaluation of rupees which encouraged export and discouraged the Imports. • Determination of the foreign exchange rate by market forces.

5. TRADE AND INVESTMENT P0LICY REFORMS: • Reduction import duties. • Removal of quantitative restriction on import and export. • Relaxation in import licensing system.

PRIVATISATION: Privatisation means transfer of ownership of, management and control of govt. sector to the private sector. • By outright sale of public sector companies • By withdrawal of the govt. from ownership and management of public sector company • When part of equity of PSU is sold to the private sector, is known as disinvestment.

GLOBALISATION: It means free interaction among all the countries of the world I various fields like trade, technology, investment and outsourcing. • It increase the equity limit of foreign investment. • It leads long term trade policy. • Reduction in tariff.

OUTSOURCING: Hiring regular services by a company from external sources mostly from other countries is known as outsourcing. BPO means call centers, voice recording, banking services are examples of outsourcing service.

WORLD TRADE ORGANISATION: It was founded in 1995 as the successor organization to the GATT (GENERAL AGREEMENT ON TREDE AND TERRIF) .WTO agreements cover trade of goods and services to facilitate international trade through removal of tariff and non-tariff.

AN ASSESSMENT OR AN APPRAISAL OF LPG POLICIES: it means achievement and failures of LPG policies.

ACHIEVEMENT: • Increase in overall growth rate (GDP) nearly 8% per annum during economic reforms.

• Due to LPG policies IT sector has achieved global recognition. • India is now successful exporter of auto parts, engineer's goods, IT software, textiles etc.

• The growth rate of about 8% is mainly due to growth in service sector • Fiscal deficit has reduced from 8.5% to nearly 3.5 % of GDP.

• Inflation has been brought under control from 16.7% in 1991 to around 2.9% in 2017-18.

• Increase in foreign direct investment and FII. • Deficit in Balance of Payments has also reduced.

FAILURES:

• Though the GDP growth rate has increased in reforms period, yet this growth did not lead sufficient employment opportunities in the country.

• Due to globalization there is a great flow of foreign goods in the country that reduced demand of domestic goods.

• LPG increased the growth rate of Indian economy but it is relying on service sector more as compare to other sector.

• The growth process has been concentrated mainly in urban areas.

• Agriculture sector has suffered a serious neglect and its growth rate has depleted.

• Economic reforms have imposed a limit on the growth of public expenditure.

• Because of LPG policies many MNCs has spread in the country that increased consumerism and induced people to expense beyond their limit.

DEMONETISATION:

It is a situation where the central bank of the country withdraws the old currency notes of certain value as an official mode of payment. **On 8th November 2016,** the govt. of India announced the demonetization of 500 and 1000 notes and issuance of new currency notes of 500 and 2000.

HISTORY OF DEMONETISATION: In India the Indian govt. had demonetized banknotes on two prior occasion – once in 1946 and again in1978 to control tax evasion b black money held outside the formal economy system.

AIMS OF DEMONETISATION: • To curb corruption and penalize illicit activities. • To stop circulation of counterfeit currency. • To reduce tax evasion. • To shift from cash economy to digital economy • to channelize savings through formal baking system

IMPACT OF DEMONETISATION: • Slowdown in the growth process due to reduction in both demand and supply.

• Decrease the stock of black money.

• Increase in bank deposit

• Decline in the indirect and direct tax because of slowdown in the growth process.

• A lot of inconvenience faced by people because of sudden unexpected announcement of demonetization.

GOODS AND SERVICES TAX (GST): Goods and services tax levied on the supply of goods and services. GST act was passed in the parliament on 24th March, 2017 and it came into effect from 1st July, 2017. Before the implementation of goods and services tax various central, state and local area taxes were levied in

India. These all taxes now subsumed under GST which is based on the principal of One Nation One Tax.

FEATURES OF GST: • It is a comprehensive tax as various indirect taxes have been merged with it.

• It is a multi-stage tax as it is proposed to be levied at all stages. • It is a value added tax because it is levied on value addition at each stage of the supply chain. • It is a destination based tax.

