



KENDRIYA VIDYALAYA SANGATHAN ERNAKULAM REGION



SUPPORT MATERIAL

CLASS: XII

ECONOMICS [030]

Based on Latest CBSE Exam Pattern for the Session 2022-23



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Date : 04/10/2022

MESSAGE FROM DEPUTY COMMISSIONER

It gives me immense pleasure to publish the study material of class XII Economics for the year 2022-23. I am very pleased to note that the support material 2021-22 brought out is appreciated very well and was of great help to all students of our region. This student's support material has been prepared to improve the academic performance of the students in the upcoming board examination. This is a product of the combined efforts of a team of dedicated and experienced teachers with expertise in their subjects. This material is designed to supplement the NCERT textbook.

The support material contains all the important aspects required by the students including the latest syllabus, summary of all chapters, mind maps, important formulae, source based and case based questions, practice questions and sample question papers. It covers all essential components that are required for quick and effective revision of the subject.

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

I am sure that the students of all Kendriya Vidyalayas of our region will make use of this support material meticulously to reap best out of this effort.

"Success is the sum of small efforts, repeated day in and day out "

With best wishes


(R SENTHIL KUMAR)
DEPUTY COMMISSIONER

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Syllabus for Board Examination 2022-23

ECONOMICS CLASS - XII (2022-23)

Theory: 80 Marks
Project: 20 Marks

3 Hours

Units		Marks	Periods
Part A	Introductory Macroeconomics		
	National Income and Related Aggregates	10	30
	Money and Banking	06	15
	Determination of Income and Employment	12	30
	Government Budget and the Economy	06	17
	Balance of Payments	06	18
		40	
Part B	Indian Economic Development		
	Development Experience (1947-90) and Economic Reforms since 1991	12	28
	Current Challenges facing Indian Economy	20	50
	Development Experience of India – A Comparison with Neighbours	08	12
	Theory Paper (40+40 = 80 Marks)	40	
			200
Part C	Project Work	20	20

Part A: Introductory Macroeconomics

Unit 1: National Income and Related Aggregates

30 Periods

What is Macroeconomics?

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

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

Aggregates related to National Income:

Gross National Product (GNP), Net National Product (NNP), Gross Domestic Product (GDP) and Net Domestic Product (NDP) - at market price, at factor cost; Real and Nominal GDP.

GDP and Welfare

Unit 2: Money and Banking

15 Periods

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

Money creation by the commercial banking system.

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

Unit 3: Determination of Income and Employment

30 Periods

Aggregate demand and its components.

Propensity to consume and propensity to save (average and marginal).

Short-run equilibrium output; investment multiplier and its mechanism.

Meaning of full employment and involuntary unemployment.

Problems of excess demand and deficient demand; measures to correct them changes in government spending, taxes and money supply.

Unit 4: Government Budget and the Economy

17 Periods

Government budget - meaning, objectives and components.

Classification of receipts - revenue receipts and capital receipts;

Classification of expenditure – revenue expenditure and capital expenditure.

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

Unit 5: Balance of Payments

18 Periods

Balance of payments account - meaning and components;

Balance of payments – Surplus and Deficit

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

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

Managed Floating exchange rate system

Part B: Indian Economic Development

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

28 Periods

A brief introduction of the state of Indian economy on the eve of independence.

Indian economic system and common goals of Five Year Plans.

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

Economic Reforms since 1991:

Features and appraisals of liberalisation, globalisation and privatisation (LPG policy);

Concepts of demonetization and GST

Unit 7: Current challenges facing Indian Economy

60 Periods

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

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

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

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

Unit 8: Development Experience of India:

12 Periods

A comparison with neighbours

India and Pakistan

India and China

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

Part C: Project in Economics

20 Periods

Prescribed Books:

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

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

**Suggested Question Paper Design
Economics (Code No. 030)
Class XII (2022-23)
March 2023 Examination**

Marks: 80

Duration: 3 hrs.

SN	Typology of Questions	Marks	Percentage
1	Remembering and Understanding: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	44	55%
2	Applying: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	18	22.5%
3	Analysing, Evaluating and Creating: Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	18	22.5%
	Total	80	100%

PART A: INTRODUCTORY MACROECONOMICS

UNIT 1: National Income and Related Aggregates

BASIC CONCEPT

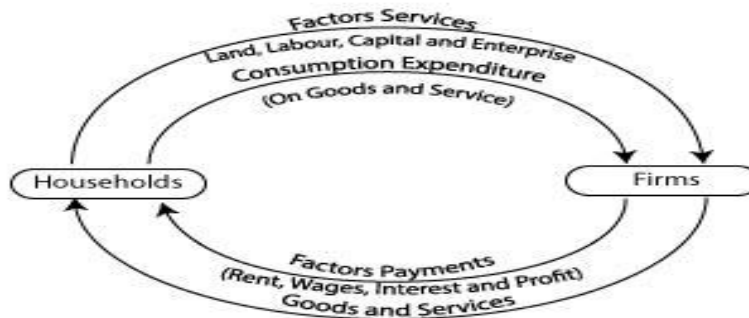
CIRCULAR FLOW OF INCOME IN TWO SECTOR ECONOMY

Meaning: A pictorial illustration of the flow of income and product among various sectors of the economy is called Circular Flow of Income.

Assumption:

- There are only two sectors in the economy, namely Household and Firm
- Household is the sole consumer and Firm is the sole producer in the economy
- There are no leakages and injections in the economy

Explanation: This can be explained by the help of the following diagram



In the upper loop of the diagram

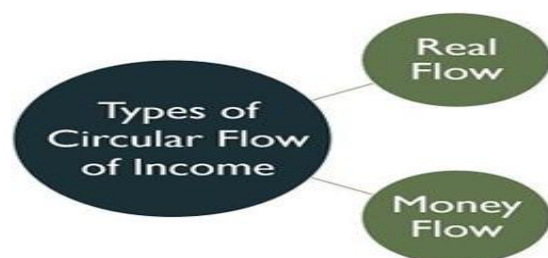
- Households provide factor services like land, labour, capital and enterprise to the firms.
- By using these the firm produce goods and service and provides to the households

In the lower loop of the diagram

- The firms make payment for the factor service to the households in the form of rent, wage, interest and profits
- Households make payment to the firm in the form of consumption expenditure

Real Flow: The flow of goods and services and factor services are called real flow.

Money Flow: The money payments and expenditure are called Money flow.



Money Flow = Real Flow

Stocks: Variables whose magnitude is measured at a particular point of time are called stock variables.

Flows: Variables whose magnitude is measured over a period of time are called flow variable.

Difference between stock and flow variable

Basis	Stock variable	Flow variable
Meaning	Those variable which are measured at a point of time	Those variables which are measured over a period of time
Nature	Static	Dynamic
Time dimension	It does not have any time dimension	It has time dimension
Example	Capital , National wealth	Capital formation , National wealth , savings

Economic Territory/Domestic Territory: Economic (or domestic) is the geographical territory administrated by a government within which persons, goods, and capital circulate freely.

Scope of Economic Territory:

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

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

Good: It is defined as any physical object, natural or man-made, or service rendered, that could command a price in the market.

Consumption Goods: Those final goods which are purchased or self-produced for satisfaction of wants by ultimate consumer.

Capital Goods: Those final goods which help in production. These goods are used for generating income.

Final Goods: are those goods which are used either for final consumption or for investment.

Intermediate Goods: refers to those goods and services which are used for further production or for resale in the same year. These goods do not fulfil needs of mankind directly.

