# INDIAN ECONOMY

## ... HIGHLIGHTS ...

* Exclusively prepared for TNPSC exams.
* Questions are taken from 6th to 12th samacheer books.

# Indian Economy

**( Prepared from Samacheer Kalvi Books 6th to 12th Std )**

## 1. Economics an Introduction

1. What is the first occupation known by men?

Agriculture

2. What is called as agriculture?

The basic needs of man are food, clothing and shelter. The food we eat like wheat, rice etc are cultivated in the land. The farmers cultivate food grains. This is termed as agriculture.

3. What is national income?

Agriculturist, laborers and employees help to improve the economy of the country. This is called as national income.

4. What is per capita income?

Income earned by individual is called as per capita income.

5. What is distribution?

The facilities like food, cloth and house given by government is called distribution.

6. What are the basic divisions of economics?

Production, Consumption and Distribution.

7. What is the place where buying and selling of goods happen?

Market

8. What is term given when people purchase commodities from the market to satisfy their requirements?

Consumption

9. What is trade?

The buying and selling of commodities is termed as trade.

10. Who are called as traders?

People who buy and sell things are called as traders.

11. Who are wholesale merchant?

People who buy and sell large quality of commodities is called wholesale merchant.

12. Who are retailers?

People who buy and sell in small quantities are called as retailers.

13. What is called as economic development?

As the demand increase there is increase in the production, consumption and distribution. This is called as economic development.

14. Who has received Nobel Prize for Economics from India?

Amarthya Sen

15. When does price for commodity increase?

When there is deficit for commodities there is rise in price.

16. When does price for commodity decreases?

When there is surplus in commodity there is decrease of price.

## 2. Factors of Production

1. Who is father of economics?

Adam Smith

2. Who said that `Economics is science of Wealth`?

Adam Smith

3. Book published by Adam Smith – "An enquiry into nation and causes of wealth of nation".

4. What determines national income?

The level of production of goods and services in the country determines the quantum of national income.

5. What is utility?

The satisfying power of wants is called as utility.

6. What are called as factor of productions?

Land, Labour, Capital and Organization.

7. What is the factor reward given for land?

Rent

8. Factor of Production Factor of Reward

- Land Rent
- Labour Wages
- Capital Interest
- Organization Profit

9. What is labour?

Labour refers to any work undertaken for securing income an income or reward. Such work can be done both physically and mentally. The work done by a cook is physical in nature and a work done by a teacher is mental in nature. The reward given for their work is called as wages.

10. What are the characteristics of labour?

Labour is perishable in nature, Labour is inseparable, Labor power differs from person to person, Labour is mobile and Individual labour has week bargaining power.

11. What was the example taken by Adam Smith for Division of Labour?

Making of pin.

12. What are the forms of capita?

Physical capital, money capital and human capital.

13. Who are called as entrepreneurs or organizer?

An organizer or entrepreneurs are the one who combines the different factors of production in the right proportion and imitates the process of production and bears the risk of uncertainties involved in it.

14. What is chain of production?

The movement of goods and services through the primary, secondary and tertiary sectors is referred as chain of production.

15. Which is India`s important occupation?

Agriculture

16. Which sector does Ship building occupies?

Secondary Sector

17. What is the percentage of people in USA working under tertiary sector?

80%

18. Which sector is called as service industry?

Tertiary Sector

19. How can we classify human`s business?

It is classified into three sectors such as primary, secondary and tertiary.

### 3. Money Savings and Investment

1. Who said `Money is that which money does'?

Professor Walker

2. What is the medium of exchange?

Money

3. What do the term `Money' means in Latin language?

Moneta. It is the sur name of Roamn Goddess 'junto'.

4. From does the word money been derived?

It is been derived from the term `Moneta'.

5. What are the functions of money?

Medium of exchange, measure of value, Store of value and standard of deferred payment.

6. When do we know the importance of money?

When there is deficit of money.

7. What is savings?

The portion of money that is not spent on consumption is called as savings.

8. What is investment?

Investment means addition to the existing production capacities.

## 4. Demand and Supply

1. What is demand?

Demand is desire to purchase and ability to pay for a commodity.

2. Who is consumer?

Demand comes from the people who buy commodities. And they are called as consumers.

3. What is supply?

Supply comes from the producers. Supply means the amount offered for sale at given price.

4. Supply comes from the producer and it usually means about the amount that the producer is willing to offer for a sale of a product at a given price.

5. Both the demand and supply depends on which factor?

Price

6. What are the factors influencing demand?

Production technology, prices of factor of production, prices of other products, number of producers, future price expectations, taxes and subsidies, non-economic factors like natural calamities, war and epidemics.

7. What is law of demand?

If price rises demand falls if demand rise price falls.

8. What is Marshall`s law of demand?

The greater the amount to be sold, the smaller must be the price at which it is offered. In other words the amount demand increases with a fall in price and diminishes with a rise in price.

9. What are the exemptions for demand law?

This law is not applicable for necessary goods like rice luxury goods like gold and diamond.

10. What is supply?

As price of commodity rises the quantity supplied is extended and as the price of commodity falls the quantity supplied is contracted. This is called as law of supply.

## 5. Equilibrium Price

1. What is equilibrium price?

The equilibrium price is where the supply of goods matches demand. When a major index experiences a period of consolidation or sideways momentum, it can be said that the forces of supply and demand are relatively equal and that the market is in a state of equilibrium.

2. How has Alfred Marshall classified time period?

He classified it into three types.

a. Market period or very short period

b. Short period and

c. Long period

3. What is short period?

During this period supply can be altered to some extent.

4. What is long period?

During this period supply can be altered fully.

5. What is market period or very short period?

During this period the time allotted for supply is very limited.

## 6. National Income

1. How are people classified?

People are classified into three types namely poor, rich and middle class people based on their individual income.

2. How are countries classified?

Countries are classified into two types as developed country and developing country based on their national income.

3. What is the measure for checking development of a country?

National Income

4. What is national income?

National income is measure of the total value of goods and services produced by an economy over a period of time, normally one year.

5. What is Gross National Product?

Commonly national income is called as Gross National Product or National Dividend. It is the total value of goods and services produced and income received in a year by domestic residents of a country.

6. What is Gross Domestic Product?

Gross Domestic Product is the total value of goods and service produced by the factor of production within the geographical boundaries of a country.

7. What tells about the value of output produced and income received in a year by domestic residents of a country?

Gross National Product

8. What is Net National Product?

Net National Product is arrived by making some adjustment with regard to deprivation. That is we arrive at NNP by deducting the value of deprivation from Gross National Product.

9. What is the formula for calculating NNP?

NNP = GNP (-) Deprivation

10. What is the indicator used to show the living standard of people in a country?

Per Capita Income

11. When there is increase in Per Capita income how does it affect the people?

When there is increase in Per capita income it result in increase of peoples standard of living.

12. What is per capita income?

It is obtained by dividing the national income by that of the population of the nation.

13. How is Per Capita income calculated?

Per Capita Income = Nation Income / Population

14. What is the per capita income of India as per the USA report?

$1670

15. Country Per Capita Income (in $)

Japan 38,894.47 $

America 52,194.90 $

England 41,602.98 $

16. How can we calculate National Income?

Product method, income method and expenditure method.

17. What is the main cause for miscalculation in national income?

Black Money

18. What is black money?

Black money is nothing but the unaccountable money. That is earned through illegal activities, illegal business and money through corruption.

19. In rural economy the transaction occurs informally. How is it called as?

Non –monetization

20. How does non-monetization affects our country?

It leads to miscalculation in the national income.

21. What are the activities ignored by National Income?

Domestic work, housekeeping, social service, volunteer activities and unpaid social services.

22. What are primary sectors?

Primary sectors include activities such as agriculture, forestry, fishing, mining and quarrying.

23. What are secondary sectors?

Secondary sectors include activities such as manufacturing industries, electricity, gas, water supply and construction.

24. What are service sector?

Service sector includes activities such as trade, hotel, transport, storage, communication, finance, insurance, real estate and social services.

25. What are the sectorial growth rates of National Income?

Primary Sector – 17.32%

Secondary Sector – 29.02%

Tertiary Sector – 53.66%

26. What is Laissez-faire policy?

It means non intervention of government.

27. What are roles of government?

Protective function, administrative function, social security function and economic functions.

## 7. Indian Economy after Independence

### 1] Indian Economy During British Period

1. What was the main core of Indian economy?

Village Economy

2. What was the percentage of people depending on agriculture in India?

60% of the population.

3. Where did trade and commerce flourish in India?

Urban centers

4. What was the important occupation of India after independence?

Textile

5. What was the most famous occupation of India?

Handlooms

## 2] India after Independence

6. Prime Minister Jawaharlal Nehru gave importance to agriculture, irrigation and power projects.

7. What is mixed economy?

Mixed economy is where both private and public sector co-exists.

8. To achieve progress in India Nehru decided to bring both the private sector and public sector together. This is called as mixed economy.

9. Who said the five year plan will result in fast growth of nation?

Jawaharlal Nehru

10. From which country did India got the idea of Five Year plan system?

Soviet Union

11. In which period did India establish five year plan period?

1950

12. Who was the head of five year plan?

President of India

13. What are the main scopes of Five Year plan?

- Increasing national income

- Reducing inequalities in income and wealth
- Elimination of poverty
- Providing additional employment
- Removing bottle necks in agriculture production and manufacturing sector.

14. Which council was established for seeking permission from state government for the five year plan?

National Development Council

15. Who is the head of National Development Council?

State government`s Chief Minister

16. How many five year plans has been completed in India?

11 Five Year plan and 12th Five year plan is going on now.

17. What was the period of 11th five year plan?

2007 to 2012

18. In which month did they start the 11th five year plan?

April 2007

19. What are the main objectives of 11th five year plan?

- Increasing public investment in irrigation, rural electrification and rural roads.
- To reduce subsidy in power and fertilizer
- Promoting agriculture research
- To ensure environmental protection
- Larger employment opportunity
- To develop rural infrastructure

- To abolish poverty
- To reduce dropout rate in primary schools

20. Which is the backbone of our nation?

Agriculture

21. What is rate of national income from agriculture?

20%

22. When was green revolution introduced in India?

1967

23. Who established green revolution?

Indian Council for Agriculture Research (ICAR)

24. What is green revolution?

It is using of High Yielding Varieties of seeds for growth of rice and wheat in large quantity.

25. Trough which measure has countries like India has growth in food production?

Green Revolution

26. In which sector India has got good development?

Food Production

27. Name some public sector units?

Naively Lignite Corporation, Bharath Heavy Electricals Limited, BSNL and Air India.

28. Which year has special significance in Indian economy?

Period of 1991 where New Economic Reform was introduced.

29. What were the New Economic Reforms?

Liberalization, Privatalization and Globalization.

30. Examples of cottage industries – handlooms and coir industries

31. What is the linkage of local market with that if the world's market?

Globalization

32. How many atomic power stations are there in India?

22

33. Which satellite discovered that there is water in moon?

Chandrayan 1 which was launched in 2008

34. Which was the first satellite launched by India?

Aryabhatta I – launched during 1975

35. What is the rank of India in case of Telecommunication?

10th Rank

36. Name some Information Technology of India?

Infosys, Wipro, TCS and Cognizant

37. What is the literacy rate of India according to 2011 census?

74.04%

38. What is the male literacy rate of India?

82.14%

39. What is the female literacy rate in India?

65.46%

40. What is the total literacy rate of India?

560.68 million

41. Which state has highest literacy rate?

Kerala (93.91%)

42. Which state has lowest literacy rate?

Bihar (63.82%)

43. What is the literacy rate of Tamil Nadu?

80.33%

44. What is the act formed for compulsory education for children below 14 years?

Right to Children Free and Compulsory Education Act 2009

45. What is the act which was formed for education for all?

Sarva Siksha Abyan

46. In order to improve secondary education the government passed a new act called as Rastriya Madhamic Siksha Abyan

47. What is the rank of India in case of Higher Education?

3rd Rank

48. Which the main governing body for Higher Education in India?

University Grants Commission

49. What is the rank of Tamil Nadu in India in case of Socio-economic development?

3rd

50. In Tamil Nadu during whose period did they find growth in the Primary Education?

Thiru.K.Kamaraj, the (Ex) Chief Minister

51. In providing higher education Tamil Nadu is being top most state in India.

52. What is the aim of Tamil Nadu government in the gross enrollment rate for higher education during 2020?

25%

53. Which is the most important occupation for people of Tamil Nadu?

Agriculture

54. Name some places where thermal power stations are there in Tamil Nadu?

Ennore, Tuticorin, Mettur, Basin Bridge and Naively

55. Name some places where hydel power stations are there in Tamil Nadu?

Mettur, Kundah, Periyar Dam, Kothayar Dam, Pykara, Singara and Moyar

56. Name some places where atomic energy is found in Tamil Nadu?

Kalpakkam and Koodankulam

57. Name some places where wind energy is found in Tamil Nadu?

Coimbatore, Kanyakumari, Tuticorin, Ramanathapuram and Thirunelveli

## 8. Economic Growth and Development

1. What is UDC?
   Under Developed Country
2. What is economic thought?

The history of economic thought deals with the origin and development of economic ideas and their interrelations.

3. Definition of Economic thought?

   In the words of Prof. Bell, “economic thought is a study of heritage left by writers on economic subjects over a period of about 2500 years ; and it freely draws upon all phases of human knowledge”.

4. What is necessary for understanding growth of economic theories and institutions?

   If we study ancient economic thought, we can have a proper understanding of the growth of economic theories and institutions.

5. What was the importance given by Hebrew?

   In their writings, they gave top priority for religion and ethics. And they gave importance to agriculture.

6. What do Hebrew deals with?

   The Hebrews had definite ideas on subjects such as usury (interest), just price, property rights and monopoly.

7. What was the ideology of Hebrew on lending money?

   The Hebrew thought was against lending of money on interest to fellow Hebrews. But they could lend money to strangers and get interest.

8. Why was Hebrew considered getting interest to unethical?

   In those days, as money was borrowed by the poor for consumption purposes, they thought that it was unethical to charge high rates of interest.

9. What was the ideas of Hebrew on businessmen?

   The Hebrews had many laws against false weights and adulteration. They wanted businessmen to charge a just price and they imposed ceiling on the profit margin.