TAXES THAT WERE NOT MERGED:

1. Custom duty 2. Taxes on petroleum products 3 .taxes on alcoholic drinks

TAXES THAT HAVE BEEN SUBSUMED UNDER GST:

1. CENTRAL LAVEL TAX: Central tax, Service tax and Central sales tax.

2. STATE LEVEL TAX: Entertainment tax.

Types of GST:

1. Central GST (CGST): It is levied and collected by the central govt. on any Transaction of goods and services that takes place within a state.

2. State GST (SGST): It is the tax levied and collected by the state govt. on every intra –state transaction of goods and services.

3. Union Territory GST (UTGST): It is the GST applicable on goods and services Transaction that take place in any of the union territory of India.

4. Integrated GST (IGST): It is applicable on interstate (between two states) transaction of goods and services.

ADVANTAGES OF GST:

1) It has fostered the economic growth.

2) It has led to ease of doing business by implementing single tax format.

3) It has helped in attracting foreign investment.

4) The cascading effect of GST has led to reduction in the cost of goods.

OBJECTIVSE OF GST:

1) To eliminate multiple taxes.

2) To improve tax compliance.

3) To boost economic growth.

4) To increase the ease of doing business.

5) To reduce the overall tax burden.

6) To subsume al indirect taxes at centre and state level.

7) To eliminating cascading effect of indirect taxes.

CURRENT CHALLENGES FACING INDIAN ECONOMY – 22 MARKS

POVERTY; - I t refers to a situation in which a person is unable to fulfill the basic needs of life. Like food, house, shelter, health and education.

POVERTY LINE; - It refers to a cut-off point which divides people of a region as poor and non-poor.

• Percentage of population below poverty line is called **"head count ratio" or "poverty incidence ratio**" **Calorie norms (Average calorie requirement)**

• **Rural – 2435 calories • Urban – 2045 calorie**s

The govt. uses the monthly per capita expenditure to determine the poverty.

Rs.816 in rural (monthly) Rs.1000 in urban (monthly) in 2011-12, poverty rate is 21.9%

TYPES OF POVERTY:-

ABSOLUTE POVERTY: - when the level of income of a country is so low that people cannot meet even their basic consumption requirement maintain their health and efficiency**.**

RELATIVE POVERTY: - When we compare the incomes of different people and find that some people are poorer than others.

CHRONIC POOR: - It includes people who are always poor and those who are usually poor but who have sometimes little more money e.g. casual workers.

TRANSIENT POOR;-

The churning poor who regularly move in and out of the poverty e. g small farmers and seasonal workers

The occasionally who are rich most of the time but sometimes have a patch of bad luck.

CAUSES OF POVERTY

- High growth rate of population
- Inequality of income and wealth
- Low level of education
- Rise in general price level

MEASURES TO REMOVE POVERTY

- Control on population growth'
- Reducing income inequalities
- Control on price rise
- Development of infrastructural facilities

MEASURES TO REMOVE THE POVERTY

The current anti-poverty strategy of the govt. has three dimensions-

1. PROMOTING ECONOMIC GROWTH: - Promoting economic growth of the country as a whole would automatically improve the economic condition of the people and reduce the poverty.

2. POVERTY ALLIVATION PROGRAMMERS: - The govt. decided to launch a direct attack on poverty by starting employment generation programmers.

- **THE MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE SCHEME (MGNREGS)-** Under this scheme 100 days of guaranteed employment is provided to poor in the rural area.
- **PRIME MINISTER ROZGAAR YOJANA (PMRY)-** Under this scheme , the educated unemployed from low income families in rural and urban areas can get financial help to set up any kind of enterprise.
- **NATIONAL SOCIAL ASSISTANCE PROGRAM (NASP) -** This programmers provide social securities to old age people, disabled and pregnant women.
- **SAMPOORNA GRAMEEN ROZGAAR YOJANA (SGRY)-** The objective of this program was providing additional wage employment in rural areas by taking up projects like roads, wells, tanks, etc.

3. PROVISION OF MINIMUM BASUC NEEDS- This is third approach and according to this scheme many useful programmers are started like food, employment and health facilities to the poor e.g. PDS, ICDC and Mead Day Meal Scheme.