FACTOR INCOME	TRANSFER INCOME
* It refers to the income received by factors of production for rendering their services in the production process.	* It refers to the income received without rendering any productive services in return.
* It is included in both National and Domestic Income.	* It's neither included in National nor in Domestic Income.
* Earning Concept.	* Receipt concept.
* Received by factors of production (Land, labour, Capital and Entrepreneur)	* Generally received by household and government.

Investment: Addition made to the stock of capital during a period is called investment. It is also called capital formation.

Depreciation: is expected fall in value of fixed capital goods due to normal wear and tear and obsolescence.

It is calculated annually

- It is pre-determined. Hence it is always positive
- It is calculated by:

$$\text{Depreciation} = \text{Value of the fixed asset} / \text{Expected Life in years}$$

- The other names are Consumption of Fixed Capital, Replacement Investment, Capital Consumption Allowances etc.

Gross Investment: Total addition of capital goods to the existing stock of capital during a time period.

Net Investment: is a measure of net availability of new capital or new addition to capital stock in an economy.

$$\text{Net Investment} = \text{Gross investment} - \text{Depreciation.}$$

Net Factor income from abroad (NIFA): is difference between factor income received/earned by normal residents of a country and factor income paid to non-residents of the country.

Net Indirect tax: It is the difference between indirect tax and subsidy.

NATIONAL INCOME AGGREGATES

Domestic Aggregates

Gross domestic product at Market price (GDPMP) is the market value of all the final goods and services produced by all producing units located in the domestic territory of a country during a period of one year.

Domestic Income (NDPFC): It is the factor income accruing to owners of factors of production for supplying factor services with in domestic territory during an accounting year.

NATIONAL AGGREGATES

Gross National Product at Market Price (GNPMP) is the market value of all the final goods and services produced by all producing units (in the domestic territory and abroad) of a country during a period of one year.

$$\text{GDPMP} + \text{NIFA} = \text{GNPMP}$$

National Income (NNPFC): is a measure of factor earnings of the residents of a country both from economic (Domestic) territory and from abroad during an accounting year.

$$\text{NNPFC} = \text{NDPFC} + \text{NFIA} = \text{National Income}$$

Measurement of National income



VALUE ADDED METHOD / PRODUCT METHOD

V.A.M is the method which measures the national income by estimating the contribution of each producing enterprise to production in the domestic Territory of the country in one A/C year

Steps in Computing National Income using VAM

Step 1: Identification and classification of producing units

Identify all the producing units in the domestic economy and classify them into the primary, secondary and tertiary sector.

Step 2: Estimation of Gross Value Added of each sector

Value added is the difference between value of output of an enterprise and the value of its intermediate consumption

Gross Value Added (GVA) = Value of Output-Intermediate Consumption

Value added = Value of output –Intermediate Consumption

Step 3: Estimation of GDP

Then add GVA of all the three sectors, Primary, Secondary and Tertiary to get GDP of the economy.

GDP MP/GVAMP=GDPMP of PS+GDPMP of SS+GDPMP of TS

Step 4: Calculation of domestic income

Net value added at MP= Gross value added at M.P –Depreciation

Net value added at Factor cost= Net value added at M.P- NIT (Net indirect Tax).

NDPFC=GDPMP-DEP-NIT

Step 5: Calculation of National income

National Income= NVA at FC + NFIA

NNP FC=NDPFC+NFIA

Value of output

It refers to the market value of the goods/services produced by a firm during an accounting year.

If the entire output of the year is sold during the year

Value of output = Sales

Value of output = $Q \times P$

(Q= Amount of goods Produced by all entrepreneurs, P= Current Year Price)

Now if whole output is not sold?

Then it is added into firm's inventory stock. It is known as change in stock

Change in stock

It is the difference between the opening and closing stock of the A/C Year.

Formula- Δ In Stock = Closing stock – opening stock.

Intermediate consumption

It is the value of non-factor input that is mainly the value of raw material used in the process of production.

$Value\ added = VOO - IC$

$VOO = Sales + change\ in\ stock$

$Sales = PX Q$

Or

$Sales = Domestic\ sale + Export$

$IC = Domestic\ purchase + Import$

Problem of Double Counting

The counting of the value of commodity more than once in computation of national income is called problem of double counting

Example- If in the value of sugar, the value of sugarcane is included, it is known as double counting.

Methods to avoid double counting: -

Final output method: we need include only the values of the final product. Those goods, which go for final consumption or for capital formation. We need not include the value of intermediate goods.

Value added method: We can find out the net value added at different stages of production of a commodity. The sum of net value added in the economy will give us the estimates of domestic factor income in the economy

Precautions regarding value Added Method: -

- Value of intermediate goods is not included into in the estimation of value added because; value of intermediate goods is reflected in the value of final goods.
- Value of sale and purchase of second-hand goods is not included in the value added because; value of second-hand goods is already accounted for during the year they were produced.
- Services for self-consumption are not considered while estimating value added. Because it is difficult to estimate their market values eg. Services of housewives.
- Own account production of goods of the producing units is taken into account while estimating value added. Because these goods are like those produced for market. They are simply not sold owing to their need by the producers themselves.
- Imputed value of production for self-consumption is taken into account. Again because, these goods are like those produced for the market.
- Imputed rent on the owner-occupied house is also taken into account. Because all houses have rental value, no matter these are self-occupied or rented

INCOME METHOD

CONCEPTS USED IN INCOME METHOD

FACTOR PAYMENTS:

Factor payments are the payments made by production units to factor owners for the services rendered by them to these units.

These are:

Compensation of employees, Rent and royalty, Interest, Profit, mixed income of the self-employed.

COMPENSATION OF EMPLOYEES:

“Compensation of employees is the total remuneration in cash, in kind and in the form of social security contributions by employers, payable by an enterprise to the employees in return for the work done by them during an accounting period.”

OPERATING SURPLUS:

The sum of rent royalty, interest and profits is called operating surplus

RENT AND ROYALTY:

Rent is defined as the amount payable, in cash or in kind, by the tenant to the landlord for the use of land for production.

Royalty is defined as the amount payable to the landlord for granting the leasing rights of subsoil assets only.

INTEREST:

Interest as a factor payment is defined as the amount payable by a production unit for the use of money borrowed.

PROFIT:

Profit as a factor payment is the amount payable to the owner of the production unit for his entrepreneurial abilities.

MIXED INCOME:

Mixed income, in national income accounting, means income payment by production units having elements of more than one type of factor payments.

Steps of Computing National Income by Income Method

- **Classifying the production units:** Identify all the producing units in the domestic economy and classify them into the primary, secondary and tertiary sector
- **Classification of factor income:** Estimate factor Income in the form COE, rent, interest and profit by each industrial sector to arrive at NDP fc
- **Estimation of domestic income:**
Compensation of employees +Operating surplus +Mixed income= NDP fc
- **Estimation of national income:** $NDP\ fc + NFIA = NNP\ fc$ or **National income**

Precautions for income method.

- ⇒ Income from sale of secondhand goods should not be included because the value of these goods has included in the year in which these goods had produced. Whereas the commission paid to agents should be included.
- ⇒ Income from transferpayments such as scholarships, old age pension should not be included.
- ⇒ Income from illegal activities such as gambling, smuggling, theft should not be included.

⇒ Income from sale of shares, bonds should not be included because these are mere paper transactions.

⇒ Income from wind fall gains like lotteries should not be included

THE EXPENDITURE METHOD

In this method, GDP is estimated by adding up of all the expenditure made by producers and consumers on goods and services in the economy.