10. What kind of civilization was followed by Hebrew?

    The Hebrew civilization was a rural and agrarian civilization.

11. When do Hebrew stop cultivation?

    The Hebrews did not cultivate the land every seventh year. They left it fallow. The object was to conserve the fertility of the soil.

12. What is Jubliee year?

The jubilee year was the 50th year. According to Jubilee year, the land sold to someone was to revert to its owner in the 50th year. Money was used during the Hebrew Period.

13. What is Sabbath?

The Sabbath was the weekly day of rest, relaxation and good living. In the words of Spiegel, " the institution of the weekend was a social invention that has no parallel in the civilizations of Greece, Rome or other ancient cultures". In short, we find that religion, ethics, law, economics and philosophy were all bound together.

14. What was considered to be important institution of ancient India?

Caste system

15. What was the important occupation in ancient time?

Agriculture

16. How is thirukural talking about economics?

- Thiruvalluvar's Thirukkural is a book of ethics and it deals with Dharma or Aram (ethics), Artha or Porul (Polity) and Kama or Inbam (Love). Valluvar's economic ideas are found mostly in the second part of the Thirukkural, the Porutpal or the part dealing with wealth.
- By Porutpal, Valluvar meant all that kautilya meant by Arthasastra.

17. What are the features of medival economic thought?

- The period from 476 A.D, which marked the fall of the Roman empire to 1453 A.D., the year in which the Turks captured Constantinople is generally regarded as the Middle Ages.
- The society of the Middle Ages was a feudal society. People in middle ages lived in a natural economy.
- Men lived largely in small and self- sufficient units.
- The Church, the Bible and Aristotle exercised a great influence on the life and thought of Middle Ages.

18. What is mercantilism?

The economic ideas and policies which were followed by European governments from the 15th century until the second half of the 18th century may be described as mercantilism

19. What is the view of mercantilism on wealth?

The mercantilists thought that the wealth of a nation could be increased by trade. And they wanted to have more wealth by increasing the stock of gold and silver.

20. What was the means for creation of strong state?

    Mercantilism was only economic means for the creation of a strong State.

21. Which is called as `policy power'?

    Mercantilism

22. Who was influenced by `Physiocracy'?

    Adam Smith, who is regarded as the Father of Economics was greatly influenced by the physiocrats

23. What do the term physiocracy means?

    The term 'physiocracy' means 'Rule of Nature'.

24. Who created concept of natural order?

    The physiocrats developed the concept of natural order. According to them, the natural order is an ideal order given by God. They believed that individual interests were identical with the interests of the society.

25. Who advocated laissez faire?

    Physiocrats

26. What is Quesnay?

    Quesnay, chief representative of physiocratic school explained how circulation of wealth took place in an economy in his "Tableau Economique" (The Economic Table) among 4 different classes: the productive class (farmers); the proprietory class; and the sterile class (all those engaged in non-agricultural occupations, e.g., merchants, domestic servants)

27. Name some economist from classical school of economics ?

    Adam Smith, David Ricardo, T.R.Malthus and J.S. Mill are the leading economists of the classical school.

28. When was historical school of economics dominant?

    The historical school was dominant in Germany during the second half of the 19th century.

29. What did the historical school advocates?

    The historical school advocated protection for new industries through tariffs.

30. Who was the founder of scientific socialism?

    Karl Marx (1818-1883) was the founder of scientific socialism.

31. What did Alfred Marshall state about economics?

    It was Alfred Marshall who pointed out that economics was on one side a study of wealth and on the other and more important side a part of the study of man.

32. What do the term institution includes?

    The term "institutions" includes customs, social habits, laws, ways of living and modes of thinking. For example, slavery is an institution. We celebrate certain days as festivals. That is also an institution.

33. Who is father of new economics?

    J.M. Keynes is considered the Father of New Economics.

34. How is economic growth defined?

    Economic growth has been defined by Arthur Lewis as "the growth of output per head of population".

35. What are the conditions of economic growth?

    According to Arthur Lewis, economic growth is conditioned by (1) economic activity, (2) increasing knowledge and (3) increasing capital.

36. What is underdeveloped country ?

    The terms "underdeveloped", "less developed", "backward", and "poor" and "developing" are generally used to refer to low income countries. The countries which have low standard of living because of their low per capita incomes are known as underdeveloped countries.

37. How are countries classified?

    . Countries are classified into developed and underdeveloped countries according to their per capita income

38. What are the characteristics of underdeveloped country?

    According to Meier and Baldwin, an underdeveloped country has six basic economic characteristics. They are :

    1) it is primary producing ;

    2) it faces population pressures ;

    3) it has underdeveloped natural resources ;

    4) it has an economically backward population ;

    5) it is capital deficient and

    6) it is foreign trade oriented.

39. What is vicious circle of poverty?

According to Ragnar Nurkse, low capital formation is one of the basic causes of poverty in these countries. Low capital formation leads to low productivity. Low productivity results in low income and low incomes result in low savings and low savings lead to low capital formation. Thus, it forms a vicious circle of poverty.

40. What is luxury for underdeveloped states?

For underdeveloped countries, laissez-faire policy is a luxury.

41. Which increase productivity of labours?

Education and health increase productivity of labour.

42. What are the Rostow`s stages of growth?

1. The traditional society;
2. The transitional society;
3. The take-off stage;
4. The mature stage and;
5. The age of high mass consumption

## 9. Population

1. What is population?

The term population refers to the whole number of people or inhabitants in a country or region.

2. What are the factors determining population?

The basic factors determining population growth are

1. Birth rate
2. Death rate
3. Migration

A. Out-migration (Emigration)

B. In-migration (Immigration)

3. Which has positive influence on population?

Birth rate has a positive influence on growth of population. Higher the birth rate, higher will be the growth of population.

4. What are the factors determining population?

The birth rate depends on the following factors:

- The age of marriage
- The rapidity of child birth
- Social customs and beliefs and
- Illiteracy and ignorance of controlling births.

5. What kind of influence do death rate has on population?

Lower the death rate, higher will be the population growth and vice versa

6. What is relationship between migration and population?

Out-migration will reduce population growth while in-migration will increase the population growth. Migration is not an important factor contributing to the population growth due to the restrictions imposed by different countries. Thus, the two major causes for the variations in population are birth rate and death rate.

7. How do population leads to economic development?

1. In a backward economy, population growth results in increase in supply of labour. This in turn results in the availability of cheap labour in the economy. Therefore, under a given technology with the availability of capital, production can be increased by increasing the labour use.

2. Population growth results in increased demand for products. Increased demand results in increased production, employment and income in the economy. As a result, the economy will develop.

3. Due to population growth, the supply of goods and services increases. Increased supply results in increased production, which in turn results in specialisation. Specialisation will induce technological improvements.

4. Increased demand and increased supply of products result in scarcity of resources, which induce technological improvements.

8. What is population explosion?

Population explosion means the alarming and rapid rate of increase in population.

9. What are the causes of population explosion?

1. High Birth Rate
2. Low Death Rate
3. Early Marriage
4. Social and Religious reasons
5. Poverty
6. Standard of living
7. Illiteracy

10. How is population explosion problem in economic development?

(1) Food Shortage

(2) Burden of unproductive Consumers

(3) Reduction in National and Per Capita Income

(4) Low savings and investment

(5) Reduction in Capital Formation

(6). Unemployment and Underemployment

(7) Loss of Women's Labour

(8) Low Labour efficiency

(9) More Expenditure on Social Welfare Programmes

(10) Agricultural Backwardness

(11) Underdeveloped Industries

(12) Financial Burden on Government

11. What are the steps for population checking?

(1) Couple Protection Rate (CPR) CPR should be increased, which means the percentage of couples using birth control or family planning methods should go up.

(2) Infant Mortality rate (IMR) IMR must be reduced further because when infants die in lesser numbers, there is an incentive to adopt small family norm by the people.

(3) Industrialisation of the country The burden of population on land must be reduced. Cottage and small scale industries must be developed in villages to provide employment to the maximum number of people. This leads to increase in standard of living which acts as a check on population growth.

(4) Increase in Female Literacy Rate and Education The educated people have a better and more responsible outlook towards the size of their families. They can understand the advantages of a small family and adopt family planning methods to reduce the family size. This will help in reducing the birth rate.

(5) Late Marriages Late marriages must be encouraged. At the same time, early marriages must be strictly checked. The minimum age of marriage for boys at 21 years and for girls at 18 years should be strictly followed in real life.

(6) Legal Steps Strict laws must be made and enforced to check early marriages and polygamy.

(7) Family Planning this is the most important measure to check the rapid growth of population. Family Planning means limiting the size of the family. The Family Planning Campaign should be a national movement. Education about family planning must be made common. People must be made aware of the different methods of birth control.

12. What is Malthusian theory of population?

1. The rate of growth of population is limited by the availability of the means of subsistence i.e. Food. If the means of subsistence increase, population also increases unless it checked.

2. Population increases at a faster rate than food production. In other words, while population increases in a geometric progression, food production increases in an arithmetic progression.

3. The preventive and positive checks are the two measures to keep the population on the level with the available means of subsistence.

13. What are the famous theories of population?

- Malthusian theory of population
- Optimum theory of population

14. What is census?

The term 'Census' can be defined as the process of collecting, compiling, evaluating, analysing and publishing the demographic economic and social data relating to all persons in a country or a well-delimited part of a country at a specified time.

15. Why is census important?

Census is very important to know

(1) The rate of growth of population

(2) The changes in the distribution of the population.

16. What are the details recorded in census report?

A. Total Population

B. Sex Composition

C. Rural versus Urban population

D. Age Composition

E. Density of Population

F. Literacy Rate

G. Urbanisation

H. Occupational Pattern

17. When was National wide Family programmed launched?

A nationwide family planning programme was launched in 1952.

18. What is the objective of population policy?

The main objective of the population policy is to ensure that there is reasonable gap between the fall of death and birth rates.

19. What is population policy?

Population policy refers to the efforts made by any Government to control and change the population structure.

20. What was the objective of National Population Policy 2000?

The National Population Policy (NPP) 2000 has the immediate objective of addressing the unmet needs of contraception, health infrastructure, health personnel and integrating service delivery for basic reproductive and child health care.

21. What is the medium objective of National population policy 2000?

It also lays emphasis on the medium term objective of bringing total fertility rates to replacement level by 2010. A Total Fertility Rate of 2.1 is known as replacement level fertility.

22. What are the measures to achieve stable population?

1. Reduction of infant mortality rate (IMR) below 30 per 1,00,000 live births
2. Reduction of maternal mortality rate (MMR) to below 100 per 1, 00,000 live births
3. Universal immunization
4. To achieve 80 percent deliveries in regular dispensaries, hospitals and medical institutions with trained staff
5. Access to information , containing AIDS, prevention and control of communicable diseases
6. Incentive to adopt two-child small family norm
7. Strict enforcement of Child Marriage Restraint Act and Pre-Natal Diagnostic Techniques Act
8. Raising the age of marriage of girls from 18 to 20
9. A special reward for women who marry after 21

## 10. Poverty and Unemployment

1. What are the major problem of development of a country?

Two major problems that the developing countries of the world face are mass poverty and mass unemployment.

2. Define poverty?

Poverty has been defined in a number of ways. The World Bank (1990) has defined poverty as "the inability to attain a minimal standard of living".

3. What are the types of poverty?

- Absolute poverty and
- Relative poverty

4. What is absolute poverty?

When people do not have adequate food, clothing and shelter, we say they are in absolute poverty.

5. What is relative poverty?

Relative poverty refers to differences in income among different classes of people or people within the same group or among people of different countries.

6. What is temporary poverty?

In countries like India, when there is poor rainfall, the crops fail and the farmers temporarily enter into a poverty sample. But when they are poor for long, then we call it chronic or structural poverty. For example, when agriculturists in many poor countries are dependent upon rain and when agriculture is marked by low productivity, we say farmers are in chronic poverty.

7. What is primary poverty?

Primary poverty refers to "families whose total earnings are insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency".

8. What is secondary poverty?

"Secondary poverty refers to a condition in which earnings would be sufficient for the maintenance for merely physical efficiency were it not that some portion of it is absorbed by other expenditure, either useful or wasteful such as drink, gambling and inefficient housekeeping."

9. What is rural poverty?

A majority of the people in rural areas are poor because they do not own assets like land and they work as agricultural labourers; their wages are low and they get work only for a few months in a year.

10. What is urban poverty?

The urban poor, on the other hand, work for long hours but they get low incomes. They are employed mostly in the unorganized or informal sector

11. Who are sub employed?

Sub-employed are those

1) Who work part- time but want full - time work;

2) Family heads working full time who do not earn enough to bring their families over the poverty line and

3) Discouraged workers who no longer seek work.

12. What is the factor for extending poverty?

(1) The average level of national income and

(2) The degree of inequality in its distribution.

13. What is correlated with poverty?

In many countries, poverty is correlated with caste and race. The scheduled caste and tribal people in India and the Blacks in the USA are classic examples

14. What is poverty line?

Poverty Line refers to the minimum income, consumption, or, more generally access to goods and services below which individuals are considered to be poor. The poverty line is the expenditure level at which a minimum calorie intake and indispensable non-food purchases are assured.

15. How is poverty in India calculated?

Dandekar and Rath estimated the value of the diet with 2,250 calories as the desired minimum level of consumption.

While the Planning Commission accepted Rs.20/- per capita per month (i.e. Rs.240/- p.a.),

ccording to P.D.Ojha, the percentage of those below the poverty line in rural sector increased from 52 percent in 1960-61 to 70 percent in 1967- 68.

B.S.Minhas by taking per capita annual consumption expenditure of Rs.240/- as the barest minimum concluded that nearly half of the rural population (50.6 percent) was living below the poverty line in 1968. P

P.K.Bardhan's study concluded that the percentage of rural population below the poverty line increased from 38 percent in 1960-61 to 54 percent in 1968-69.

16. Which commission used the concept of augumented poverty line?

7$^{th}$ finance commission

17. What are the causes of poverty?

1. Unemployment and underemployment: Even during the year in which there are good rains, agricultural labourers do not get work throughout the year.