Human Capital Formation

Human resource: All the people of the country who are able to work and willing to work are said to be human resource, example: Working population of the country.

Human capital: It refers to the stock of skills and expertise of a country, which exists **at a point of time**. It is intangible.

Human Capital Formation: It refers to the process of adding to the stock of human capital **over a period of time**.

Sources of Human capital formation:

1. Investment in education: Spending on education by individuals is similar to spending on capital goods by companies with the objective of increasing future profits over a period of time. Likewise, individuals spend in education with the objective of increasing their future income.

So, education is an important source of human capital formation because:

a. It generates technical skills and creates manpower, well suited for improving labour productivity and thus sustaining rapid economic development.

b. Education also tends to bring down birth rate, bringing a decline in growth rate.

c. Education results in social benefits.

So, investment in education leads to higher returns in future.

2. Investment in health: Expenditure on health is an important source of human capital formation.

a. A healthy man is more efficient and more productive in nature. His relative contribution is therefore more for himself as well as for the country, example: a sick labourer without access to medical facilities is compelled to abstain from work and there is loss of productivity.

b. Healthy people of a nation contribute more productively.

c. Expenditure on health directly increases the supply of healthy labour force in the economy. d. It brings out the best of the talent and skills in the human beings.

3. Expenditure incurred on on-the-job training: On-the-job training may be of two types:

The workers may be trained in the firm itself under the supervision of a skilled worker.

1. The workers may be sent for off-campus training.

The firm incurs some expenditure on such trainings and therefore insists them to work for a specific period of time so that it can recover benefits of the enhanced productivity owing to training.

So, the 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 than the cost of it.

4. Expenditure on migration: Migration can take place in two forms:

a. The people migrate from rural area to urban Area in search of jobs that fetch them higher salaries. It happens due to unemployment.

B. Technically qualified persons like engineers and doctors migrate to other countries for higher salaries.

Migration in both these cases involves cost of transport, higher cost of living etc.. But still the people migrate because the enhanced earnings in the new place ought to weigh the cost of migration.

Hence, the expenditure on migration is an important source of human capital formation.

Problems of human capital formation in India:

1. Rapid rising population adversely affects the quality of human capital formation in developing countries. It reduces the per capita availability of existing facilities. a large population also requires large investment in education and health. This might diverse the scarce fund of developing countries to production of human capital at the cost of physical capital.

2. The process of human development is a long period policy because skill formation is time consuming. The process which produces skilled manpower is, thus, slow.

3. Regional and gender inequality lowers the human development levels.

4. Migration of highly skilled labour termed as 'brain-drain', adversely affects the human capital formation.

5. Agriculture sector is neglected where farmers are not given on-the-job training to absorb emerging new technologies.

6. The people below poverty line don't have access to basic health and educational facilities. A substantial section can't afford to reach higher education or expensive medical treatment for major illness.

Human Capital Formation and Economic Growth:

Economic growth means increase in real national income of a country. Naturally the contribution of educated persons to economic growth is more than that of illiterate persons. Similarly, a healthy person due to high productivity contributes more to economic growth than that of unhealthy persons. So, human capital formation leads to increased level of skill formation, knowledge, expertise, ability etc. which further results in higher productivity and production of goods and services in the economy, which is called economic growth. Other factors like on-the-job training, job market information and migration etc. also increase an individual's income generating capacity resulting in economic growth.

Human capital formation raises the process of Economic Growth and economic growth raises the process of human capital formation

HUMAN CAPITAL AND HUMAN DEVELOPMENT

Human capital and human development are interlinked with each other. Still there is a line of distinction between these two. This is as follows.

Education sector in India:

❖ **Importance and objectives of education**: ➢ Education produces good citizens. ➢ Education facilitates use of resources in the country. ➢ Develops science and technology. ➢ Expands mental horizon of the people. ➢ Promotes cultural standard of the citizens. ➢ Develops human personality.