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X} - \text{M}),$$

Where,

C = Consumption expenditure by consumers

I = Investment expenditure by Producers

G = Government expenditure on goods and services

(X-M) = Net export expenditure

CONCEPTS IN EXPENDITURE METHOD

FINAL EXPENDITURE

Final expenditure means expenditure on final products, i.e., on consumption and investment. It includes:

(a) Private Final Consumption Expenditure (PFCE)

It refers to the expenditure on final goods and services by the individuals, households and nonprofit private institutions serving society.

It includes –

(I) consumer services

(II) consumer non-durable goods (i.e. goods which are not repeatedly used like butter and milk)

(III) consumer durable goods (i.e. goods which are repeatedly used for many years like furniture and washing machines)

b) Government Final Consumption Expenditure (GFCE)

It refers to expenditure on final goods and services by the Government.

Example: expenditure on the purchase of goods for consumption by the defense personnel.

(c) Gross Domestic Capital Formation (GDCF)

It refers to expenditure on the purchase of final goods by the producers. These goods are to be further used as under in the process of production.

Example: Expenditure by the farmers on the purchase of tractors.

Investment expenditure is further classified as under.

(1) *Fixed investment/Gross domestic fixed CF*: fixed investment refers to expenditure by the producers on the purchase of fixed assets like plant and machinery.

fixed investment is classified as

- Business fixed investment: Expenditure on fixed investment by business enterprises in on building, machinery, equipment's etc. A business enterprise undertakes such investment with the intention of earning profit
- fixed investment by the households in terms of construction of houses.
- Public fixed investment (fixed investment by the government) for example construction of roads, dams and bridges.

(2) Inventory investment: it is measured as the difference between closing stock of the year and the opening stock of the year.

The stock includes

- (a) stock of finished goods
- (b) stock of semi-finished goods
- (c) Stock of raw material

GDCF = GDFCF + Change in stocks

(d) Net Exports

Net exports: It is the difference between exports and imports.

Net exports = Exports – Imports

Steps of Computing National Income by Expenditure Method

- ❖ Identification of economic units incurring final expenditure like household, producer government and rest of the world.
- ❖ Classify the expenditure into final consumption expenditure and investment expenditure.
- ❖ Estimate the gross domestic product by adding $C+I+G+(X-M) = \text{GDP}$
- ❖ Estimation of national income

Precautions for expenditure method.

- Only final expenditure is to be taken (only the value of final goods and services) and expenditure on intermediate goods should not be included.
- Expenditure on secondhand goods is NOT to be included.
- Expenditure on shares and bonds is NOT to be included in total expenditure.
- Expenditure on transfer payments by the government (like old age pension, scholarship) is NOT to be included.
- Estimated value of expenditure on goods produced for self-consumption is to be taken.
- Imputed rent on owner occupied houses is to be taken.

Real and Nominal GDP

Nominal GDP: If the GDP is measured in terms of current market prices, then it is called Nominal GDP

Real GDP: If the GDP is measured in terms of constant market prices, then it is called Real GDP

$\Rightarrow \text{GDP Delator (or Price Index)} = \text{Nominal GDP} / \text{Real GDP} \times 100$

Advantages of Real GDP

- It is useful in finding out the effect of increased production of goods and services on the real development capacity of the economy in general
- It enables one to make a year-to-year comparison of the changes in the growth of output
- It is also used in making international comparisons of economic performance across the countries

GDP and Welfare:

Higher level of GDP of a country may be treated as an index of greater wellbeing of the people of that country, but there are certain reasons why this may not be correct.

(a) Distribution of GDP

If the GDP of a country is rising, the welfare may not rise as a consequence, this is because the rise in GDP may be concentrated in the hands of very few individuals. In such cases the welfare of the entire country cannot be said to have increased.

(b) Non-Monetary Exchange

The value of non-monetary transactions like services of housewife, kitchen gardening is not included while calculating GDP due to non-availability of data. By non-inclusion of these values in the estimation of GDP there is underestimation of GDP

(c) Externalities:

Externalities refers to the benefits (or harms) a firm or an individual cause to another for which they are not paid (or penalised) –benefits called positive externalities and harms called negative externalities. The value of externalities is not taken in to account while estimating national income.

Positive externalities under estimate the national income and negative externalities overestimate the national income

(d) Composition of GDP

If GDP is composed of more socially undesirable goods like guns, bombs it will definitely overestimate the GDP in calculating welfare of the people

Important formulae at a glance

Value added method

- $GDP_{MP/GVAMP} = GDPMP \text{ of Primary Sector} + GDPMP \text{ of Secondary Sector} + GDPMP \text{ of Tertiary Sector}$
- $NDPFC/\text{Domestic income} = GDPMP - DEP - NIT$
- $NNP_{FC}/\text{National income} = NDPFC + NFIA$
- $\text{Value added} = \text{Value of Output} - \text{Intermediate Consumption}$
- $\text{VALUE OF OUTPUT} = \text{Sales} + \text{change in stock}$
- $\text{Sales} = P \times Q$ Or $\text{Sales} = \text{Domestic sale} + \text{Export}$
- $IC = \text{Domestic purchase} + \text{Import}$
- $\text{Change in stock} = \text{Closing stock} - \text{Opening stock.}$