2. Population pressures : Because of population pressure, there are many dependents per every earning member. And there is the problem of disguised unemployment. On a farm, there may be work for only four persons. But six or seven persons may be there on the farm. The marginal productivity of the extra persons is almost zero.

3. Indian agriculture is marked by low productivity. So majority of those engaged in agriculture are poor.

4. A majority of people in rural areas do not have enough assets, especially land. The main reason for this is the concentration of land in the hands of a few families. The regional variations in the incidence of poverty are also high. And migration of people from rural to urban areas is also one of the causes of urban poverty.

18. Discuss some poverty alleviation programmes?

1. Land Reforms Land reforms legislation has been passed by the state governments, which aim at improving the economic conditions of agricultural landless labourers. For instance, with the abolition of the Zamindari system, the exploitation associated with the system has been removed. Tenancy Laws have been passed in most of the states for protecting the interests of the tenants and helping them to acquire possession over the lands they cultivate. Every state has passed the necessary legislation fixing ceiling on agricultural holdings by which the maximum amount of land which a person can hold has been fixed by law. The surplus lands thus acquired were to be distributed to the landless labourers and small peasants.

2. Jawahar Gram Samridhi Yojana (JGSY) It was introduced inApril 1999 as a successor to Jawahar Rozgar Yojana on a cost sharing basis of 75 : 25 between the Union and States.

3. National Social Assistance Programme (NSAP) It was launched onAugust 15, 1995 to provide social assistance benefits to poor households affected by old age, death of primary bread winner or need for maternity care.

4. Employment Assurance Scheme (EAS) It was started on October 2, 1993 in 1778 backward blocks in drought prone, desert, tribal and hill areas. It was expanded to cover all the 5,488 rural blocks of the country. It gave wage employment to the rural poor. In September 2001, it was merged into new Sampoorna Gramin Rozgar Yojana along with Jawahar Gram Samridhi Yojana.

5. Pradhan Mantri Gramodaya Yojana (PMGY) It was introduced in the Budget for 2000-2001 with an allocation of Rs. 5,000 crore. Its focus is on health, primary education, drinking water, housing and rural roads. Common Property Rights in grazing lands, wastelands, forests and water resources were made available to the rural people in the past. They have been cancelled in the recent past due to commercialisation and privatisation of these rural community resources in the country. 34

6. Swarna Jayanti Shahari Rozgar Yojana (SJSRY) Urban self-employment and urban wage-employment are the two special schemes under it. It substituted in December 1997 various programmes operated earlier for urban poverty alleviation. It is funded on 75: 25 basis between the Union and the States. The expenditure under this scheme was only Rs. 45.5 crore at the revised stage. It was Rs. 39.21 crore in 2001-02 and an allocation of Rs. 105 crore was provided for 2002-03 (Economic Survey, 2002-03, p.217).

7. Integrated Rural Development Programme (IRDP) The concept of an Integrated Rural Development Programme was first proposed in the central budget for 1976-77, and a beginning was made in this regard. This programme was intended to assist rural population to derive economic benefits from the development of assets of each area.

19. What is full employment?

Full employment refers to a situation in which all the workers who are capable of working and willing to work get an employment at reasonable wages. It does not imply that all adults have jobs.

20. What is unemployment?

Unemployment refers to a situation in which the workers who are capable of working and willing to work do not get employment.

21. What is the criteria for employed?

A person working 8 hours a day for 73 days of the year is regarded as employed on a standard person year basis.

22. How is unemployment estimated?

1. Usual Principal Status unemployment: It is measured as number of persons who remained unemployed for a major part of the year. This measure is more appropriate to those in search of regular employment e.g., educated and skilled persons who may not accept casual work. This is also referred to as 'open unemployment'. 35

2. Weekly Status unemployment: It refers to the number of persons who did not find even an hour of work during the survey week.

3. Daily Status unemployment: It refers to the number of persons who did not find work on a day or some days during the survey week.

23. What are causes of unemployment?

1. High Population growth:

2. Insufficient Rate of Economic Progress

3. Absence of employment opportunities in activities other than agriculture

4. Seasonal Employment

5. Joint Family System

6. Increasing turnout of students from Indian Universities

7. Slow Developing of Industries

24. What are the measures to solve unemployment?

1. A Change in the pattern of investment

2. Encouragement to small enterprises as against big enterprises

3. Problem of Choice of technique

4. Encouragement of New Growth Centres in Small Towns and Rural Areas

5. Subsidies on the Basis of Employment

6. Reorientation of Educational Policy

7. Underemployment in Rural Areas

## 11. National Income

1. What is the standard of measure of income and output?

The standard measures of income and output are

- Gross National Product (GNP),
- Gross Domestic Product (GDP),
- Gross National Income (GNI),
- Net National Product (NNP), and
- Net National Income (NNI).

2. Who estimated National Income in India?

In India, the Central Statistical Organisation has been estimating the national income.

3. What is the indicator on national income?

Indicators of national income are GDP or GNP

4. What is the indicator of standard of living or welfare?

National income per person or per capita income is often used as an indicator of people's standard of living or welfare.

5. What is national income?

National income is a measure of the total value of the goods and services (output) produced by an economy over a period of time (normally a year). It is also a measure of the income flown from production, and/or the sum total of all the spending involved for the production of output.

6. What is the definition of national income by Marshall?

"The labour and capital of the country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial, including services of all kinds… This is the net annual income or revenue of the country, or the national dividend."

7. Name some definition of national income?

- Irving Fisher: "The national dividend or income consists solely of services as received by ultimate consumers, whether from their material or from their human environment."
- National Income Committee of India,: " National income estimate measures the volume of commodities and services turned out during a given period counted without duplication."
- Paul A. Samuelson: " Gross national product (GNP) is the most comprehensive measure of a nation's total output of goods and services. It is the sum of the dollar (money) value of consumption, gross investment, government purchase of goods and services and net exports".

8. What are the basic concepts of national income?

- Gross National Product Gross National Product (GNP) is the total value of output (goods and services) produced and income received in a year by domestic residents of a country. It includes profits earned from capital invested abroad.
- Gross Domestic Product Gross Domestic Product (GDP) is the total value of output (goods and services) produced by the factors of production located within the country's boundary in a year. The factors of production may be owned by any one – citizens or foreigners.
- GNP – Net income earned from abroad = GDP Thus, GDP measures income from where it is earned rather than who owns the factors of production.

9. Expand NNP?

Net National Product

10. How is NNP arrived?

- Net National Product (NNP) is arrived at by making some adjustment, with regard to depreciation, in GNP.
- GNP – Depreciation = NNP

11. What is Net domestic product?

- Net domestic product (NDP) is also arrived from GDP by making adjustment with regard to depreciation in the same way described above.
- (NDP is calculated by deducting depreciation from GDP)

- GDP-Depreciation = NDP

12. What is per capita income?

- Per capita income (or) output per person is an indicator to show the living standards of people in a country. If real PCI increases. it is considered to be an improvement in the overall living standard of people.
- PCI is arrived at by dividing the GDP by the size of population. It is also arrived by making some adjustment with GDP.
- PCI = -------------GDP-------------------------------------
  Total number of people in a country

13. What is GDP?

GDP indicates productive capacity of an economy.

14. What is GNP?

GNP is a crude indicator for living standard.

15. How is measure based on current prices done?

The measure based on current price uses the ongoing market prices to compute the value of output

16. How is constant price computed?

As the national income at 'constant price' is computed based on the real worth of the purchasing power of income, it is also called as 'real national income' or national income in 'real' terms.

17. Why is national income important?

1. To measure the size of the economy and level of country's economic performance.

2. To trace the trend or speed of the economic growth in relation to previous year(s) as well as to other countries.

3. To know the structure and composition of the national income in terms of various sectors and the periodical variations in them.

4. To make projection about the future development trend of the economy.

5. To help government formulate suitable development plans and policies to increase growth rates.

6. To fix various development targets for different sectors of the economy on the basis of the earlier performance.

7. To help business firms in forecasting future demand for their products.

8. To make international comparison of people's living standards.

18. What is circular flow of income?

- The circular flow of income is explained with a simplest model consisting business (firms or producers) and public (households or consumers).
- The public own the productive resources (i.e. factors of production namely land, labour and capital).
- Business sector or producers employ the factors of production to produce the goods and services. Such goods and services are bought by the public.
- Thus public own the factors of production and provide them to producers.
- The producers employ the factor inputs to produce output of goods and services, which is bought by the consumers (public).
- For the employment of factor services, the public receive the factor income namely rent (for land), wages (for labour) and interest (for 44 capital).
- This income flows back from the public to the business sector as consumption expenditure to buy the goods and services.

19. What are the methods of calculating national income?

There are three different methods of calculating national income. They are

1. Product or Output Method
2. Income Method
3. Expenditure Method

20. What are the income included for income method?

- Wages and salaries
- Income of self-employed
- Profits and dividends of business corporations
- Interest
- Rent
- Surplus of government enterprises
- Net flow of income from abroad

21. What are the essential components of expenditure method?

- C = consumption expenditures
- I = domestic investment
- G = government expenditures
- X = exports of goods and services
- M = imports of goods and services
- NR = net income receipts from assets abroad
- The sum of all these aggregate expenditure provides us the measure of national income.

- GDP = E = C + I + G + (X-M)

22. What are the identities of national income?

- NNP = GNP - Depreciation
- NNI = NNP -Indirect taxes
- PI = NNI - Retained earnings,
- corporate taxes and interest on public debt
- PDI = PI - Personal taxes.
- Where, GNP - Gross National Product NNP - Net National Product NNI - Net National Income PI - Personal Income PDI - Personal Disposable Income

23. What are the problems in calculating national income?

- Black Money
- Non-Monetization
- Growing Service Sector
- Household Services
- Social Services
- Environmental Cost

24. What is the trend in national income?

**TABLE 3.1 (a). New Revised 2004-05 based NNP and per capita NNP at Factor Cost**

| Year | At 2004-05 prices | | At current prices | |
|---|---|---|---|---|
| | Net National product at Factor cost (₹ crore) | Per capita NNP (₹) | Net National product (₹ crore) | Per Capita NNP (₹) |
| 1950-51 | 255,405 | 7,114 | 9,464 | 264 |
| 1970-71 | 541,867 | 10,016 | 41,294 | 763 |
| 1990-91 | 1,202,305 | 14,330 | 471,618 | 5,621 |
| 2000-01 | 2,074,858 | 20,362 | 1,762,358 | 17,295 |
| 2004-05 | 2,629,198 | 24,143 | 2,629,198 | 24,143 |
| 2005-06 | 2,878,410 | 26,025 | 2,999,792 | 27,123 |
| 2006-07 | 3,150,904 | 28,083 | 3,500,396 | 31,198 |
| 2007-08 | 3,451,829 | 30,354 | 4,076,878 | 35,825 |
| 2008-09 | 3,664,388 | 31,754 | 4,705,447 | 40,775 |
| 2009-10 | 3,966,408 | 33,901 | 5,411,104 | 46,249 |
| 2010-11 (R) | 4,293,585 | 36,202 | 6,406,834 | 54,021 |
| 2011-12 (R) | 4,573,328 | 38,048 | 7,434,965 | 61,855 |
| 2012-13 (R) | 4,728,776 | 38,856 | 8,255,978 | 67,839 |
| 2013-14 (PE) | 4,920,183 | 39,904 | 9,171,045 | 74,380 |

## 12. Economic Planning

1. Which was the era of planning?

20$^{th}$ century

2. How was planning in socialist country?

Religion

3. Name some countries which had capitalist system?

U.S.A and U.K

4. Which system was followed in 19$^{th}$ century?

Laissez faire state.

5. Which was the first country to practice planning?

Soviet Russia

6. Give the definitions of economic planning?

- According to Lionel Robbins, "strictly speaking, all economic life involves planning…. To plan is to act with a purpose, to choose and choice is the essence of economic activity".
- In the words of Barbara Wootten, "Planning may be defined as the conscious and deliberate choice of economic priorities by some public authorities".

7. What is the main need of plan in undeveloped countries?

They plan for economic growth and development

8. What is the reason for emergence of economic planning in underdeveloped countries?

Another main reason for the emergence of planning in underdeveloped countries

is the failure of the market mechanism

9. What are the cases of Laissez Faire?

1. Under Laissez faire, income is not fairly distributed. As a consequence, less important and less urgent goods are produced for the wealthy people while the poor lack basic goods like education, health, housing, good food and ordinary comforts. Under such a situation, the State can control economic activity by means of planning and reduce inequalities of income and wealth.

2. The market economy is a victim of trade cycles. And there will be alternating periods of prosperity and depression. And during depression, there will be bad trade, falling prices and mass unemployment. So there is need for state intervention. By means of proper planning, the State can control trade cycles as they did in the case of former Soviet Russia

10. What are the problems of planning in backward economy?

- Planning is much more necessary and much more difficult to execute in backward than in advanced countries.
- First of all, "planning requires a strong, competent and incorrupt administration" (Arthur Lewis). But most of the economically backward nations have weak, incompetent and corrupt administration.
- Further, they have democratic planning. So they cannot do things in a quick manner as was done in former Soviet Russia.
- They have to go slow. And agriculture is the main stay of their economies. Since agriculture depends upon natural factors which are uncertain, there is a lot of uncertainty about their agricultural programmes.
- Over–population and low capital formation are some other important problems of planning in underdeveloped nations.

11. What is the nature of planning?

The nature of planning is determined by the type of economic system – capitalism, socialism, mixed economy - in which it is practised.

12. What is the difference between economic planning in capitalist and socialist system?

There will be partial planning in a capitalist economy, (e.g., U.K.) but a socialist economy is a totally planned economy (e.g., Former Soviet Russia). In a mixed economy like India, both public sector and private sector play important roles in economic planning.

13. How long is plan period?

It is usually 5 years

14. Who takes control of planning period?

Planning commission

15. What is the first step of plan?

The first step in drawing up a Plan is to determine a growth target for an economy over the Plan period.

16. How are sectors divided for plan?

The planners divide the economy into a number of sectors such as agriculture, industry and service sector

17. What are the types of planning?

**1. Centralized Planning :** In a socialist economy (eg. Former Soviet Russia), there was centralized planning; it was planning by direction

**2. Planning by Inducement :** In a democracy, Planning is done by inducement.

For example, ours is a mixed economy where there is a public sector and a private sector.