❖ **Problems relating to development of education in India.** ➢ large number of illiterates ➢ Inadequate vocationalisation ➢ Gender bios ➢ Low rural access level

Human capital -The stock of knowledge and skill embodied in human being

Human Capital consider education & health as a means to increase labour productivity

Human development - Human development is the process of well -being of the human being

Role of education and health

➢ Low government expenditure on education

❖ Growth of Education Sector in India

There has been considered growth in the field of Education. The number of schools increased from 230.7 thousands (1950-51) to 1,215.8 thousands (2005-06). The no. of teachers in the same period increased from 751 thousand to 6010 thousands & no of students from 23,800 thousands to 2, 22,700 thousands.

➢ Gross Enrolment Ratio

Gross Enrolment Ratio (GER) is the total enrolment of pupil in grade or cycle or level of education, regardless of age, expressed as percentage of the corresponding eligible official age group population in a given school year. GER in elementary education increased steadily from 82% in 1950-51 to 94.85% in 2005-06.

➢ **Literacy Rate** The literacy rate has increased from 18.33% to in 1951 to 64.84% in 2001

➢ **Elementary Education in India**

Elementary Education in India means eight years of schooling from the age of six i.e. primary & middle school education together, is called Elementary Education. Elementary Education, therefore is the foundation on which the development of every citizens and the nation as a whole hinges. The government has made elementary education compulsory and free. But, the goal of universal elementary education in India has been very difficult to achieve till now. In December 2002, the government of India made free and compulsory education, a fundamental right of all children in the age group of 6-14 years.

➢ **Primary Education Schemes** Government has made number of schemes to make "Education for all"

The following are the few schemes

✓ **Sarva Shiksha Abhiyan (SSA)**

It was launched in **2001** to universalize & improve the quality of Elementary Education

in India through community ownership of Elementary Education. The SSA is being implemented in partnership with states to address the needs of children in age group of 6-14 years

✓ **National Programme for Education of Girls at Elementary Education (NPEGEL):**

The Programme is aimed at enhancing girl's education by providing additional support for development of a model girl child friendly school. Under NPEGEL, 35,252 models schools have been opened. =

✓ **Kasturba Gandhi Balika Vidyalaya (KGBV)**

The Kasturba Gandhi Balika Vidyalaya (KGBV) scheme was launched **in July 2004** for setting up residential schools at upper primary level, for girls belonging predominantly to the SC, ST, OBC & minority community. The scheme ran as separate scheme for two years but was **merged with Sarva Siksha Abhiyan w.e.f April 1, 2007.**

➢ **Secondary Education**

Secondary Education, which starts with classes IX and X leads to senior secondary classes XI and XII aims to in cooperate basic skills & analytical abilities. It provides a stepping stone to higher professional and technical education.

➢ **Higher Education**

The Higher Education System comprises both general and technical education. The higher education has undergone a manifold expansion since Independence. The no. of universities in the country has increased from 27 in 1950-51 to 350 in 2005-06 .University Grants Commission (UGC) takes measures for promotion and coordination of university education and determination and maintenance of standards in teaching, examination and research in universities and allocation and disbursement of grants to them.

➢ **Technical Education**

Technical Education plays a vital role in human resources development of the country by creating skilled manpower, enhancing Industrial productivity and improving the quality of life. With 43 diploma level polytechnic at the time of independence, the no. increased to 1,231 in 2000-01. Similarly, the no. of degree level engineering institutions rose from 38 in 1947 to 1265 in 2001-02. **All India Council for Technical Education (AICTE)** is the apex body in the field of Technical Education.

Rural Development To improve the living standard of people living in rural areas by providing proper health, education, transportation electricity, water and sanitation facilities.

NOTE- The concept of rural development is much broader than concept of agriculture development.

Key Issues in Rural Development

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

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

(i) Short-Term Credit-6 to 12 months for buying seeds, tools, manure, fertilizers, etc.

(ii) Medium-Term Credit-1 to 5 years for digging wells, buying machinery, etc.

(iii) Long-Term Credit-5 to 20 years for the purchase of land, costly equipment, tube wells, etc.

Sources of Agricultural Credit

(A) Non-Institutional Sources Money lender, Commission agents, Zamindars, Relatives and Friends etc.