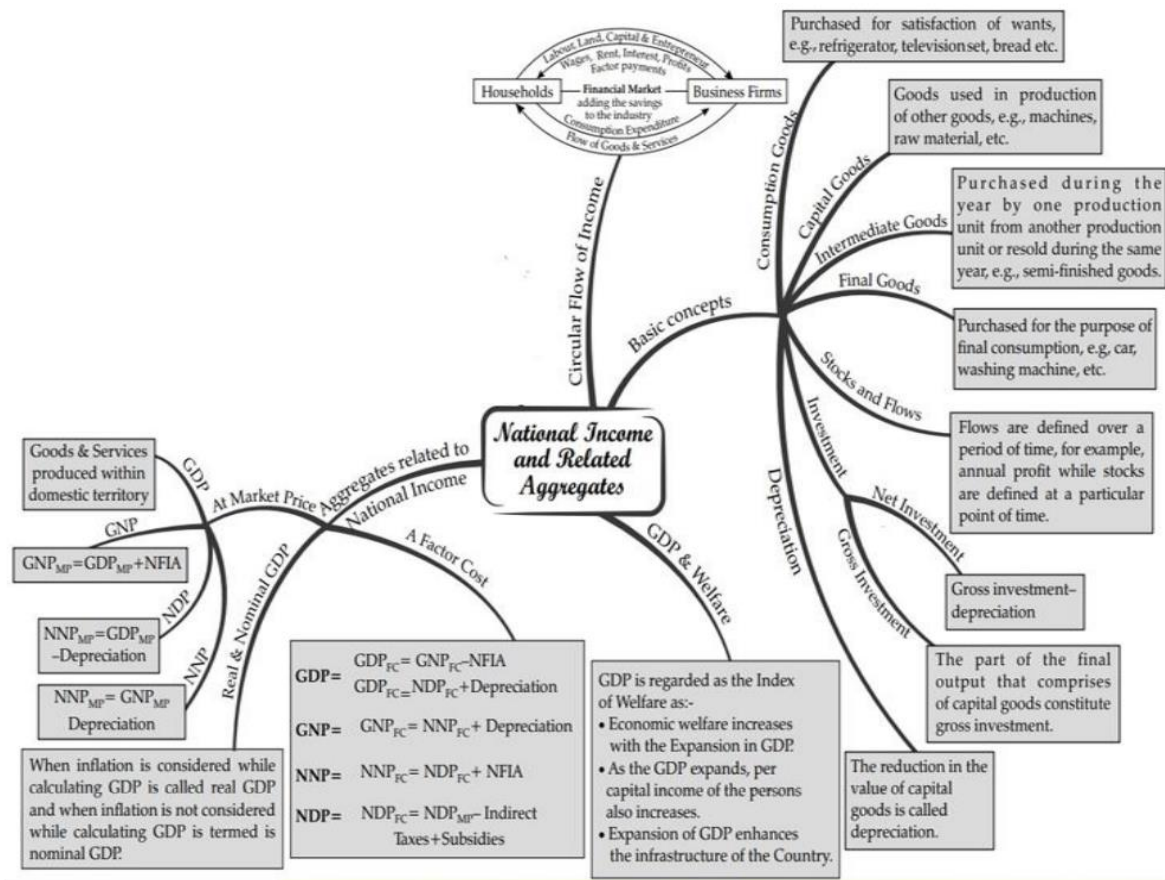
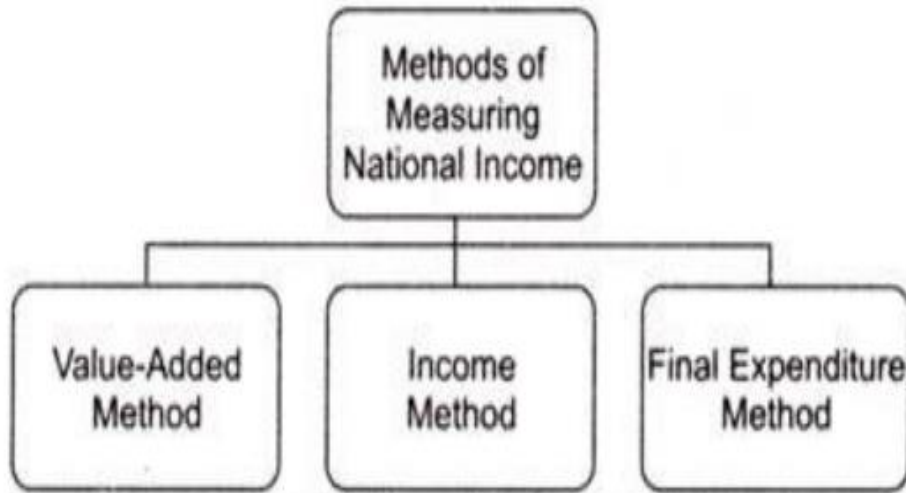
Income Method

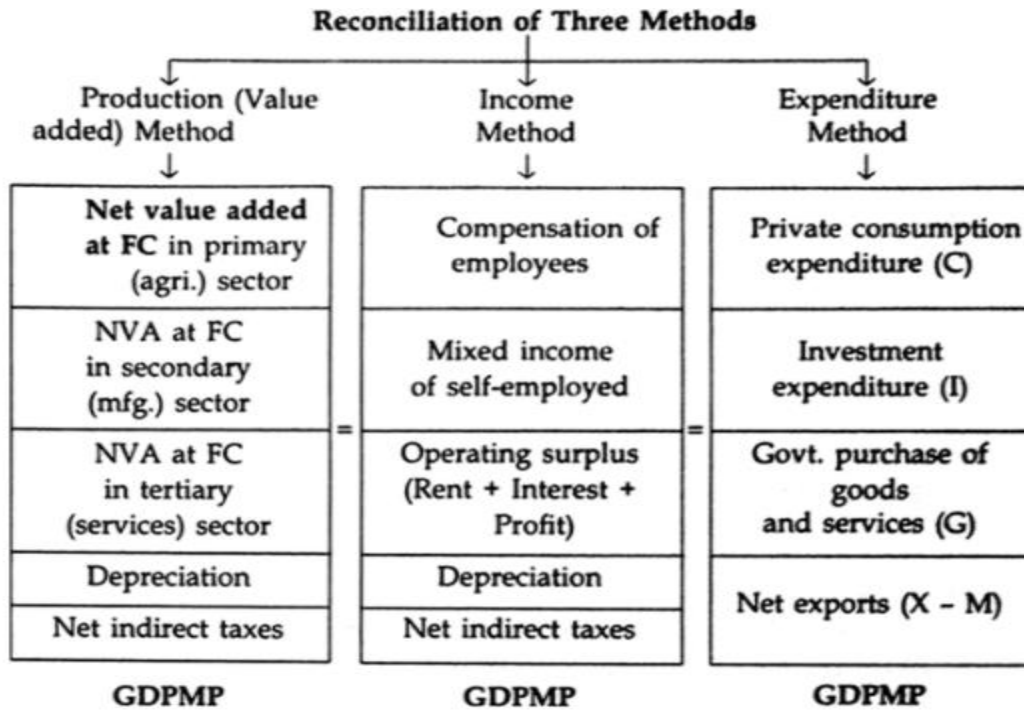
- $NDP_{FC} = \text{Compensation of employees} + \text{Operating surplus} + \text{Mixed income}$
- $NNPFC = NDPFC + NFIA$
- $\text{Compensation of employees} = \text{Wages and salaries in cash and in kind} + \text{employers' contribution to social security schemes}$
- $\text{Operating surplus} = \text{Rent} + \text{Royalty} + \text{Interest} + \text{Profit}$

Expenditure method

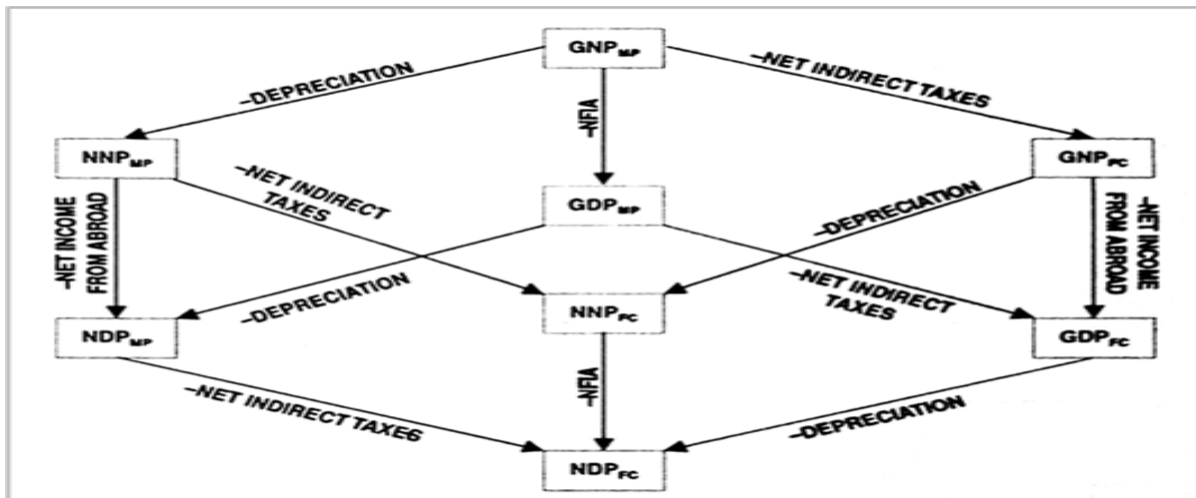
- $GDP_{MP} = \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Gross domestic capital formation} + \text{Net export}$
- $\text{Gross domestic capital formation} = \text{Gross domestic fixed Capital formation} + \text{Change in stocks}$
- $\text{Net exports} = \text{Exports} - \text{Imports}$
- Or
- $NDP_{MP} = \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Net domestic capital formation} + \text{Net export}$
- $\text{Net domestic capital formation} = \text{Net domestic fixed Capital formation} + \text{Change in stocks}$