**3. Indicative planning :** In this type of planning, the government invites representatives of industry, and business and discuss with them in advance what it proposes to do in the Plan under question and indicates to them its priorities and goals.

18. How are economic plans divided?

Economic plans can also be divided into midterm plans, shorterm plans and perspective plans.

19. What is rolling plan?

Unlike the Five Year Plan with fixed targets, in the case of the rolling plan, at the end of each year, targets will be fixed by adding one more year to the Plan. That is, without fixed targets for all the five years, depending upon the performance of the Plan in the current year, targets will be fixed for one more year. Like this, it will go on a continuous basis. That is the idea behind the rolling plan.

20. When was national planning commission set up in India?

The National Planning Commission was set up in India in 1950

21. What was the major aim of Indian planning commission?

A major function of the Planning Commission was to "formulate a plan for the most effective and balanced utilization of the country's resources".

22. When was the first five year plan done?

1951-56

23. What are objectives of five year plan?

1. To raise the national income. This is known as Growth Objective ;

2. To increase investment to a certain level within a given time ;

3. To reduce inequalities in the distribution of income and wealth and to reduce concentration of economic power over resources ;

4. To expand employment opportunities ; and

5. To remove bottlenecks in agriculture, manufacturing industry (especially

capital goods) and the balance of payments

24. What is the strategy adopted in Indian planning system?

The strategy adopted in Indian Planning is often referred to as 'Mahalanobis strategy'. In this strategy, emphasis was laid on rapid industrialization with priority for basic and heavy industries.

25.What was the purpose of First five year plan?

The First Five Year (1951-56) stated that the purpose of planning in India was to initiate "A process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life". The Second Five Year Plan (1956- aimed at rapid industrialization with particular emphasis on the development of basic and heavy industries.

26. What was the purpose of second five year plan?

It was during the Second Plan period, the Government embraced the goal of democratic socialism. The Third Five Year Plan aimed at self – reliant and self – generating economy. After the Third Plan, we had a "Plan Holiday".

27. What are the three annual periods?

The Fourth Plan did not commence immediately after the Third Plan. We had three Annual Plans (1966-69).

28. What is the Fourth five year plan?

The Fourth Five Year Plan (1969 – 74) had two basic objectives:1. Growth with stability, and 2. Progressive achievement of selfreliance.

29. What is the fifth five year plan?

The Fifth Plan (1974-79) focused on growth with social justice. The slogan during the period was Garibi Hatao (Removal of Poverty). So, the two main objectives of the Fifth Plan were removal of poverty and attainment of self–reliance.

30. What are the main objectives of planning in India?

The main objectives of Planning in India may be grouped under four heads: Growth, modernization, self–reliance and social justice.

31. What is Hindu rate of growth?

In the first 30 years of planning, the trend rate of growth of national income was 3.5 percent. Eminent economist Raj Krishna called it the Hindu rate of growth.

32. What is modernization?

The term 'modernization' refers to a number of structural changes in the economy.

33. What is social justice?

By social justice, we mean equal opportunities for all. That means, improving the standard of living of the poorest groups and reduction in inequalities in income and wealth.

34. When was ninth five year plan started?

The Ninth Plan covered the period from 1997 to 2002.

35. What are the things considered the ninth five year plan?

The Ninth Plan considered (1) Quality of life of citizens, (2) generation of productive employment and (3) regional balance as areas of special importance for State intervention.

36. What is the main concentration of $10^{th}$ five year plan?

1. Reduction of poverty by 5 percentage points by 2007 and 15 percentage points by 2012.

2. Gainful employment to the addition to the labour force during the Plan period;

3. Universal access to Primary education by 2007 ;

4. Reduction in the decadal rate of population growth between 2001 to 2011 to 16.2 percent ;

5. Increase in literacy to 75 percent by 2007

6. Reduction in infant mortality rate (IMR) to 45 per 1000 live births by 2007 and to 28 by 2007;

7. Reduction of maternal mortality ratio (MMR) to 2 per 1000 live births by 2007 and to 1 by 2012.

8. Increase in forest and tree cover to 25 percent by 2007 and to 33 percent by 2012 ;

9. All villages to have access to potable water by 2012 ; and

10. Cleaning of all major polluted rivers by 2007.

37. How many five year plans has been completed?

Now we are in the final stage of 12th five year plan

## 13. Agriculture

1. Which is the backbone of our economy?

Agriculture

2. What is the major source of livelihood in our economy?

Agriculture

3. What are the Role of agriculture?

1. Contribution to National Income: Agriculture contributes even now a major share of the national income in India

2. Major source of Livelihood: The main source of livelihood is agriculture. Six out of every ten persons in India depend upon agriculture.

3. Provider of Employment: Agriculture provides employment and work to an overwhelming majority of the Indian masses. In villages, about seventy per cent of the people earn their livelihood from cultivation and allied agro-industries.

4. Industrial development: Agriculture provides raw materials to the industries. Cotton and Jute textile industries, sugar, vanaspathi and plantations – all these depend on agriculture. Many of our small scale and cottage industries like handloom weavings, rice husking, coir,khadi etc., depend upon agriculture for their raw materials.

5. International Trade: Indian agriculture plays an important role in the country's international trade. The main exported agricultural commodities are tea, oil cakes, fruits and vegetables, spices, tobacco, cotton, coffee, sugar, raw wool and vegetable oils.

6. Capital Formation and Investment: The major part of production assets of the country is in the form of agricultural assets like land, irrigation facilities, tractors, agriculture implements, ploughs, pump sets and storages. Since agriculture contributes about 25 percent of the national income, this sector is the primary source of savings and hence capital formation for the economy.

7. Food and Fodder

In India, agriculture meets almost the entire food requirements of the people. Agriculture also provides fodder to sustain livestock whose number runs to several crores.

8. Economic Planning

Agriculture is the backbone of the Indian economy and prosperity of agriculture can also largely stand for the prosperity of the Indian economy. Importance of agriculture in the national economy is indicated by many facts. For example, agriculture is the main support for India's transport system, since railways and roadways secure bulk of their business from the movement of goods. Internal trade is mostly in agricultural products. Agricultural growth has direct impact on poverty eradication.

9. International Ranking

At the global level, Indian agriculture has ranked in certain commodities. In the case of groundnuts, India stands first in the world, for rice production it ranks second and in the case of tobacco it occupies third rank in the world.

4. What is the contribution of agriculture in economic developed

1. Product contribution i.e., making available food and raw materials.

2. Market contribution i.e., providing the market for producer goods and consumer goods produced in the non-agricultural sector.

3. Factor contribution i.e., making available labour and capital to the nonagricultural sector and

4. Foreign Exchange contribution.

5. What is the relationship between agriculture and non agriculture product?

1. Production linkages

2. Demand linkages and

3. Savings and investment linkages.

6. What are the factors of agriculture production?

1. Demographic factors

2. General factors

3. Institutional factors and

4. Technologies factors

7. What are the general factors in agriculture?

a) Excess or surplus labour in Agriculture

b) Discouraging Rural climate

c) Inadequate non-farm services

8. What are the two main factors causing institution factor of agriculture?

a) Size of holdings

b) Defective land tenure structure

9. What are technology factors?

a) Poor inputs and techniques

b) Inadequate irrigation facilities

c) Indebtedness of the farmers

d) Inadequate Research

9. List out remedial measures for agriculture?

1. Co-operative joint farming should be launched on a national scale
2. Check on the population growth
3. Arrangements for better manures
4. Use of better seeds
5. Alternative arrangements for irrigation facilities.
6. Improvements in agricultural credit
7. Reclamation of waste lands
8. Consolidation of holdings
9. Use of new implements

10. Soil conservation and intensive cultivation

11. Improvement in marketing system

12. Encouragement to agricultural research and plant protection.

10. What are the factors affecting cropping pattern?

- Natural Factors
- Size of Holdings
- Price of Agricultural Products
- Availability of Agricultural Inputs
- Social Factors
- Government Policy:
- Knowledge about Cropping Pattern
- Crop Insurance Scheme
- Government Efforts

11. What are the measures that can be formulated by government in case of cropping pattern?

(i) To distribute high yielding variety seeds through government agencies,

ii) To make chemical fertilizers available at concessional rates

iii) To provide the facilities of storage and transportation regarding agricultural products,

iv) To make the marketing system of agricultural products effective so that the farmers may get fair price for their products.

12. What is agricultural holding?

Agricultural holding is the main determinant of the quantity, quality and structure of agricultural production. Agricultural holding means the size of land owned and cultivated by a farmer. It may be defined on the basis of ownership, (agricultural holding means the size of land owned by a farmer) and on the basis of cultivation. Agricultural holding means the size of land cultivated by a farmer at a particular time.

13. What is consolidation of holding?

A major cause of low agricultural productivity is the fragmentation and subdivision of holdings which has resulted in uneconomic holdings. Besides the tenancy system and the ownership pattern, the programme of land reforms covers the task of consolidating the scattered holdings of the small farmers so as to make them compact units in one place.

14. What is land reform?

Land reforms refer to all kinds of policy-induced changes relating to the ownership, tenancy and management of land.

15. What are the objectives of land reforms in India?

i) Restructuring of agrarian relation to achieve egalitarian social structure.

ii) Elimination of exploitation in land relations

iii) Actualization of the goal of 'land to the tiller'

iv) Improvement of socio-economic conditions of the rural poor by widening their land base.

v) Increasing agricultural production and productivity

vi) Facilitating land based development of rural poor

vii) Infusion of a greater measure of equality in local institutions.

16. What are the land reform measures of India?

i) Voluntary adoption facilitated by incentives provided by the State through measures like co-operative farming and consolidation of holdings.

ii) Voluntary adoption supplemented by statutory compulsion made possible by the enactment of legislation as in the case of consolidation of holdings.

iii) Compulsion exercised through different legislative measures, as with the abolition of intermediaries', tenancy reforms, ceilings on holdings etc.

17. What is agricultural marketing?

Agricultural marketing means the economic process under which agricultural goods are exchanged. Process of agricultural marketing determines the value of agriculture products in terms of money and delivers them to their final consumer.

18. What are the importance of agricultural marketing?

1) Provides raw materials for industries.

2) Provides food grains for the entire population and fodder for cattle.

3) Provides a base for expansion of internal market of a country.

4) Helps in the expansion of international market also when marketable surplus found in excess of the demand of a country, fetches a considerable amount of foreign exchange.

19. What is marketable surplus?

- Marketable surplus may be defined as the residual of produce left with the producer after meeting his requirements for family consumption, farm needs etc. It also means the portion of produce left for sale. Marketable surplus, which is genuine and not artificial or forced, is the fountain source of not only agricultural development but also of overall economic development. It is the real surplus generated by agricultural sector.
- It can be measured as:

(Old stocks + Current output) – (Consumption + waste + inventories for next season)

20. What are the determinants of marketable surplus?

The various variables that determine marketable surplus are

i) Size of holding

ii) Production of crop

iii) Size of family and

iv) Non-farm income.

v) In addition to this, the quantity of marketable surplus will also depend on an efficient marketing system.

21. What are the importance of marketable surplus?

Rising marketable surpluses are the real surpluses, which determine the real income, real savings, real capital formation and real investment and have great importance in raising the welfare in inflation free economies. Fall in the real marketable surpluses in less developed economies, raise the prices of not only foodstuffs but also of other wage goods and invariably the real levels of living of working class may go down.

22. What are the aspects of food problem in India?

1. Quantitative Aspects: Quantitative aspects of food problem are related to the demand and supply of food grains. Production of foodgrains has been less than their demand for a long period. Though in the last few years, domestic production of food grains has increased considerably, yet the country has to import foodgrains in large quantities from time to time.

2. Qualitative Aspects: Qualitative aspect of food problem is related to nutritive elements in food. Proteins, vitamins, minerals, carbohydrates etc. are the important elements of a balanced diet but these elements are not available in sufficient quantities to most of the Indian people. According to experts, a person should get 3,000 calories per day but on an average 2100 calories are available to the people in India. Most important reason of this situation is the poverty of most of the people in India.

3. Distributive Aspects

Distributive aspects of food problem are related to the system of marketing of gricultural products. Due to defective system of distribution, most of the persons do not get foodgrains in sufficient quantities, at right time, and at fair prices. Anti-social elements create artificial shortage of these products in market and sell them at unreasonable prices. Most important reason for this situation is administrative sluggishness.

4. Economic Aspects

Economic aspects of food problem are related to purchasing power of people. National income and per capita income of India are very low. The result is that most of the people in India are not in a position to afford the purchase of nourishing foodgrains in sufficient quantities.

23. What are the causes of food problem in India?

Important causes of food problem in India are as follows:

i) Rapid growth of population.

ii) Low agricultural productivity.

iii) Natural calamities.

iv) Development of commercial crops.

v) Changes in the consumption pattern.

vi) Increase in income demand for food.

vii) Economic development and urbanisation.

viii) Hoarding and black – marketing.

24. What is PDS?

Government adopted public distribution system to ensure fair distribution of food grains at controlled prices. Under the system, fair price shops are opened. Each such shop is envisaged to serve a population of about 2000. As on 31st March, 1998, there were about 4.50 lakh fair price shops (Ration shops) in the country. These shops supply rice, wheat, sugar, edible oils and kerosene to people in certain quantity at controlled prices.

25. What is buffer stock scheme?

Government started a scheme of maintaining buffer stock of important food grains to ensure their regular supply throughout the year. Whenever there is a rise in their prices, government releases them from buffer stock to stabilise prices. Buffer stock operations are normal these days and they have become a normal part of the food policy of Government of India.

26. What are the main constituents of PDS?

- Fair Price Shops or Ration Shops
- Consumers Co-operative Stores
- Shops selling Cloth at Controlled Prices
- Super Bazaars
- Kerosene Retailers
- Commodities of Distribution

27. What are the essential commodities?

Six key essential commodities viz., wheat, rice, sugar, imported edible oils, kerosene and soft coke

28. What is the responsibility of supply of commodities?

i) Food Corporation of India for wheat, rice and other food grains,

ii) Indian Oil Corporation and Ministry of Petroleum for Kerosene,

iii) Coal India Limited for soft coke,

iv) National Textiles Corporation, and

v) State Trading Corporation for imported edible oils.