(B) Institutional Sources – 1. Government

2. Co-operative credit societies

3. Commercial banks

4. Regional Rural Banks and Land development bank

5. **National Bank for Agriculture and Rural Development (NABARD) NABARD was set up in July 12, 1982** as an apex body to coordinate the activities of all institutions involved in the rural financing system. Its main functions are:-

(a) To act as an apex agency for the institutions which advance credit in the rural areas.

(b) To serve as apex funding agency for the institutions providing credit in rural areas.

(c) To provide assistance to the non-farm sectors also.

Micro-credit of Self-help group (SHG) It has emerged as the major micro finance Programme in the country in recent years.

i. Their target groups comprise of small and marginal farmers, agricultural and non-agricultural labourers artisans etc.

ii. SHGs promote small proportions by a minimum contribution from each member.

iii. From the pooled money, credit is given to the needy members at reasonable interest rates.

iv. SHGs have also helped in the empowerment of women.

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

PROBLEMS OF RURAL CREDIT-

1. The volume of credit in the country is still insufficient as compare to its requirement.

2. Rural credit agencies have failed to meet the needs of poor and small farmers.

3' Guarantee and securities is always demanded, poor farmers are unable to give any securities.

4. A huge paper work to sanction any loan.

SUGGESTION TO IMPROVE RURAL CREDIT IN INDIA-

- Expansion of rural credit facilities.
- Ensure easy process and less paper work for providing loans.
- Timely availability of credit without any securities.
- Coordination among the financial institution so that remote areas also get benefits of financial help.

AGRICULTURAL MARKETING- Agriculture marketing refers to the entire system which helps the farmer to dispose their surplus produce. It includes grading, storing, transportation and distribution of agricultural commodities across the country.

DEFECTS OF AGRICULTURAL MARKETING-

- Farmers have not good storage facilities, they are unable to get good price for their production because they cannot wait.
- They have not good transportation facilities so they are unable to sell their product nearby mandies at fair prices.
- Uneducated farmers in remote areas unable to get the information about the prevailing market prices and face loss.
- There are large number of intermediaries that earn a high margin and reduce the income of farmers.

GOVERNMENT MEASURES TO IMPROVE AGRICULTURAL MARKETING

- Setting up regulated markets to protects the farmers from malpractices, with fair prices, standard measurement.
- The state and centre warehouses are provided to farmers for storation so that farmers not be forced to sell their products at low prices.
- Setting up of cooperative society that not only help in marketing but also provide farmers seeds, fertilizer, equipment etc.
- Another measures is minimum support price is provided by the govt.
- Establishment of regulated markets. Like Apni mandi (Punjab) and Pythu Bazar (AP)

Agricultural Diversification- It has two aspects-

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

2- Diversification of production activities-shift from crop farming to other production activities. Ex. Animal Husbandry: - Livestock farming system (Cattle, goats) Operation flood (white revolution):- To increase production of milk. Ex. Amul (Gujarat)

Fisheries: - Inland and marine fishing. **Blue Revolution: -** To increase production of fishes.

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

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

Need/importance of Diversification

- To reduce the risk of agriculture
- To meet challenges of poverty and other odd situations
- To reduce the burden of population on agriculture Diversification of Agriculture Activities in India
- Alternative source of employment
- Increase in income of farmers
- Better and sufficient use of resources

EMPLOYMENT

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

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

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

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

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

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

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

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

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

Number of Persons Unemployed = Labour force - Workforce.

$\boldsymbol{Participation\ Rate\ = Total\ Work\ Force / \ Total\ Population\ X\ 100}$

Reason of low rate of participation in India:-

1. High Dependency Ratio in the country.

2. Low Level of Productivity in Rural Areas.

3. High Rate of Participation for Women in Rural Areas

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

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

Formal / Organised Sector: It refers to organised sector and includes all government departments, public enterprises and private establishments **which hire 10 or** more workers. Those working in the organised sector are called 'formal workers'. They are entitled to social security benefits (like provident fund, gratuity, pension, etc.)

They can form trade unions

Informal / Unorganised Sector: It refers to unorganised sector and includes all such private enterprises which hire less than 10 workers, besides farming and self-employment ventures. Those working in the unorganised sector are called 'informal workers'. They are not entitled to social security benefits (like provident fund, gratuity, pension, etc.) They cannot form trade unions.