Mind Maps

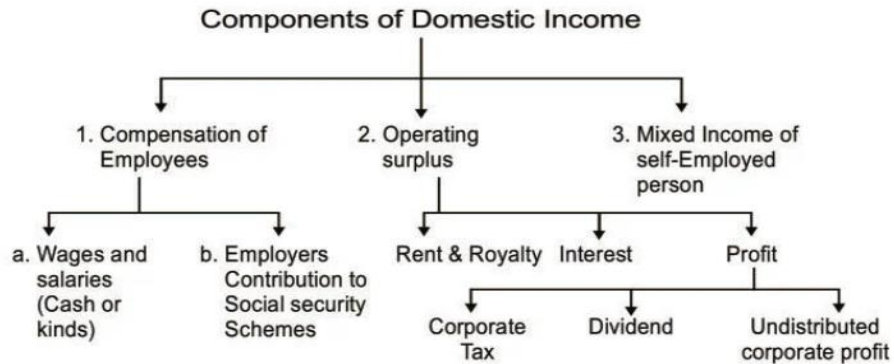




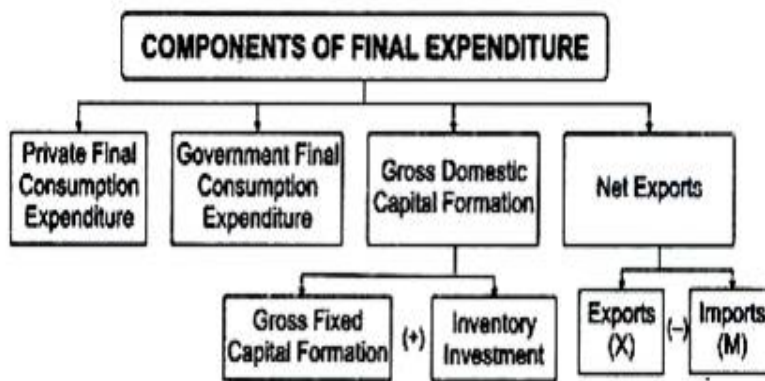
National income aggregates



Measurement of NI using Income method



Measurement of NI using Expenditure method



PRACTICE QUESTIONS AND ANSWER

1. Nominal GNP is the same as,
 - a. GNP at constant prices
 - b. Real GNP
 - c. GNP at current prices
 - d. GNP less net factor income from abroad

Answer: c. GNP at current prices

2. Which of the following is an example of transfer payment?
 - a. Free meals in the company canteen
 - b. Employers' contribution to social security
 - c. Retirement pension
 - d. Old-age pension

Answer: d. Old age pension

3. What must be added to the domestic factor income to avail national income?

Answer: Net factor income from abroad must be added to the domestic factor income to avail national income.

4. Define real GNP.

Gross national product calculated at constant prices i.e., via base year price is known as real GNP in economics

5. In an economy, the value of indirect taxes is Rs. 200 crore and value of net indirect taxes is (-) Rs.250 crores. Identify the value of subsidies

- a. Rs. 50 Crore b. Rs. 450 Crore c. Rs. (-) 450 Crore d. Rs. 250 Crore

Answer:450 crore

6. If in an economy the value of Net Factor Income from Abroad is ₹200 crores and the value of Factor Income to Abroad is ₹40 crores. Identify the value of Factor Income from Abroad.

- a) ₹ 200 crores b) ₹160 crores c) ₹240 crores d) ₹180 crores

Answer:₹240 crores

7. Why are the intermediate goods not included in the National Income while measuring national income?

- (a) To avoid double accounting (b) It decreases income
(c) Intermediate goods are not good (d) All of these

Answer:(a) To avoid double accounting

8. Which of the following items are excluded from GNP measurement?

- (a) Purely financial transactions
(b) Transfer of used goods and non-market goods and services
(c) Illegal activities and the value of leisure
(d) All of these

Answer:(d) All of these

9. Which one of the following is included in 'Stock'?

- (a) Quantity of Money (b) Wealth
(c) Quantity of wheat stored in a warehouse (d) All the above.

Answer:(d) All of these

10. Total national income divided by total population is known as:

- (a) Private income (b) Personal income
(c) Personal spendable income (d) Per capita income.

Answer:(d) Per capita income

11. What is real flow?

Answer: Real flow refers to the flow of goods and services across different sectors of the economy. For example, factor services of Land, Labour, Capital and enterprise flowing from household to firms, and goods and services produced by the firms flowing from producer sector to households are real flow.

12. A car purchased by a household is a _____. (Choose the correct alternative)

- (a) single use capital good (b) single use consumer good
(c) durable consumer good (d) semi-durable consumer good

Answer: (c) durable consumer good

13. Providing the reason, explain whether the following are included in the domestic product of India.
- Profits earned by a branch of the foreign bank in India
 - Payment of salaries to its staff by an embassy located in New Delhi
 - Interest received by an Indian resident from its abroad firms

Answer:

- Profits earned by a branch of the foreign bank in India will be included in the domestic income of India because the profits are earned within the domestic territory of India
 - Payment of salaries to its staff by an embassy located in New Delhi will not be involved in the domestic income of India as it is not a part of the domestic territory of India
 - Interest received by an Indian resident from its abroad firms will not be included in the domestic income of India because it is the factor income from abroad.
14. Giving reason explain how should the following be treated in estimating GDP at Market price?
- Fees to a mechanic paid by a firm.
 - Interest paid by an individual on a car loan taken from a bank
 - Expenditure on purchasing a car for use by a firm.

Answer:

- fees paid to mechanic by a firm is not included because it is an intermediate cost of the firm.
 - Interest paid by an individual is not included because the loan is taken to meet the consumption expenditure and therefore interest paid for such a loan is not a factor payment.
 - Expenditure on purchase a car by a firm is included because it is investment expenditure, a final expenditure
15. Giving reason explain how should the following be treated in estimating GDP National Income.
- Payment of interest by a firm to a bank
 - Payment of interest by a bank to an individual.
 - Payment of interest by an individual to a bank.

Answer:

- Payment of interest by a firm to a bank will be included in the estimation of National income, as it is a factor income. Also, firm take loans for investment purpose.
 - Payment of interest by a bank to an individual will be included in the estimation of National Income as it a factor income.
 - Payment of interest by an individual to a bank will be not included in the estimation of National Income as consumer take a loan for consumption purpose.
16. 'Payment of fees to a lawyer engaged by a firm.' State with valid reason, should the given payment be included or not included in the estimation of national income of India.

Answer: It is an intermediate expenditure for the firm because it involves purchase of services by one production unit (firm) from another production unit (lawyer). So, it will be deducted from the value of output of the firm to get the figure of value addition. So, it will not be included in national income.

17. Meals given to a beggar will not be counted under national income accounts but will increase the welfare of the economy. Defend or refute the given statement with valid reason.

Answer: The given statement is correct. Meals to beggar is a unilateral transfer because beggars do not give anything in return to get meals. Such transactions are not included in national income accounts but these transactions help in fulfillment of basic requirements of those who cannot afford it. Therefore, these transactions will cause an increase in the welfare of the nation.