29. What is agricultural price policy?

Agricultural price policy means a policy to determine, regulate and control the prices of agricultural products.

30. What are the objectives of agricultural price policy?

i) To determine, regulate and control agricultural prices;

(ii) To prevent violent fluctuations in agricultural prices;

(iii) To provide fair prices for agricultural products to the farmers;

(iv) To provide quality goods to households at reasonable prices;

(v) To maintain an appropriate relationship and balance between the prices of foodgrains and non-foodgrains;

(vi) To integrate prices between various states.

31. What are the price policy of the government?

1. Minimum support prices

2. Procurement Prices

3. Issue Prices

4. Retail Prices

5. Buffer Stock Operations

32. What is agricultural productivity?

Agricultural productivity is the ratio of agricultural inputs and output. It indicates the efficiency with which the inputs have been utilized. It indicates how much production has been obtained from a given amount of inputs.

33. How can we calculate agricultural productivity?

Agricultural Productivity =Total Production/Amount of Inputs Employed

Productivity of Land =Total Production/area of Land

Productivity of Labour =Total Production/No of Workers Employed

Productivity of Capital =Total Production/Total Capital Employed

## 14. Industrial Sector

1. What is industrialization?

Industrialization means widespread development of manufacturing vast quantities of goods, employing a large number of people, promoting international market, characterization of specialized skill, science, technology, increasing application of electrical, electronic, computer technologies to enhance productivity.

2. What are the important reasons for industrial development?

Raising National Income:

Vigorous industrialization ensures a solid and sustained base to increase the national income of an economy. A larger share of national income of industrially advanced economies comes from industrial sector.

Employment Opportunities:

Availability of surplus labour and unemployment are the major challenges of development strategy. Industrialization uses the productive resources of the economy and expands employment opportunities which in turn will improve the income and wellbeing of the people.

Higher Living Standard:

The increasing national income through industrialization helps to meet the demands of the people for industrial products. It is also expected to improve the standard of living of the people by increasing their per capita income. This is possible only through a well designed growth process.

Promoting Exports:

Industrially advanced countries are able to export more and earn large foreign exchange. The income elasticity of industrial goods is very high than that of the primary goods. Hence, exports can be promoted to earn adequate foreign exchange by introducing advanced industrial goods.

Capital Formation:

Expanding employment opportunities, income generation through rapid industrialization will also lead to increased saving and capital formation in the economy. This will help to diversify and expand the industrial base further through higher investment.

**Technological Progress**

Industrial sector will also promote technological progress through its course of development and expansion. The technological advancements and their dynamic contents provide the required elements to strengthen the economy as a whole.

3. How was industrial development during pre-independence?

The pre-independent India, mostly characterized by backwardness, did not have an organized industrial sector

4. Which was beginning of industrial development?

The Second World War made small beginning in the industrial development.

5. Which made shift in industrial development?

There had been a marked shift in the advancement of the industries after the implementation of five year Plans in the independent India.

6. Which aimed at self-sufficiency?

The Indian strategy of development planning, inspired by economic nationalism, aimed at achieving self-sufficiency under the direction of public sector.

7. What were the long term objective of five year plan?

Maximum production and full employment, and the attainment of economic equality were the long term objectives declared by the First Five Year Plan.

8. What is public economy?

Public sector means the part of the economy that is publicly owned as distinct from those owned by private individuals or firms.

9. Which places significant role in GDP?

Public sector is playing a significant role in terms of its contribution to GDP in many developed as well as developing countries.

10. What are the public sector contribution of industrialization?

- It has promoted small scale and ancillary industries as a result of the backward and forward linkages.
- It has promoted agro-based industries and supported agriculture sector by providing many inputs like fertilizer, power, etc.
- It has created a sound infrastructural base to help the private sector.
- Public sector has exerted a greater influence on the welfare of the people through its vast employment opportunities.

11. What are the major components of industries?

1. Basic goods such as cement, chemicals, fertilizers, etc.

2. Capital goods such as machineries, machine tools, and engineering goods.

3. Consumer goods such as cycle, television, refrigerators, bikes, cars, food articles, soft drinks, etc.

4. Intermediate goods such as paint, plywood, pipe & tube, ancillary parts, etc.

12. Which is the key industry?

Steel industry, being the key industry, forms the base for almost all other industries. Manufacturing, mining, construction, power, transport and other infrastructures and service sectors are all using steel as their inputs.

13. What is SAIL?

The Steel Authority of India (SAIL) was established in mid-seventies to extend support regarding raw materials and coordinate the development of many steel industries.

14. Which is the oldest industry?

Textile industry is one of the oldest as well as the largest industries in India. It has spread to almost all parts of the country. It has been well organized in terms of the labour employed and turnover of the output.

15. What are the major problems of industry?

The major problems of the industry are non-availability of enough raw material (cotton), increasing input costs, low profitability of small mills, and high cost of modernization.

16. Which is the emerging industry?

Cement is one of the emerging major industries with greater development potential. Cement, being the key raw material of the construction industry, plays a significant role in the country's current phase of development. The industry is almost self-sufficient in terms of raw materials, machinery, technology and increasing local demand.

17. Which is the important agro based industry?

Sugar industry is an important agro-based industry. Its contribution to the economy is manifold. This industry has been the source of rural development through employment and income generation, and increased transport and communication facilities. In addition, sugar industry also provides input for some other industry. It is also earning from abroad through exports.

18. What was the first five year plan contribution to industrialization?

The First Five Year Plan (FFYP) 1951-1956 has made a major step towards industrialization has been attributed to Industries (Development and Regulation) Act 1951.

19. What was the contribution of Second Five Year plan contribution on industrialization?

The Second Five Year Plan (SFYP) made a marked shift in the industrial policy and development of the country. The main aim of the second plan was to accelerate the growth of the economy through rapid industrialization.

20. What is LPG?

Liberalization, Privatization and Globalization

21. What are the specific reforms related to the restructuring of public sector enterprises?

The specific reforms related to the restructuring of public sector enterprises are as follows.

(i) To encourage private participation in the economy. The areas of industry reserved for the public sector has been considerably reduced from 17 to 8. In particular, telecommunication, power, air transport, petroleum, sectors were opened for private sector.

(ii) The disinvestment of shares of some public sector enterprises in order to raise the resources and to encourage private participation in the public sector enterprises.

(iii) Public enterprises which are sick, will be referred to the Board of Industrial and Financial Reconstruction for rehabilitation or reformulation.

(iv) An improvement of performance and accountability has to be ensured through new rules and only potentially viable public sector undertakings (PSUs) can be revived.

(v) Budgetary support to sick public sector industries will be reduced drastically.

(vi) Only potentially viable PSUs can be revived and others will be closed down.

22. What is the objective of disinvestment?

- The objective of disinvestment is to mobilise enough resources by way of withdrawing from some sector in order to invest in priority areas like particularly social sectors.
- The mobilized resources are used to repay the public debt of the government to pay for various VRS schemes, labour retrenchment and redeployment schemes under the exit policy.
- The other objectives include the promotion of private sector, enhancement of efficiency and competition.

23. What is liberalization?

Liberalism means the order of the market or capitalist economy relying predominantly on competition and private sector. It envisages free trade, full convertibility and non-discriminatory tariffs.

24. What is privatization?

Privatization policy has been adopted as a part of the liberalization. Privatization is defined as transfer of ownership from public sector to private sector. It is the process of reducing the role of State or public sector in the economic activities of a country.

25. What are the integrated strategies devised by the Eighth Plan for public sector restructuring?

1. Restructuring involving modernization, rationalization, product-mix changes, selective exit and privatization.

2. Increase in autonomy and performance accountability through the system of Memorandum of Understanding (MOU) between the administrative ministries and central public enterprises launched in the Seventh Plan.

3. Changes in management practices at specific enterprises level to promote efficiency, dynamic leadership, resourcefulness and innovation.

4. A major effort by state governments to promote reforms in public sector.

5. Technology upgradation through an integrated R & D effort and import of technology.

6. Re-orientation of approach in ministries and other government agencies regarding liberalization and dismantling of regulations.

25. What are the of the recent public policy initiatives in India to control environmental pollution?

1. Formulation of National Environmental Policy

2. Setting up of National Clean Development Mechanism (CDM) Authority as per Kyoto Protocol.

3. Reengineering environmental clearance process

4. Revising the Coastal Regulation Zones (CRZ)

5. Developing a National Chemical Management Profile for the country.

26. What is the need for financial requirement?

The financial requirement of industries may be for the short term to meet 'working capital' requirements

27. What are the sources of industrial finance?

In India, as in many other countries, industrial finance is available under two broad sources viz. external and internal sources.

28. What is internal source?

Internal sources of industrial finance consist of funds mobilized from own sources as in the case of small scale units, paid-up capital in the form of equity shares subscription as in the case of large units, own surpluses and reserve funds of industries.

29. What are external sources?

External sources of industrial finance include raising of borrowed finance from sources such as public deposits, equity capital, debenture issues and availing loans from commercial banks and other financial institutions

30. What are the financial institutions?

At National Level

1. Industrial Finance Corporation of India (IFCI)
2. Industrial Development Bank of India (IDBI)
3. Industrial Credit and Investment Corporation of India (ICICI)
4. Industrial Investment Bank of India (IIBI)
5. National Small Industries Corporation (NSIC)

At State Level

1. Tamil Nadu Industrial Investment Corporation (TIIC) (First of its nature to be set up in India in 1949)

2. State Financial Corporations (SFC)

3. State Industrial Development Corporations (SIDC)

At Intermediate Level

1. Unit Trust of India (UTI)

2. Life Insurance Corporation of India (LIC)

3. General Insurance Corporation of India (GIC)

31. What are the roles of small scale industries?

- Small Scale Industries (SSIs) play an important role in the economic development of a country.
- Their role in terms of production, employment generation, contribution to exports and facilitating equitable distribution of income is very critical.
- The small scale sector consists broadly of
  1) The traditional cottage and household industries viz., khadi & village industries, handicrafts, handlooms, sericulture and coir industries; and
  2) Modern small scale industries.

32. What is modern small scale industries?

The modern small scale industry is mostly defined in terms of the size of investment and labour force.

33. What is SSI?

The Industries (Development & Regulation) Act 1951 defines SSI having less than 50 workers with the aid of power or less than 100 workers working without the aid of power. The more formal definition is in terms of the fixed assets less than Rs. 35 lakh (1981). In 1991 the limit was raised to Rs. 60-75 lakh. The Ninth Plan fixed the ceiling at Rs. 100 lakh and the Tenth Plan increased to it to 50 corers in the case of hi-tech and export oriented sectors.

34. What are the contributions of SSI?

1. The contribution of SSIs to the manufacturing sector and GDP as a whole is significant in terms of its share in total value added.

2. SSI performs a very significant role in generating employment opportunities in a sustainable manner.

3. SSI can play a role in mitigating the problem of imbalance in the balance of payment accounts through its export promotion.

4. While the large scale industries are expected to increases the inequities of income and concentration of wealth, SSI is expected to help widespread equal distribution of income and wealth.

5. SSI may provide opportunities to a large number of capable and potential entrepreneurs who are deprived of appropriate opportunities.

6. It can help to release scarce capital towards productive use.

7. SSI can reap the benefits of lean production and can find new cost-efficient techniques of lean production.

8. As small units can use resources more efficiently to the full capacity without any wastage, they may have higher allocative efficiency.

9. As the element of risk is minimum in small scale sectors, more resources will be employed by large number of labour force.

35. What are the problems of SSI?

SSIs are facing many problems. The following are some of their major problems.

a) Scarcity of inputs

b) Inadequate capital

c) Marketing

d) Under-utilization of capacity

e) High cost of production

36. What are the government policies of SSI?

1. Having realized the importance of small scale industries to the Indian econmy, the government has supported the SSI through various policy measures since independence.

2. The appointment of Karve Committee by the Planning Commission in 1955 was the first major effort towards the improvement of small scale industries.

3. During the second Five Year, a Japanese team of experts studied the organisation of SSIs in India and made many recommendations including the setting up of industrial estates in large numbers to promote small scale industries.

4. The policy of reservation of items for manufacturing in small scale industries was introduced in 1967. This has received a statutory banking in 1984.

5. A policy package for SSI has been announced in 1991 with the primary objectives of imparting more utility and growth impetus to SSIs.

6. The Tenth Plan announced a policy package on the basis of the recommendations made by S. P. Gupta's Study Group. It includes policies regarding

a) Enhancement of excise duty exemption limit

b) Increase in loan limits

c) Credit facilities

d) Enhancement of investment limit

## 15. Banking

1. What is most used form of bank?

The name 'bank' is usually used in the sense of commercial bank

2. From where do the word bank derived?

The word 'bank' seems to have originated from the Germanic world 'banck' which means a joint stock fund or heap. It is possible that the word has also been derived from the French word 'banque' and the Italian word 'banco'. The Italian word 'banco' refers to a bench at which the money changers or mediaeval bankers used to change one kind of money into another and transact their banking business.

3. What was the public banking institution?

The first public banking institution was The Bank of Venice, founded in 1157. The Bank of Barcelona and the bank of Genoa were established in 1401 and 1407 respectively.

4. What are the early stages of banks types of institutions?

i) The merchant banker, who was primarily a trader. He accepted customer's money and kept it under safe custody.

ii) The money lender, who lent his surplus money to the needy persons on deriving some interest payment.

iii) The gold smith, who accepted the valuables like gold and diamond of the customers and kept it under his safe custody. It will be returned to the customer on demand and interest will be collected for that.

5. What are the various definition of banks?

- Dr.L. Herber and L. Hart define the banker, "as one who in the ordinary course of business honours cheques drawn upon him by persons from and for whom he receives money on current accounts".
- Chamber's Twentieth century Dictionary defines a bank as an, "institution for the keeping, lending and exchanging etc. of money".
- According to Crowther, "The banker's business is to take the debts of other people to offer his own in exchange, and thereby create money".
- Prof. Kent defines a bank as, "an organisation whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure".