NATURE OF UNEMPLOYMENT-

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

(1) Disguised Unemployment: It occurs when the number of workers engaged in a job is much more than actually required to complete it.

(2) Seasonal Unemployment: It occurs in agriculture during off-season, often the farm workers are out of job. They have no work to do.

(3) Open Unemployment: Open unemployment occurs when a worker is willing to work, and has the necessary ability to work, yet he does not get work.

(4) Structural Unemployment: Structural unemployment occurs due to structural changes in the Economy like change in technology and change in demand.

Causes of Unemployment in India: -

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

Suggestions to Solve the Problem of Unemployment in India (1) Increase in Production (2) Increase in Productivity (3) High Rate of Capital Formation (4) Help to Self-employed Persons (5) Educational Reforms

Policies & Programmes for employment are: - 1. MNREGA: - i) Provide guaranteed wage employment to every rural household. ii) To do unskilled manual work for a minimum of 100 days in a year. iii) If government do not provide job within 15 days then unemployment allowances were given.

2. PMRY 3. SJSRY 4. REGP 5. NSAP

INFRASTRUCTURE: MEANING AND TYPES:

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

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

Social Infrastructure: It includes infrastructure related with Health, education and housing. It improves the quality of human resources and thus improves the efficiency of manpower. It will raise the process of human development.

Role/ Significance/ importance of Infrastructure in economic development (i) Infrastructure Increases Employment opportunities (ii) Infrastructure Encourages Investment (iii) Infrastructure expand the size of market(iv) Leads to a better quality of life

Health sector in India- Health is not only absence of disease but also the ability to realize one's potential. It is a yardstick of one's wellbeing. Health is related to the overall growth and development of the nation.

Problems/Drawbacks OR Emerging Challenges in the Health care system in India

(a) Poor condition of Primary Health Canters

(b) Unequal distribution of health care services. More hospitals in urban areas and less in rural areas.

(c) Increasing privatisation of health services.

(d) Poor sanitation Level

e) Poor maintenance of govt.

Health centers and poor management.

Women's Health in India - Matter Of Great Concern

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

Development of health Services in India: - (i) Decline in Death Rate (ii) Rise in expectancy of life (iii) Decline in Infant Mortality Rate (iv) Control over Deadly Diseases. (v) Eradication of smallpox, guinea worms and the near eradication of polio and leprosy.

Six systems of Indian medicine system:-AYUSH A: Ayurveda Y : Yoga and Naturopathy U : Unani S : Siddha H : Homoeopathy. Medical tourism :- India's health services combine latest medical technologies with qualified professional and is cheaper for foreigners as compare to costs of similar health care services their own countries. **GBD (Global burden of disease):** - It is an indicator used by experts to gauge the number of people dying prematurely due to a particular disease as well as the number of years spent by them in a state of disability owing to the disease. India has bears a frightening **20 per** cent of the GBD.

ENVIRONMENT SUSTAINABLE ECONOMIC DEVELOPMENT

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

Functions and role of environment – (1) It supplies resources, (2) It sustain life, (3) It assimilates waste and (4) It enhances quality of life.

Two basic problems related to environment

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

Excessive exploitation of natural recourse – (1) Deforestation, (2) Degradation of land.

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

Effects of economic development on environment

(1) Global warming: - Increase in average temperature of earth. It is due to increase greenhouse gases. Due to it ice is melting worldwide, natural disasters and increase tropical disease

(2) Depletion of ozone layer: - Destruction of Ozone layer due to CFC and other forces.

(3) Environmental crises

(4) Rise in opportunity cost of negative environment impacts

Challenges of India's environment (1) Air pollution (2) Water pollution (3) Solid and hazardous waste (4) Deforestation (5) Land degradation

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

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

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

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

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

INTRODUCTION: In the process of globalization, the developing countries facing competition not only by developed countries but also from other developing ones. SO, an understanding of other economies I the neighborhood is required which will help up them to understand the development process adopted by the other countries .These will help them to realize their own strengths and weaknesses in comparison their neighbors.