18. “India's GDP is expected to expand 7.5% in 2019-20: World Bank” - The Economic Times. Does the given statement mean that welfare of people of India increase at the same rate? Comment with reason.

Answer: Generally, it is considered that an increase in the Gross Domestic Product (GDP) of any economy (India in this case) ensures increase in welfare of the people of the country. However, this may not always be correct. Some of the prime reasons for the same are: a) unequal distribution and composition of GDP, b) non-monetary transactions in the economy which are not accounted for in GDP, and c) occurrence of externalities in the economy (both positive and negative).

19. ‘Real Gross Domestic Product is a better indicator of economic growth than Nominal Gross Domestic Product’. Do you agree with the given statement? Support your Answer: with a suitable numerical example.

Answer: The given statement is correct. Real Gross Domestic Product (GDP) is a better indicator of economic growth than Nominal Gross Domestic Product (GDP) as it is not affected by changes in general price level.

Numerical example:

Goods	Price of Current Year (P1) (in ₹)	Price of Base Year (P0) (in ₹)	Quantity of Current Year (Q1) (in units)	Quantity of Current Year (Q1) (in units)	Real GDP (P0Q1)
A	20	10	100	2000	1000
B	10	5	200	2000	1000
C	30	20	50	1500	1000
				$\sum P_1 Q_1 = 5,500$	$\sum P_0 Q_1 = 3,000$

In the above example the difference between Real GDP ($\sum P_0 Q_1$) and Nominal GDP ($\sum P_1 Q_1$) is $5,500 - 3,000 = ₹2,500$. This is only the monetary difference as the quantity sold in the market remains unchanged and the variation in the value of GDP is merely due to the change in the prices in the economy.

20. Calculate 'Depreciation on Capital Asset' from the following data

SL NO	Particulars	Amount (in ₹crores)
i	Capital value of the asset	1000
ii	Estimated life of the asset	20 years
iii	Scrap Value	Nil

$$\text{Depreciation on capital asset} = \frac{\text{cost of the capital asset} - \text{scrap value}}{\text{estimated life of the capital asset}}$$

$$\text{Depreciation} = \frac{1000 - 0}{20}$$

$$\text{Depreciation} = 50 \text{ crores}$$

21. 'Circular flow of income in a two sector economy is based on the axiom that one's expenditure is other's income'. Do you agree with the given statement? Support your Answer: with valid reasons.

Answer: Yes, the given statement is correct. In a two sector economy, the firms produce goods and services and make factors payments to the households. The factor income earned by the households will be used to buy the goods and services which would be equal to income of firms. The aggregate consumption expenditure by the households in the economy is equal to the aggregate expenditure on goods and services produced by the firms in the economy (Income of the producers).

22. State with valid reason, which of the following statement is true or false:

- Gross Value Added at market price and Gross Domestic Product at market price are one and the same thing.
- Intermediate goods are always durable in nature.

Answer:

- The given statement is false as Gross Domestic Product is the result of sum of Gross Value Added by all the producing units/firms in an economy, during an accounting year.
- The given statement is false as intermediate goods are generally non-durable in nature. They are the goods used as raw material and they lose their identity in the production process for the creation of a new commodity, during an accounting year.

23. "Domestic/household services performed by a woman may not be considered as an economic activity". Defend or refute the given statement with valid reason.

Answer: The given statement is defended; as it is difficult to measure the monetary value of the services performed by a woman (homemaker). Therefore, these activities may not be considered as an economic activity.

24. “Compensation to the victims of a cyclone is an example of a welfare measure taken by the government”. State with valid reason, should it be included/not included in the estimation of national income of India.

Answer: Compensation given to the victims of a cyclone is an example of a social welfare measure taken by the government. However, it is not included in estimation of national income as it is a transfer payment which does not lead to corresponding flow of goods and services.

25. Suppose the Gross Domestic Product (GDP) of Nation X was ₹2,000 crores in 2018-19, whereas the Gross Domestic Product of Nation Y in the same year was ₹120,000 crores. If the Gross Domestic Product of Nation X rises to ₹ 4,000 crores in 2019-20 and the Gross Domestic Product of Nation Y rises to ₹ 200,000 crores in 2019-20.

Compare the rate of change of GDP of Nations X and Y, taking 2018-19 as base year.

Answer:

Nations/ Years	2018	2019	Growth Rate of GDP = $\frac{\text{Change in GDP}}{\text{Base Year GDP}} \times 100$ (Base year = 2018-19)
X	₹2000 crores	₹ 4000 crores	$(2000/2000) \times 100 = 100\%$
Y	₹1,20,000 crores	₹2,00,000 crores	$(80000/120000) \times 100 = 66.67\%$

Nation X has registered a GDP growth rate of 100% and has performed better on the front of GDP rise as compared to Nation Y that has registered a GDP growth rate of 66.67%.

ASSERTION AND REASON QUESTION

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

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

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

Answer: c) Assertion (A) is true but Reason (R) is false.

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

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

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

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

3. Assertion (A): Purchase of a car always means a purchase of a final good.

Reason (R): It depends on the end-use of the car. If it is purchased by a household, it is a final good. It is like an investment by a producer, if it is purchased as taxi. If it is purchased for resale by a car dealer, then it is intermediate good.

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

Answer: d) Assertion (A) is false but Reason (R) is true.

4. Assertion (A): Purchase of wheat in whole sale market done by traders is to be treated as the purchase of the intermediate goods and by the household is to be treated as the purchase of final good

Reason (R): Both trader and household purchases wheat from the whole sale market in bulk, but trader are not the final user of wheat.

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

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

NUMERICAL QUESTIONS

VALUE ADDED METHOD

1. Find out net value added at factor cost:

Sl.no.	Particulars	(in crores)
(i)	Price per unit of output	25
(ii)	Output sold (units)	1000
(iii)	Excise duty	5000
(iv)	Consumption of fixed capital	1000
(v)	Opening stock	1500
(vi)	Intermediate consumption	7000
(vii)	Rent	500

(viii)	Purchase of raw materials	4000
(ix)	Closing stock	1000
	Purchase of machine	3000

Answer: $GVA\ mp = GVO - \text{Intermediate consumption}$

$GVO = \text{Sales} + \text{change in stock}$

$$= (25 \times 1000) + (1000 - 1500) = 25000 + (-)500 = 24500 \text{ crores}$$

$$GVA\ mp = 24500 - 7000 = 17500$$

$NVA\ fc = GVA\ mp - \text{depreciation} - \text{NIT}$

$$= 17500 - 1000 - (5000 - 0)$$

$$= 11500 \text{ crores}$$

2. Find out Gross value added at factor cost

Sl. No.	Particulars	(in crores)
(i)	Sales	500
(ii)	Opening stock	30
(iii)	Closing stock	20
(iv)	Purchase of intermediate product	300
(v)	Purchase of machinery	150
(vi)	Subsidy	40

Answer: $GVA\ mp = GVO - \text{intermediate consumption}$

$= (\text{Sales} + \text{change in stock}) - \text{intermediate consumption}$

$$= 500 + (20 - 30) - 300$$

$$= 500 + (-)10 - 300$$

$$= 190 \text{ crores}$$

$GVA\ fc = GVA\ mp - \text{NIT}$

$$= 190 - (0 - 40)$$

$$= 190 + 40 = 230 \text{ crores}$$

3. An economy has two firms A and B. calculate (a) Value added by firms A and B. (b) GDP at MP

Sl. No.	Particulars	(in crores)
(i)	Export by firm A	20
(ii)	Import by firm A	50
(iii)	Sales to household by firm A	90
(iv)	Sales to firm B by firm A	40
(v)	Sales to firm A by firm B	30
(vi)	Sales to household by firm B	60