6. What are the role of bank in economic development?

1) Removing the deficiency of capital formation

2) Provision of finance and credit

3) Extension of the size of the market

4) Act as an engine of balanced regional development

5) Financing agriculture and allied activities

6) For improving the standard of living of the people

7. What is commercial bank?

A commercial bank is an institution that operates for profit

8. What is the traditional function of commercial bank?

The traditional functions of a commercial bank relate to the acceptance of deposits from the public and provision of credit to different sectors of the economy

9. What are the functions of commercial bank?

1. Accepting or attracting deposits

a) Savings deposits

b) Demand deposits

c) Fixed deposits

2) Advancing of loans

a) Cash credit

b) Provision of overdraft facilities

c) Discounting bills of exchange

3) Creation of money or credit

4) Other functions

a) Transfer of funds

b) Agency functions

c) General utility services

10. What is central bank?

The banking system of a country can work systematically in coordinated manner, only if there is an apex institution to direct the activities of the banks. Such apex institution is popularly known as 'central bank'. The central bank of the country is an autonomous institution, entrusted with powers of control and supervision.

11. What is Bank of France?

The central bank of France called 'Bank of France' was founded in 1800.

12. What are various definition of central bank?

A central bank has been defined in terms of its functions. The following are some of the definitions given by economists.

According to Smith, "the primary definition of central banking is a banking system in which a single bank has either complete control or a residuary monopoly of note issue".

H.A. Shaw defines a central bank, "as a bank which controls credit". In the words of Hawtrey "a central bank is that which is the lender of the last resort".

According to Samuelson, "a central bank is a bank of bankers. Its duty is to control the monetary base and through control of high-powered money to control the community's supply of money.

13. What are the difference between central bank and commercial bank?

1. The central bank is the apex institution of the monetary and banking system of the country. A commercial bank is only a constituent unit of the banking system and a subordinate to the central bank.

2. While the central bank possesses the monopoly of note-issue, commercial banks do not have this right.

3. The central bank is not a profit making institution. Its aim is to promote the general economic policy of the government. But, the primary objective of commercial banks is to earn profit for their shareholders.

4. The central bank maintains the foreign exchange reserves of the country.The commercial banks only deal in foreign exchange under the directions of the central bank.

5. The central bank is an organ of the government and acts as its banker and the financial advisor, whereas commercial banks act as advisors and bankers to the general public only.

14. What are the functions of central bank?

1. Regulator of currency

    i) Ensuring uniformity of the notes issued and a proper control over the supply of money can be exercised.

    ii) Bring stability in the monetary system and creates confidence among the public.

    iii) Government is able to earn profits from printing currencies.

2. Banker, Agent and Adviser to the Government

3. Custodian of cash Reserves of commercial banks

4. Custodian and Management of Foreign Exchange reserves

5. Lender of the last resort

6. Clearing Function

7. Controller of credit

15. What are the quantitative credit control methods?

1) Bank Rate (or) Discount Rate Policy

2) Open Market Operations

3. Variable Reserve Ratio

16. What are qualitative credit control method?

a) Margin Requirements

b) Regulation of consumer credit

c) Rationing of Credit

d) Direct Action

e) Moral suasion

f) Publicity

17. What are the commercial banks in India?

a) The State Bank of India

b) The seven associated banks of State Bank of India.

c) Twenty nationalized Banks.

d) Indian joint stock commercial banks

e) Foreign banks functioning in India

f) Regional Rural Banks.

18. What is the need of nationalization of bank?

The most important benefit of nationalization of commercial banks was the achievement of homogeneity and strength as well as cohesion in the banking structure of India, affording a better environment for effectively implementing banking and monetary policies of the government.

## 16. Foreign Trade

1. What is globalization?

The term "Globalization" means the integration of the economy of each country with the world economy.

2. What are the trends in globalization?

1) Spread of international trade.

2) Increasing migration of people.

3) Increasing flow of money or means of payments.

4) More capital flows.

5) Increased flow of finance capital.

6) Emergence of more and more transnational companies and multinational companies.

7) Increasing trade of technology between different countries.

8) Rapid spread of print, electronic and communication media.

9) Growth in trade and production of services of all kinds – including education.

3. Name some multilateral organization?

The multilateral organizations like World Bank and International Monetary Fund (IMF).

4. What is NEP?

New Economic Policy

5. What is the main objective of NEP?

The main objective of NEP has been to achieve a higher level of economic growth.

6. What is the need of foreign investment?

Foreign investment was supposed to bring technology, marketing enterprise, managerial techniques and new possibilities of import promotion. For promoting foreign investment in high priority industries and advanced technology, it was decided to provide approval for direct foreign investment upto 51% of foreign equity (earlier 40% in such industries).

7. How are foreign investment policy classified?

1) Choice of Product: The number of products in which foreign investment is freely permitted has been significantly increased.

2) Choice of Market: The foreign investors are free now to compete with the domestic producers in the Indian market.

3) Choice of Ownership Structure: In most cases, the foreign investor is free to own a majority share in equity.

4) Simplification of Procedures: Foreign direct investment (FDI) flows through three different routes

8. What is the second route of foreign investment?

The second route for foreign direct investment is from multinational companies on their Indian partners who want to invest in an industry outside these 35 sub-sectors or when an FDI holding or more than 51% is sought, permission has to be taken from the Secretariat of Industrial approvals (SIA) or the Foreign Investment Promotion Board. (FIPB).

8. What is the third route of foreign investment?

The third route is investment by non-resident Indians.

9. Which is important for development mix?

Technology is an important ingredient of the development mix.

10. What is technology transfer?

Developing countries are generally characterized by technological backwardness and a slow pace of technological progress. Transfer of technology from the developed to the developing countries is a necessary measure to speed up the pace of the economic development and modernization process.

11. What are the methods of technology transfer method?

1. Training or Employment of Technical Export
2. Contracts for supply of machinery and equipment and
3. Licensing agreements.

12. Where is trade evoluted?

From barter to money economy.

13. What is trade?

Trade is simply the exchange of commodities which takes place at different levels.

14. What is barter system?

The earliest form of trade was probably barter in which one type of good was exchanged for another good.

15. What was the problem of barter system?

The main inconvenience of barter was the necessity for double coincidence of wants.

16. Give an example for barter system?

For example, a person has a cow and he wants to exchange cow for rice. Another person who has rice does not want a cow but he wants a horse. In this case, the transaction cannot take place, because there is no double coincidence of wants.

17. What is the fundamental of man`s invention?

‘Money is one of the most fundamental of all man’s inventions.

18. What is money?

Money acts a medium of exchange, a measure of value, a store of value and a standard of deferred payments. Thus barter economy has given place to money economy.

19. What process of exchange was followed before invention of money?

Before the introduction of paper money, any commodity that was generally demanded was chosen by common consent as a medium of exchange. For example, people living by sea-shore chose shells as medium of exchange, in cold countries people used skins of animals and fur; in tropical countries, elephant tusks, plumage of birds and tiger teeth were used as medium of exchange

20. Who followed metallic money?

European merchants adopted the practice of carrying proper receipts showing their title to metallic money, which they had kept with well-known goldsmiths for safe custody

21. What is retail trade?

The type of trade with which most people are familiar is retail trade, in which shopkeepers sell goods to individual consumers for money.

22. How do countries differ?

Countries differ in respect of climatic conditions, availability of cultivable land, forests, mines, mineral products, labour, capital technology and entrepreneurial skills etc. Given their diversities, no country has the potential to produce all the commodities at the least cost.

23. Who gave theory of comparative advantage?

David Ricardo

24. What is theory of comparative advantage?

- The theory of comparative advantage just explains such advantages of free trade.
- David Ricardo (The Principles of Political Economy and Taxation 1817) shown that trade without barriers can be beneficial for two countries if one is more efficient at producing goods or services needed by the other.
- What matters is not the absolute cost of production, but rather the ratio between how easily the two countries can produce different goods.
- Thus, according to the theory of comparative advantage, if countries specialize in producing what they are most efficient, then they can trade these goods for those produced most efficiently by other country.

25. How does foreign trade contribute to economic development?

i) It explores means of procuring imports of capital goods, which initiates the development process.

ii) It provides for flow of technology, it allows an increase in factor productivity.

iii) It generates pressure for dynamic change through

a. competitive pressure from imports,
b. pressure of competition for export markets, and
c. a better allocation of resources.

iv) Exports allow fuller utilization of capacity, increased exploitation of economies of scale, separation of production patterns from domestic demand, and increasing familiarity with absorption of new technologies. These, in turn, help increase the profitability of the domestic business without any corresponding increases in price.

v) Foreign trade increases worker's welfare. It does so at least in four ways:

a. larger exports translate into higher wages;

b. because workers are also consumers, trade brings them immediate gains through cheaper imports;

c. It enables most workers to become more productive as the goods they produce increase in value;

d. trade increases technology transfers from industrial nations to UDCs and the transferred technology is biased in favour of skilled labour;

e. Increased openness to trade has been strongly associated with the reduction of poverty in most developing countries.

26. What are the conditions that are favorable for developing economies to employ foreign trade?

i) Increasing spread to globalization translates into larger movement of goods and services across the nations.

ii) Continuing reallocation of manufacturing activities from industrial economies to developing economies offers ample opportunities to expand trade not only in goods, but also in services, which are becoming increasingly tradable.

iii) Trade is intertwined with another element of globalization: the spread of international production networks.

iv) Growth of trade is firmly buttressed by international institutions of long standing. The WTO, built on the legacy of the GATT, aims to create a commercial environment more conducive to the multilateral exchange of goods and services.

v) In recent years there have been substantial reductions in trade policy and other barriers inhibiting developing country participation in world trade. Lower barriers have contributed to a dramatic shift in the pattern of developing country trade-away from dependence on commodity exports to much greater reliance on manufactures and services. In addition, exports to other developing countries have become much more important.

27. What is IMF?

International Monetary Fund (IMF).

28. What are the objectives of IMF?

1) To promote international monetary cooperation

2) To promote stability in foreign exchange rates;

3) To eliminate exchange control

4) To establish a system of multilateral trade and payments

5) To set right the disequilibria in the balance of payments.

28. What are the functions of IMF?

1) Functions as a short term credit institution.

2) Provides machinery for the orderly adjustments of exchange rates.

3) Acts as a reservoir of the currencies of all the member countries from which a borrower nation can borrow the currency of other nations.

4) Functions as a sort of lending institution in foreign exchange. It grants loans for financing current transactions only and not capital transactions.

5) It also provides machinery for altering sometimes the par value of the currency of a member country.

6) It also provides machinery for international consultations.

7) Provides technical experts to member countries having BOP difficulties and other problems.

8) Conducts research studies and publishes them in IMF Staff papers, Finance and development etc.

29. What is the structure of IMF?

- The highest authority of the fund is the Board of Governors.
- It consists of Executive Board, a Managing Director, a council and staff with its headquarters in Washington, U.S.A.
- There are ad hoc and standing committees appointed by the Board of Governors and Executive Board.
- The Board of Governors and the Executive Board are decision-making organs of the fund. The decisions are binding on the fund and its members.

30. Where do financial resources comes from?

The bulk of its financial resources comes from quota subscriptions, besides, selling gold, borrowing from central banks or private institutions of industrialized countries.

31. Name some credit facilities?

1) Buffer stock Financing Facility (BSFF)

2) Extended Fund Facility (EFF)

3) Supplementary Financing Facility (SFF)

4) Structural Adjustment Facility (SAF)

5) Enhanced Structural Adjustment Facility (ESAF)

6) Compensatory and contingency Financing Facility (CCFF)

7) Systematic Transformation Facility (STF)

8) Emergency structural Adjustment Loans (ESAL) 9) Contingency credit Line (CCL)

32. What are the components of trade?

1. Volume of trade

2. Composition of trade and

3. Direction of trade.

33. What is volume of trade?

It refers to size of international transactions.

34. What are the parts of import in India?

- Capital goods,
- Raw materials and
- Consumer goods

35. What are the compositions of exports in India?

i) Exports of traditional items and

ii) Exports of non-traditional items.

36. What are the major exports of India?

1. OECD countries (Belgium, France Germany, U.K. North America, Canada, USA, Australia and Japan). Our exports which constituted 53.5 percent of the total exports in 1990-91 increased to 55.7 percent in 1999 - 2000.

2. OPEC countries (Iran, Iraq, Kuwait, Saudi Arabia etc.). Our exports which constituted 5.6 percent of the total exports in 1990-91 increased to 10.0 percent in 1999-2000.

3. Eastern Europe (GDR, Romania, Russia etc.). Our exports which constituted 17.9 percent in 1990-91 decreased to 3.1 percent in 1999-2000.

4. Other LDC's (Africa, Asia, Latin America). Our exports constitute 16.8 per cent in 1990-91, increased to 28.2 percent in 1999-2000.

37. What is balance of payment?

Balance of payments means a systematic record of all the economic transactions of a country with the rest of the world during a given period, say one year. It throws light on the international economic position of a country.

38. What is GATT?

The General Agreement on Tariffs and Trade (GATT) was a multilateral trade treaty between countries to regulate international trade and tariffs in accordance with specific rules, norms or code of conduct. GATT was set up in 1948 in Geneva to follow the objectives of free trade in order to encourage growth and development of all member countries.

39. What are the objectives of GATT?

1) Expansion of international trade;

2) Increase of world production by ensuring full employment in the participating nations.

3) Development and full utilization of world resources; and

4) Revising standard of living of the world community as a whole

40. What are the fundamental principles of GATT?

1) Trade should be conducted in a non-discriminatory way;

2) The use of quantitative restrictions should be condemned; and

3) Disagreements should be resolved through consultations.

41. What are the methods of GATT?

1) Most favoured Nation clause

2) Quantitative restrictions on Imports

3) Tariff negotiations and Reduction of Tariff

42. What is WTO?

Seven rounds of negotiations occurred under the GATT and the eighth round known as "Uruguay Round" started in 1989 and concluded in 1994 with the establishment of the World Trade Organization (WTO) in 1995.

43. What are functions of WTO?

1. Administering WTO trade agreements.
2. Forum for trade negotiations.
3. Handling trade disputes.
4. Monitoring national trade policies.
5. Technical assistance and training for developing countries.
6. Cooperation with other international organizations.