SIMILARITIES IN THE DEVELOPMENTAL PATH OF INDIA, PAKISTAN AND CHINA:

• All the three nations stared the developmental path at the same time. • India and Pakistan got independence in 1947 and china established in 1949.

• India commenced its five year plan in 1951, Pakistan in 1956 and china in 1953.

• India and Pakistan adopted same strategies such as creating a large public sector and increasing public expenditure on social development.

• Since 2013 Pakistan working on the 13th five year plan, china is working is now working on13th five year plan .Until march 2017 ,India had been following five year plan based development model. • Till 1980s, all the three countries had similar growth rate and per capita incomes.

DEVELOPMENT PATH OF CHINA: • The people's republic of china commonly known as china was established in1949.

• After its establishment under **one party rule**, all the sectors of the economy, enterprises and land owned and operated by individual, now were brought under control.

• **The great Leap forward (GLF**), campaign was initiated in 1958, aimed at industrializing the economy on the massive scale .People were encouraged to set up industries in the backyard.

• In the rural area, under **the commune system** people collectively cultivated lands.

• The GLF campaign met with many problems, severe drought caused havoc in china, killing many people.

• In 1965, **Mao** introduced **the great proletarian Cultural Revolution** (1966-76) under which students and professionals were sent to work and learn from the countryside.

• Reforms in china introduced in phases **in initial phases, reforms were initiated in agriculture, foreign trade and investment sectors and later on it industrial sector.**

• In the industrial sector, private sector firms and local cooperatives were allowed to set up industrial units. Govt. owned enterprises or public sectors inter prices were made to face competition from newly established public Sectors firms.

• **Under the system of dual pricing**, farmers and industrial units are required to buy and sell fixed quantity of inputs and outputs on the basis of prices fixed by the govt. and the rest were bought and sold at market prices.

• To attract the foreign investor, special economic zones were set up.

DEVELOPMENT PATH OF PAKISTAN:

• Pakistan follows the mixed economy model where private and public sectors co-existed.

• In the 1950s and 1960s, Pakistan introduced a regulated policy framework to industrialize her economy. The policy confined tariff protection for manufacturing of consumer goods with direct import Controls on competing

• The introduction of green revolution led to mechanization and increase in public investment in infrastructure in select areas.

• Nationalism of capital goods industries took place in1970s. Pakistan then shifted its policy orientation in the late 1970s and1980s when the major thrust areas were denationalization and encouragement of private sector.

• During this period, Pakistan received financial assistance from western countries. it also started receiving remittances in a big way from Pakistani workers settled in the middle east which help accelerate the country's economy growth and created favorable environment for new investments.

COMPERISON OF ECONOMY OF INDIA, PAKISTAN AND CHINA

DEMOGRAFIC INDICATORS: • China has the highest population closely followed by India. The population of Pakistan is very small near about one tenth of china or India.

• **Though china** is the largest nation and geographically occupies the largest area among the three nations, is **density is the lowest**.

• **The population growth** is the **highest in Pakistan** followed by India and china.

• The sex ratio is low and biased against female in all three countries.

• The **fertility rate** is also **low in china** and **very high in Pakistan**.

• Urbanization is high in china while India having 33% of its people living in urban areas.

SECTORAL CONTRIBUTION:

In all the three economies, the industry and service sectors have less proportion of workforce, but they contribute more in terms of output.

SETORAL DISTRIBUTION OFWORKFORCE (IN %) 2014-2015

Country	Agriculture	Industry	Service
INDIA	50	21	29
PAKISTAN	43	23	54
CHINA	28	29	43

HUMAN DEVELOPMENT: • The human development indices reflect a mixed situation.

• In2017, with a HDI value of 0.640, India is ranked at 130th position in the world.

• Pakistan stands at 150th position with HDI value 0.562.

• The HDI value for China is 0.752 and HDI rank is 86, which is much higher than India and Pakistan.

• Adult literacy rate in china is (95.12%) much higher than in India (74.04%) and Pakistan (58%).

• Chinas overall performance on human development has been noteworthy.

Conclusion: Compared to India, China is favorably placed in terms of human development. There have been improvements in the indicators of human development.