Answer: Value added by Firm A = value of output – value of intermediate consumption
 $= (20+90+40) + 0 - (50+30)$
 $= 150 - 80 = 70$ crores

Value added by Firm B = value of output – value of intermediate consumption
 $= (30+60) + 0 - (40)$
 $= 90 - 40 = 50$ crore

GDP mp = 70+ 50 = 120 crores

4. An economy has two firms A and B. calculate (a) Value added by firms A and B. (b) GDP at FC.

- (i) Sales by firm A = 100
- (ii) Purchase from firm B by Firm A = 40
- (iii) Purchase from firm A by Firm B = 60
- (iv) Sales by firm B = 200
- (v) Closing stock of firm A = 20
- (vi) Closing stock of firm B = 35
- (vii) Opening stock of firm A = 25
- (viii) Opening stock of firm B = 45
- (ix) Indirect Taxes paid by both the firm = 30

Answer: Value added by Firm A = GVO – IC
 $= (\text{Sales} + \text{Change in stock}) - \text{IC}$
 $= 100 + (-)5 - 40 = 55$

Value added by Firm B = GVO – IC
 $= (\text{Sales} + \text{Change in stock}) - \text{IC}$
 $= 200 + (-)10 - 60 = 130$

GDP mp = 55+130 = 185

GDP fc = GDP mp – NIT
 $= 185 - 30 = 155$

5. Calculate ‘intermediate consumption’

- (i) Value of output = 200
- (ii) NVA fc = 80
- (iii) Sales tax = 15
- (iv) Subsidies = 5
- (v) Depreciation = 20

Answer: NVA fc = GVA mp – Depreciation – NIT
 $= (\text{Value of output} - \text{IC}) - \text{Depreciation} - \text{NIT}$
 $80 = 200 - \text{IC} - 20 - (15-5)$
 $\text{IC} = 200 - 30 - 80 = 90$

6. Calculate ‘Sales’

- (i) NVA fc = 300
- (ii) Intermediate consumption = 200
- (iii) Indirect tax = 20
- (iv) Depreciation = 30

(v) Change in stock = (-)50

Answer: $NVA_{fc} = GVA_{mp} - \text{Depreciation} - NIT$

$NVA_{fc} = (\text{Value of output} - IC) - \text{Depreciation} - NIT$

$NVA_{fc} = (\text{Sales} + \text{change in stock} - IC) - \text{Depreciation} - NIT$

$300 = \text{sales} + (-) 50 - 200 - 30 - 20$

$300 = \text{sales} - 300$

Sales = 600

7. Calculate GDP mp

(i) Intermediate consumption by

(a) Primary sector = 500

(b) Secondary sector = 400

(c) Tertiary sector = 300

(ii) Value of output by

(a) Primary sector = 1000

(b) Secondary sector = 900

(c) Tertiary sector = 700

Answer: $GDP_{mp} = (1000+900+700) - (500 + 400 + 300)$
= 1400

8. Calculate National Income:

(i) Value of Output of Primary sector = 1600

(ii) Value of Output of secondary sector = 400

(iii) Value of Output of Tertiary sector = 600

(iv) Indirect taxes paid by all sector = 50

(v) Subsidies paid by all sector = 20

(vi) Value of IC

(a) Primary sector = 800

(b) Secondary sector = 400

(c) Tertiary sector = 200

(vii) Depreciation in all sector = 80

(viii) Factor income received from ROW = 10

(ix) Factor income paid to non-residents = 20

Answer:

$GDP_{mp} = (1600+400+600) - (800+400+200)$

$2600 - 1400 = 1200$

$NI = NNP_{fc} = GDP_{mp} - \text{Dep.} + NFIA - NIT$

$1200 - 80 + (10 - 20) - (50 - 20)$

$= 1200 - 80 - 10 - 30$

$= 1080$

INCOME METHOD

$NDP_{fc} = COE + OS + MI$

COE = Wages and Salaries + Employer's contribution to SSS (social Security Scheme)

OS = Rent + Interest + Royalty + Profit

Profit = dividend + corporate tax + corporate saving (undistributed profit or retained profit)

MI = mixed income of self employed

1. Calculate NDP at FC

Sl.No.	Particulars	(in crores)
(i)	Rent	1400
(ii)	Royalty	200
(iii)	Interest	1500
(iv)	Wages and salaries	800
(v)	Profit	500
(vi)	Mixed income	1000
(vii)	Depreciation	70
(viii)	Employer's contribution to SSS	200

Answer:

$$\text{NDP}_{fc} = \text{COE} + \text{OS} + \text{MI}$$

$$\begin{aligned} \text{NDP}_{fc} &= (\text{wages and salaries} + \text{Employer's contribution to SSS}) + \\ &\quad (\text{rent} + \text{Royalty} + \text{Interest} + \text{Profit}) + \text{MI} \\ &= (800 + 200) + (1400 + 200 + 1500 + 500) + 1000 \\ &= 1000 + 3600 + 1000 = 5600 \text{ crores.} \end{aligned}$$

2. Calculate National Income:

Sl. No.	Particulars	(in crores)
(i)	Compensation of employees	2000
(ii)	Rent	400
(iii)	Profit	900
(iv)	Dividend	100
(v)	Interest	500
(vi)	Mixed income of self employed	7000
(vii)	Net factor income to abroad	50
(viii)	Net export	60
(ix)	Net indirect taxes	300
(x)	Depreciation	150
(xi)	Net current transfer to abroad	30

Answer:

$$\text{NDP}_{fc} = \text{COE} + \text{OS} + \text{MI}$$

$$\begin{aligned} \text{NDP}_{fc} &= \text{COE} + (\text{rent} + \text{Royalty} + \text{Interest} + \text{Profit}) + \text{MI} \\ &= 2000 + (400 + 900 + 500) + 7000 \\ &= 10,800 \text{ crores} \end{aligned}$$

$$\begin{aligned} \text{NNP}_{fc} &= \text{NDP}_{fc} + \text{NFIA} \\ &= 10800 + (-)50 \end{aligned}$$

= 10750 crores

3. Calculate NNP mp:

SL. No.	Particulars	(in crores)
(i)	Mixed income of self employed	8000
(ii)	Depreciation	200
(iii)	Dividend	600
(iv)	Rent	600
(v)	Wages and salaries	2000
(vi)	Undistributed profit	300
(vii)	Interest	700
(viii)	Compensation of employees	3000
(ix)	Net indirect taxes	500
(x)	Corporate tax	100
(xi)	Net factor income to abroad	60
(xii)	Net export	(-) 50
(xiii)	Net current transfer to abroad	20

Answer:

$$\text{NDP fc} = \text{COE} + \text{OS} + \text{MI}$$

NDP fc = COE + (rent + Interest + dividend + undistributed profit + corporate tax) + Mixed income of self-employed.

$$= 3000 + (600 + 700 + 600 + 300 + 100) + 8000$$

$$= 13,300 \text{ crores}$$

$$\text{NNP mp} = \text{NDP fc} + \text{NFIA} + \text{NIT}$$

$$= 13300 + (-) 60 + 500$$

$$= 13740 \text{ crore}$$

4. Calculate GNP mp:

Sl. No.	Particulars	(in crores)
(i)	Profit	220
(ii)	Compensation of employees	350
(iii)	Interest	100
(iv)	Consumption of fixed capital	50
(v)	Opening stock	30
(vi)	Subsidies	20
(vii)	Closing stock	50
(viii)	Mixed income	150
(ix)	Employer's contribution to SSS	30
(x)	Net factor income from abroad	10