44. What is IBRD?

The International Bank for Reconstruction and Development (IBRD) better known as World Bank was set up in 1944. Since IMF was designed to provide temporary assistance in correcting balance of payments difficulties, an institution was needed to assist long-term investment purposes. Thus IBRD was established for promoting long term investment loans on concessional terms

45. What are the functions of IBRD?

1) To assist in the reconstruction and development in the member countries by providing capital support.

2) To promote private foreign investment.

3) To promote growth of international trade in the long run and improve Balance of Payments of member countries.

4) To arrange for loans through for small and large projects.

46. What is SAP?

Special Action Programme (SAP) was started in 1983 to strengthen IBRD's ability to assist member countries in adjusting to the current economic environment.

47. What is SAF?

The Structural Adjustment Facility was introduced in 1985 in order to reduce the balance of payments deficits of its members while maintaining or regaining their economic growth.

48. What are the conditions of lending?

Conditions for lending

1. An efficient regulating mechanism for ensuring transparent policies and depoliticised environment.

2. Adequate risk management.

3. Provision for long-term finance.

4. Increase in the share of the private sector in the country's GDP

49. What IFC?

International Finance Corporation (IFC)

50. Expand IDA?

International Development Association (IDA)

51. What is MIGA?

The Multinational Investment Guarantee Agency (MIGA)

## 17. Human Resource Development

1. What is HRD?

The term 'Human Resource Development' (HRD) is used with different meanings in different contexts. According to F.H. Harbison, human resources are "the energies, skills, talent and knowledge of people which are, or which potentially can or should be applied to the production of goods or the rendering of useful services".

2. What is the classification of HRD?

(1) Those which measure a country's stock of human capital, and

(2) Those which measure the additions to this stock.

3. What are categories that can improve individual capabilities?

They are

(1) health facilities and services

(2) on – the – job training (including apprenticeship),

(3) formal education,

(4) study programmes for adults (e.g., Non-formal education) and extension programmes in agriculture and

(5) migration of individuals and families in search of jobs.

4. What are the Harbison and Myers human resources indicators?

1. Number of teachers (first and second levels) per 10,000 population ;

2. Engineers and scientists per 10,000 population ;

3. Physicians and dentists per 10,000 population.

4. Pupils enrolled at first – level (primary) education as a percentage of the estimated population aged five to fourteen inclusive ;

5. The adjusted school enrolment ratios for first and second levels combined.

6. Pupils enrolled at second level (secondary) education, as a percentage of the estimated population aged fifteen to nineteen inclusive….

7. Enrolment in third – level (higher education) as a percentage of the age group twenty to twenty four

5. Which measures tells about the orientation of higher education?

1. The percentage of students enrolled in scientific and technical faculties in a recent year ; and

2. The percentage of students enrolled in the faculties of humanities, fine arts and law in the same year.

8. How do HRD classifies countries?

1) Underdeveloped,

2) Partially developed,

3) Semi- advanced and

4) Advanced

9. How can the level of economic development studied?

The level of economic development can be studied by making use of the following indicators.

1. Gross National Product (GNP) per capita in United States dollars ;

2. Percentage of the active population engaged in agricultural occupation ;

3. Public expenditures on education as a percentage of national income ; and

4. The percentage of the total population in the age group five to fourteen inclusive.

10. How can we classify theories of human development?

(1) Manpower approach

(2) Social demand approach and

(3) Rate of return approach.

11. What is manpower approach?

- The manpower approach to educational planning assumes that manpower with different levels and types of education is essential to attain a certain target growth rate of GNP.
- Then, the target is divided into different sectoral contributions to GNP. In a given year, the GNP is divided into different sectors and manpower structure in each of the sectors is analysed.
- Then the needed manpower with different levels and types of education is estimated.
- Death, retirement and migration are taken into account to estimate the necessary manpower. From the additional manpower requirements, enrolment figures are worked out.
- But the post – manpower forecasts proved that the estimates are far away from actual requirements.
- Moreover, this approach to educational planning does not say anything about the method of financing education.

12. What is social demand approach?

Social demand approach for education can be studied by making use of the social rate of return analysis

13. What is Rate of return approach?

- If we assume education as investment, then we may look at it as individual investment and social investment.

- Under conditions of perfect competition, individual investment would be undertaken if the internal rate was greater than the market rate of interest.
- But today education and health are largely in the public sector.
- The social investment criterion is that resources are to be allocated to levels of education and years of schooling so as to equalize the marginal "social" rate of return on educational investment (Mark Blaug).
- It may be noted that only pecuniary (monetary) values are taken into account while calculating the social rate of return.
- But the economic case for state education is generally made on the ground that external or indirect benefits of education exceed the direct personal benefits to those who are educated.
- But non-pecuniary returns to education and externalities are usually left out in the estimates of social rate of return. This is a limitation of this approach.

14. Describe about Indian Educational system?

- The Indian education system is marked by inequalities.
- There are differences in the rates of literacy between rural and urban population, between men and women, between backward and non- backward castes, between states and between districts within a state.

15. What is the problem with the educational sector?

One of the basic problems of educational sector is under – investment.

16. What is the secret behind Japan economic development?

One of the secrets of the rapid economic development of Japan is the emphasis it laid on primary and vocational education and the allocation of huge financial resources to these sectors.

17. What is the main factor that is leading Tamil Nadu to have good growth in educational system for age group of 6yrs to 11yrs?

(1) Easy accessibility of schools ;

(2) Awareness among parents about the value of education ;

(3) Rising real per capita income ;

(4) Implementation of Chief Minister's Nutritious Noon Meal Scheme and

(5) A number of inducements and concessions offered by the Government in the form of free supply of books, free bus passes and so on.

18. What is DPEP?

District Primary Education Programme (DPEP) : The DPEP has been introduced with the object of achieving the goal of universal primary education. It focuses on reducing gender disparities in education

19. What is measure for non formal education and adult literacy in Tamil Nadu?

1. Total Literacy campaign (TLC),

2. Post – Literacy campaign and

3. Continuing Education

20. Discuss on technical education?

- So far as technical education is concerned, self – financing colleges dominate the scene. More than 87 percent of the students study in self-financing colleges.
- Though this goes against the equity principle, the self-financing colleges grow in number. Only the non – poor manage to find places in these colleges.
- These colleges do not promote the goal of equal opportunities for all. Of late, self-financing colleges are trying to make inroads into professional education (eg. Medical colleges) also.

21. What is special health programme?

- The Government proposed to implement from 1999 a special school health programme called Vazhvoli Thittam (which literally means light of life Scheme, referring to good health).
- Under the scheme, a field officer from the health department will visit schools once in a week and examine the children.
- If necessary he will take them to a Primary Health Centre for treatment.
- To make this scheme effective, teachers are also trained in the symptoms of the disease so that they can report to the medical officers visiting the school.
- They can also teach subjects on health education.

22. What is economics of health?

- Economics of Health is similar to economics of education in many respects.
- Health expenditures are also investment in people as educational expenditures.
- Quite often, expenditures on education and health are joint expenditures made in the same person.
- Improved health lengthens life expectancy of a person and this in turn raises returns on investment in his education.
- Like education, health is consumption as well as investment. Health improves the quality as well as the quantity of labour. Health expenditures contribute to economic growth by reducing mortality and morbidity.
- There is a general consensus that health must be provided by the State according to need and not according to ability to pay. This is called "Communism in health"

23. What is HDI?

Human development Index (HDI) is a holistic measure of living levels. The human development Report (1977) describes human development as follows : " the process of widening people's choices and the level of well – being they achieve are at the core of the notion of human development. But regardless of the level of development, the three essential choices for people are to lead a long and healthy life, to acquire knowledge and to have access to the resources needed for a decent standard of living".

24. What is Gender Related Development Index?

GDI adjusts the HDI to reflect the inequalities between men and women. The three measures used related to

(1) Female life expectancy,

(2) Female adult literacy and gross enrolment ratio and

(3) Female per capita income

## 18. Monetary Policy

1. What is the importance of money?

Money has become so important that the modern economy is described as money economy. Modern economy cannot work without money.

2. What is barter system?

Barter is the direct exchange of goods for goods. It is a system of trading without the use of money

3. What is the function of money?

"Money is a matter of functions four: A medium, a measure, a standard, a store.

4. What is money?

Crowther, has defined money as "anything that is generally acceptable as a means of exchange (i.e, as a means of settling debts) and that at the same time acts as a measure and as a store of value".

5. What is money as medium of exchange?

The most important function of money is that it acts as medium of exchange. Money is accepted freely in exchange for all other goods. Barter system is very inconvenient. So the introduction of money has got over the difficulty of barter.

6. What is money as measure of value?

Money acts as a common measure of value. It is a unit of account and a standard of measurement. Whenever we buy a good in the market we pay a price for it in money. And price is nothing but value expressed in terms of money. So we can measure the value of a good by the money we pay for it. Just as we use yards and metres for measuring length and kilograms for measuring weights, we use money for measuring the value of goods. It makes economic calculations easy.

7. How is money store of value?

A man who wants to store his wealth in some convenient form will find money admirably suitable for the purpose. It acts as a store of value. Suppose the wealth of a man consists of a thousand cattle. It is rather difficult for him to preserve his wealth in the form of cattle. But if there is money, he can sell his cattle, get money for that and can store his wealth in the form of money.

8. What is the role of money in standard of deferred payment?

Money is used as a standard for future (deferred) payments. It forms the basis for credit transactions. Business in modern times is based on credit to a large extent. This is facilitated by the existence of money. In credit, since payment is made at a future date, there must be some medium which will have as far as possible the same exchange power in the future as at present. If credit transactions were to be carried on the basis of commodities, there would be a lot of difficulties and it will affect trade. Money, to be used as a medium of exchange, must be universally acceptable.

9. How are production, distribution and consumption influenced?

Production, distribution and consumption are influenced to a great extent by prices, and prices are measured in money.

10. What are the components of money?

The Reserve Bank of India (RBI) is the central bank of our country. It manages the monetary system of our country. It has classified the money supply of our country into four components.

**They are :**

M1 = Currency with the public. It includes coins and currency notes + demand

deposits of the public. M1 is also known as narrow money ;

M2 = M1 + post office savings deposits ;

M3 = M1 + Time deposits of the public with the banks. M3 is also known as broad money ; and

M4 = M3 + total post office deposits.

11. What is reserve money?

Reserve Money (RM) may be considered as Government money. Reserve money is the cash held by the public and the banks. It is composed of

C = currency with the public in circulation

OD = other deposits of the public with the RBI (OD) (The public regard their deposits

with the RBI as cash or money) and

CR = cash reserves of banks. Cash reserves are composed of two parts: - They are

(1) Cash reserves with banks themselves and

(2) Bankers deposits with RBI.

Thus,

Reserve Money (RM) = C+ OD + CR

12. What is fiat money?

Currency notes in circulation are normally referred to as fiat money. For example, one Rupee notes issued by the Government of India is Fiat money. The notes issued by the RBI are usually referred to as bank notes. They are in the nature of promissory notes.

13. What is the main goals of monetary policy?

The basic goals of macroeconomic policy in most of the countries are full employment, price stability, rapid economic growth, balance of payments equilibrium and economic justice.

14. What is economic justice?

Economic justice refers to equitable distribution of income.

15. What is monetary policy?

"Monetary policy is policy that employs the central bank's control over the supply and cost of money as an instrument for achieving the objectives of economic policy" (Edward Shapiro).

16. What are the instruments of monetary policy?

(1) Quantitative credit control measures ; and

(2) Selective credit control measures

17. What are the quantitative credit control measures?

Quantitative credit control instruments include bank rate policy, variation of cash reserve ratios and open market operations.

18. What is bank rate?

The Bank rate is the minimum rate at which the central bank of a country will lend money to all other banks.

19. What is variation of cash reserve ratio?

The ability of a commercial bank to create credit depends upon its cash reserves. The central bank of a country has the power to vary the cash reserve ratios. During inflation, to check the sharp rise in commodity prices and to control credit, the central bank can make use of this weapon.

20. What are the factors that determine success of open market?

(1) The possession by the central bank of adequate volume of securities;

(2) The presence of well developed bill (securities) market; and

(3) Stability of cash reserve ratios maintained by commercial banks.

21. What are the weapons of selective credit controls?

The weapons of selective credit controls include

(a) Fixing minimum margin of lending or for purchase of securities. (For example, shares or commodities like food grains and raw materials which are in short supply). In this case, the central bank specifies the fraction of the purchase price of securities that must be paid in cash. Unlike general controls, selective controls make it possible for the central bank to restrain what is regarded as an unhealthy expansion of credit. (eg. for financing the purchase of securities or automobiles) ;

b) Ceiling on the amount of credit for expansion and

c) Different rates of interest will be charged to encourage certain sectors and to discourage certain other sectors. In our country, the last weapon has been used especially, to encourage exports, agricultural production and production in small scale and cottage industries sector.

d) The central bank will persuade the commercial banks to follow certain policies through moral suasion.

22.When was monetary policy ineffective?

Monetary policy is usually effective for controlling inflation. But during the Great Depression of 1930s, it was found to be ineffective.

23. What are the two main conditions for success of credit control measure?

Two main conditions essential for the success of the credit policy are the dependence of the money market upon commercial banks and dependence of the commercial banks on the central bank for their funds.

24. What is money transmission?

The transmission mechanism tells that monetary policy affects income through the interest rate and investment. It is the process by which money supply affects income.

25. Why is money transmission narrow concept?

Many modern economists argue that this view of transmission mechanism is rather narrow. They say that like investment, consumption may vary with the interest rate. The classical economists assumed that consumption is inversely related to the rate of interest. If we accept that view, a fall in the interest rate will cause an increase in consumption. Since consumption is a component of aggregate demand, aggregate demand increases. This in turn, will increase the equilibrium level of income. If both consumption and investment increase, income will increase by a greater amount than if only investment increases.

26. What is net private wealth?

Net Private Wealth may be defined as society's capital stock, money supply, and government debt (government debt includes treasury bills, notes and bonds). And consumption is positively related to net private wealth.

27. What happens if nominal money supply increases?

If the nominal money supply increases and price level is constant, the real money supply increases. Since it is a component of net private wealth, wealth increases, and in turn consumption increases. When consumption increases, aggregate demand increases and the equilibrium level of income increases.

28. What is dear money?

When there is inflation in a country, the central bank tries to control it by following dear money policy. The term “Dear Money” refers to a phase or policy when interest rates are high.’

29. What is cheap money?

Cheap Money” denotes a phase in which loans are available at low rates of interest or a policy which creates this situation. Cheap money policy is followed by a central bank during a period of depression to increase the supply of money so as to stimulate investment.

30. What is value of money?

By “Value of Money” we mean the purchasing power of money. The purchasing power of money depends upon the price level. A general rise in the price level indicates a fall in the value of money and a general fall in prices indicates a risen in the value of money.

31. What is quantity theory of money?

The Quantity Theory of Money was formulated by Irving Fisher. In its original form, the quantity theory states, “prices always change in exact proportion to changes in the quantity of money. If the amount of money is doubled, prices double. If the amount of money is halved, prices fall to half their original level”. The main point about the quantity theory is that price level changes because of changes in the quantity of money.

32. What is equation of exchange?

The quantity theory of money has been put forward in the form of an equation known as the “Equation of Exchange”. It is also known as Fisher’s equation. The equation of exchange states that if ‘M’ is the amount of money, ‘V’ is the velocity of circulation of money, ‘P’ is the price level and ‘T’ is the volume of trade, then MV = PT (or P = MV/T).

33. What is inflation?

The terms 'inflation' and 'deflation' are not easy to define. Different economists have defined them in different ways. Crowther has given us the most simple and useful definition of these terms. According to Crowther, "Inflation is a state in which the value of money is falling, i.e, prices are rising". So it is generally regarded that during a period of inflation, the price level will rise.

34. What are the types of inflation?

1. Demand – Pull Inflation : It is loosely described as "too much money chasing too few goods". This refers to the situation where general price level rises because the demand for goods and services exceeds the supply available at the existing prices.

**Runaway or Galloping or Hyper – Inflation**

This is a serious type of inflation. For example, it was experienced in Germany after World War I and in Hungary and China after World War II. In this situation, prices rise to a very great extent at high speed and high prices have to be paid even for cheap things. And money becomes quite worthless and new currency has to be introduced. This situation is known as galloping inflation or hyper-inflation.

**2. Cost – Push Inflation**

Cost – push inflation is induced by rising costs, including wages, so that rising wages and other costs push up prices. We can also speak of wage inflation or price inflation when we mean increase in wages or prices.

**Bottleneck Inflation :** This refers to inflation that results from shortages, imbalances and rising marginal costs as full employment output is approached. *Profit – Push Inflation* - Just as trade unions manage to push up wages, oligopolists and monopolists will raise prices more than enough to cover increase in costs with the aim of making monopoly profits.

35. What are the measures for inflation?

(1) Increased taxation

(2) By reducing government expenditure on capital projects. (In India, this measure has been suggested to check inflation. Many capital projects proposed in our Third Five Year Plan were either suspended or dropped completely.

(3) Restrictions on imports.

(4) Rationing and

(5) Price controls

36. What is deflation?

Crowther, defines deflation as a "state in which the value of money is rising, i.e., prices are falling".

37. What are the effects of change in price?

**1. Effects on production**

If prices are rising, it will stimulate production. Under a capitalistic system, production is carried on mainly for profits. During a period of rising prices (inflation), there will be abnormal profits. This increases production. So manufacturers and businessmen gain during inflation. Producers and businessmen gain during inflation. Producers gain by inflation because during that period prices rise faster than costs. So they make huge profits. But if inflation becomes hyper-inflation, it may end in a crash. On account of the rapid fall in the value of money, profits which are in the form of money may become worthless. And there will be a "flight from currency". Inflation may become an important cause of "violent revolutions and economic chaos".

**2. Effects on Distribution**

a) *Business class :* During inflation, manufacturers and businessmen make huge profits. Of course, during deflation, they make losses.

b) *Fixed income groups :* People in fixed income groups are hit hard in times of inflation. The incomes of wage earners and salaried people such as teachers, clerks and judges do not increase as fast as prices. Even retired people getting pension are also affected during inflation.

Wage earners and salaried – people gain during a period of falling prices.

But it is not a real gain because many people will lose their jobs during deflation.

Unemployment is a worse evil than rising prices.

c) *Investors :* people who have invested their money in “gilt edged” securities government securities) will get only fixed income. So their position is like those in the fixed income group. But those who have shares in companies will make profits during a period of rising prices and lose during a period of falling prices.

In Germany, thousands of middle class families were ruined during the inflation because all their lifetime savings were reduced to nothing by the tremendous rise in prices. If the value of money falls continuously, it becomes unsuitable as a store of value. People will not save at all.

d) *Rentiers :* Rentiers gain during deflation and lose during inflation. But the gain during deflation is only a temporary feature.

## 19. Fiscal Policy

1. What is public finance?

Public finance or government finance is a field of economics. It deals with budgeting the revenues and expenditures of government (or public sector).

2. What is Fiscal economics?

Fiscal economics is another name for public finance.

3. What was the role of government in early days?

Earlier governments limited their activities to

a) The maintenance of law and order

b) The defence of the country

c) Administration of justice

d) General administration.

4. What was the early state called as?

Police state

5. What is modern state called as?

Welfare state

6. What is various definition of public finance?

According to Dalton, "Public finance is concerned with the income and expenditure of public authorities and with the adjustment of the one with the other".

Findlay Shirras says that, "Public finance is the study of the Principles underlying the spending and raising of funds by public authorities".

To quote Lutz, "Public finance deals with the provision, custody, and disbursement of resources needed for the conduct of public or government functions".

7. What are the sub divisions of public finance?

1. Public expenditure
2. Public Revenue
3. Public debt
4. Financial administration and
5. Federal finance

8. What is public expenditure?

Since the modern government represents a welfare state, the responsibility of the government is to bring about maximum social welfare. In addition to this, it has to perform various other functions, which require heavy expenditures. We study in this sub-division, the fundamental principles governing the flow of government funds into different spending streams and the methods of incurring expenditure on the various activities.

9. What is public revenue?

Public revenue means different sources of government's income. It deals with the methods of raising revenue for the government, principles of taxation and other related problems. Raising of tax revenue and non- tax revenue is the subject matter of public revenue.

10. What is the non tax revenue?

i.) Commercial revenue (income earned through sale of goods and services and profits earned by public sector enterprises),

ii.) Administrative revenues (Fees, license fees, special assessments),

iii.) Gifts and grants.

10. What is public debt?

Borrowing by the government from the public is called public debt.

11. What are the external debts?

External debt includes borrowing from international monetary institutions like IMF and World Bank and also from foreign countries.

12. What is financial administration?

Financial administration is concerned with the organisation and functioning of the government machinery that is responsible for performing various financial activities of the state. Preparing the budget for the particular financial year is the master financial plan of the government.

13. What is federal finance?

Federal finance is a part of the study of public finance. A federation is an association of two or more states. In a federal form of government, there are: Central, State, and local governments. The interrelationships between these forms of governments, and the problems related to them and the financial functions of all these units are studied under federal finance.

14. What is tax?

A tax is one of the important sources of public revenue. A tax is a compulsory charge or payment levied by the government on an individual or corporation. Therefore an element of compulsion is involved in taxation.

15. What are the canons of taxation?

Canons of taxation are considered as fundamental principles of taxation.

Adam Smith laid down the following canons of taxation:

a) Canon of equity

b) Canon of certainty

c) Canon of convenience

d) Canon of economy

16. What is canon of equity?

This canon is also called the ‘ability to pay’ principle of taxation. It means that taxes should be imposed according to the capacity of the tax payer. Poor should be taxed less and rich should be taxed more. This canon involves the principle of justice. All persons contribute according to their ability. As the cost of running the government should be equally borne by all, this canon is justified.

17. What is canon of certainty?

Every tax payer should know the amount of tax to be paid, when to be paid, and where to be paid and also should be certain about the rate of tax to make investment decisions.

18. What is convenience?

Tax payment should be convenient and less burdensome to the tax payer. e.g. income tax collected at source, sales tax collected at the time of sales and land tax collected after harvest.

19. What is canon of economy?

This canon signifies that the cost of collecting the revenue should be kept at the minimum possible level. The tax laws and procedures should be made simple, so as to reduce the expenses in maintaining people's income tax accounts. ie. administrative expenditure to be kept at a minimum.

20. What are different types of taxes?

Kinds of tax: Taxes are of different types. They are:

1. Direct and Indirect taxes.
2. Proportional, progressive, Regressive and digressive taxes.
3. Specific and advalorem taxes.
4. Value-added tax (VAT)
5. Single and multiple taxes.

21. What is direct tax?

Direct taxes are collected from the public directly. That it is to say, these taxes are imposed on and collected from the same person. One cannot evade paying the tax if it is imposed on him.

Income tax, wealth tax, corporate tax, gift tax, estate duty, expenditure tax are good examples of direct taxes.

22. What is indirect tax?

Taxes imposed on commodities and services are termed as indirect taxes. There is a chance for shifting the burden of indirect taxes. The incidence is upon the person who ultimately pays it. Examples of indirect taxes are excise duties, customs duties and sales taxes (commodity taxes).

23. How is financial system of India described?

The financial system of India is federal in character. Therefore, the powers and functions to raise revenue are divided between central government and state and local governments as scheduled in the Indian Constitution. This division has been made to avoid any clash in financial, administrative and other areas.

24. What are the main sources of tax?

The main sources of tax and non-tax revenue of the central government are

1. Taxes on income (other than on agricultural income),
2. Corporate tax,
3. Expenditure tax,
4. Taxes on properties (Estate duties and Death duties),
5. Gift tax,
6. Wealth tax,
7. Taxation on capital gains,
8. Union excise duties, and
9. Customs duties (Import and Export duties).

25. What are the sources of non tax?

1. Fiscal services,

2. Receipts from interest on loans,

3. Dividend and profits,

4. General and administrative services,

5. Social and community services and

6. Economic services.

26. What are the main source of tax and non tax revenue?

The main sources of tax and non-tax revenue are

1. Land revenue,
2. Taxes on the sale and purchase of goods except newspaper,
3. Taxes on agricultural income,
4. Taxes on land and building,
5. Succession and estate duties in respect of agricultural land,
6. Excise duty on alcoholic liquors and narcotics,
7. Taxes on the entry of goods into a local area,
8. Taxes on mineral rights,
9. Taxes on the consumption of electricity
10. Taxes on vehicles, animals and boats,
11. Taxes on goods and passengers carried by road and inland water ways,
12. Stamp duties, court fees and registration,
13. Entertainment tax,
14. Taxes on advertisements other than those in newspaper,
15. Taxes on trade, profession and employment,
16. Income from irrigation and forests,

17. Grants from the central government and

18. Other incomes such as income from registration and share in the income-tax, excise and state duties and debt services, loans and overdrafts.

27. How are direct tax classified?

Direct taxes can also be classified on the basis of the degree of progressiveness or distribution of their burden on the tax payers.

28. How are taxes classified based on rate structures?

a) Proportional tax

b) Progressive tax

c) Regressive tax

d) Degressive tax

29. What is budget?

Thus, 'budget' has been defined as the annual financial statement of the estimated receipts and proposed expenditure of the government in a financial year, usually April 1 to March 31 of the next year.

30. What are the different kinds of budget?

- Balanced budget and
- unbalanced budget

31. What is balance budget?

A balanced budget is that, over a period of time, revenue does not fall short of expenditure. In other words government budget is said to be balanced when its tax revenue and expenditure are equal.

32. What is unbalanced budget?

An unbalanced budget is that, over a period of time, revenue exceeds expenditure or expenditure exceeds revenue. In other words, the government's income or tax revenue and expenditure are not equal. When there is an excess of income over expenditure, it is called a surplus budget. On the other hand, when there is an excess of expenditure over income, it is a case of deficit budget.

33. What is revenue budget?

Budgeting is the most important constituent of the financial administration. Preparation of the budget is one of the main operations of budgeting. It is mandatory for the government to make a statement of estimated receipts and expenditures which must be laid before the Parliament every financial year. It has to distinguish expenditure on revenue account and capital account from other expenditures. So government budget comprises Revenue Budget and Capital Budget.

34. What is revenue budget?

Revenue budget consists of revenue receipts of the government (tax revenue and non-tax revenue) and the expenditure met from these revenues. Expenditures which do not result in creation of assets are called revenue expenditure. (e.g. current revenues and current expenditure for normal functioning of the Government departments, interest charges on debt incurred by Govt. and other non- developmental expenditure).

35. What is capital budget?

Majority of the government expenditures form the capital expenditure. Capital budget consists of receipts and payments. Capital receipts are loans raised by government from the public which are called market loans, borrowings from the RBI, sale of treasury bills, loans received from foreign governments etc. Capital payments are expenditure on assets creation such as land, buildings, machinery, equipment investment loans to government companies and state governments and other developmental expenditures.

36. What is zero budgeting?

Traditional technique of budgeting have been found to be inadequate for the reason that, the previous year's cost level is taken as the base for current year's budget. The traditional methods have not completely addressed the problem of efficiency in the matter of allocation of funds for various divisions. There is therefore a need for a new technique of budgeting which devices and uses a meaningful base for budgeting. Zero Based Budgeting is one such technique of budgeting.

37. What is fiscal policy?

Fiscal policy is the set of principles and decisions of a government regarding the level of public expenditure and mode of financing them. It is about the effort of government to influence the economy's output, employment and prices by altering the level of public expenditure, taxation and public debt. Arthur Smithies points out, "Fiscal policy is a policy under which the government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment".

38. What is the objective of fiscal policy?

1. To mobilize resources for financing the development programmes in the public sector
2. To promote development in the private sector
3. To bring about an optimum utilization of resources
4. To restrain inflationary pressures in the economy to ensure economic stability
5. To improve distribution of income and wealth in the community for lessening economic inequalities
6. To obtain full employment and economic growth
7. Fiscal policy and capital formation

39. What are the limitations of fiscal policy?

1. Size of fiscal measures

2. Fiscal policy as ineffective anti-cyclical measure

3. Administrative delay