(xi)	Rent	80
(xii)	Indirect taxes	90

Answer:

$$\text{NDP}_{fc} = \text{COE} + \text{OS} + \text{MI}$$

$$\begin{aligned} \text{NDP}_{fc} &= \text{COE} + (\text{rent} + \text{Royalty} + \text{Interest} + \text{Profit}) + \text{MI} \\ &= 350 + (220 + 100 + 80) + 150 \\ &= 900 \end{aligned}$$

$$\begin{aligned} \text{GNP}_{mp} &= \text{NDP}_{fc} + \text{Dep.} + \text{NFIA} + \text{NIT} \\ &= 900 + 50 + 10 + (90 - 20) \\ &= 1030 \text{ crores} \end{aligned}$$

5. Calculate Operating Surplus

Sl. No.	Particulars	(in crores)
(i)	Sales	4000
(ii)	Compensation of employees	800
(iii)	Intermediate consumption	600
(iv)	Rent	400
(v)	Net indirect tax	500
(vi)	Consumption of fixed capital	200
(vii)	Mixed income	1400

Answer:

$$\begin{aligned} \text{GVO}_{mp} &= \text{Sales} + \text{change in stock} \\ &= 4000 + 0 = 4000 \text{ crores} \end{aligned}$$

$$\begin{aligned} \text{GDP}_{mp} &= \text{GVO}_{mp} - \text{IC} \\ &= 4000 - 600 = 3400 \text{ crores} \end{aligned}$$

$$\begin{aligned} \text{NDP}_{fc} &= \text{GDP}_{mp} - \text{Dep.} - \text{NIT} \\ &= 3400 - 200 - 500 = 2700 \text{ crore} \end{aligned}$$

$$\begin{aligned} \text{NDP}_{fc} &= \text{COE} + \text{OS} + \text{MI} \\ 2700 &= 800 + \text{OS} + 1400 \\ \text{OS} &= 500 \text{ crores} \end{aligned}$$

6. Calculate Net Domestic Product at Market price:

Sl. No.	Particulars	(in lakh)
(i)	Wages and salaries	500
(ii)	Net capital formation	100
(iii)	Export	50
(iv)	Import	60
(v)	Gross capital formation	120

(vi)	Employers contribution to SSS	20
(vii)	Net factor income from abroad	(-)10
(viii)	Rent and interest	250
(ix)	Profit	400
(x)	Indirect taxes	50
(xi)	subsidies	10

$$\text{NDP}_{fc} = \text{COE} + \text{OS} + \text{MI}$$

$$\begin{aligned} \text{NDP}_{fc} &= (\text{wages and salaries} + \text{Employer's contribution to SSS}) + \\ &\quad (\text{rent} + \text{Royalty} + \text{Interest} + \text{Profit}) + \text{MI} \\ &= (500 + 20) + (250 + 400) + 0 \\ &= 1170 \text{ lakh} \end{aligned}$$

$$\text{NDP}_{mp} = \text{NDP}_{fc} + \text{NIT}$$

$$= 1170 + (50 - 10) = 1170 + 40 = 1210 \text{ lakh}$$

7. Calculate national income

Sl. No.	Particulars	(in lakh)
(i)	Mixed income	200
(ii)	Old age pension	20
(iii)	Dividend	100
(iv)	Operating surplus	900
(v)	Wages and salaries	500
(vi)	Profit	400
(vii)	Employer's contribution to SSS	50
(viii)	Net factor income from abroad	(-) 10
(ix)	Consumption of fixed capital	50
(x)	Net indirect taxes	50

Answer:

$$\text{NDP}_{fc} = \text{NDP}_{fc} = \text{COE} + \text{OS} + \text{MI}$$

$$\text{NDP}_{fc} = (\text{wages and salaries} + \text{Employer's contribution to SSS}) + \text{OS} + \text{MI}$$

$$\begin{aligned} &= (500 + 50) + 900 + 200 \\ &= 1650 \text{ crores} \end{aligned}$$

$$\text{NNP}_{fc} = \text{NDP}_{fc} + \text{NFIA}$$

$$= 1650 + (-)10 = 1640 \text{ crores}$$

EXPENDITURE METHOD

$$\text{GDP}_{mp} = \text{PFCE} + \text{GFCE} + \text{GDCF} + \text{NET EXPORT}$$

$$\text{GDCF} = \text{GDFCF} + \text{CHANGE IN STOCK}$$

$$\begin{aligned} \text{GDPCF} &= \text{Gross Business fixed investment} \\ &+ \text{Gross Residential construction investment} \\ &+ \text{Gross public investment} \end{aligned}$$

$$\text{NNP}_{fc} = \text{GDP}_{mp} - \text{Dep.} + \text{NFIA} - \text{NIT}$$

1. Calculate (a) GDP at mp and (b) national income

	Particulars	(in crore)
(i)	Government final consumption expenditure	4000
(ii)	Private final consumption expenditure	3500
(iii)	Gross domestic capital formation	1100
(iv)	Net exports	500
(v)	Net factor income from abroad	100
(vi)	Net indirect taxes	300
(vii)	Subsidies	40
(viii)	Change in stock	80
(ix)	Consumption of fixed capital	120

Answer:

$$\begin{aligned} \text{GDP}_{mp} &= \text{PFCE} + \text{GFCE} + \text{GDCF} + \text{NET EXPORT} \\ &= 3500 + 4000 + 1100 + 500 \\ &= 9100 \end{aligned}$$

$$\begin{aligned} \text{NI/NNP}_{fc} &= \text{GDP}_{mp} - \text{Dep.} + \text{NFIA} - \text{NIT} \\ &= 9100 - 120 + 100 - 300 \\ &= 8780 \text{ CRORES} \end{aligned}$$

2. Calculate national income

Sl.No.	Particulars	(in crore)
(i)	Current transfer from rest of the world	50
(ii)	Net indirect taxes	100
(iii)	Net export	(-) 25
(iv)	Rent	90
(v)	Private final consumption expenditure	900
(vi)	Net domestic capital formation	200
(vii)	Compensation of employees	500
(viii)	Net factor income from abroad	(-) 10
(ix)	Government final consumption expenditure	400
(x)	Profit	220
(xi)	Mixed income of self employed	400
(xii)	Interest	230

Answer:

$$\text{NDP mp} = \text{PFCE} + \text{GFCE} + \text{NDCF} + \text{NET EXPORT}$$

$$= 900 + 400 + 200 + (-)25$$

$$= 1475 \text{ crores}$$

$$\text{NI/NNP fc} = \text{NDP mp} + \text{NFIA} - \text{NIT}$$

$$= 1475 + (-) 10 - 100$$

$$= 1365 \text{ CRORES}$$

3. Calculate Domestic Income

Sl. No.	Particulars	(in crore)
(i)	Private final consumption expenditure	8000
(ii)	Govt. final consumption expenditure	1000
(iii)	Exports	70
(iv)	Imports	120
(v)	Consumption of fixed capital	60
(vi)	Gross domestic fixed capita formation	500
(vii)	Change in stocks	100
(viii)	Factor income to abroad	40
(ix)	Factor income from abroad	90
(x)	Indirect taxes	700
(xi)	Subsidies	50
(xii)	Net current transfers to abroad	(-)30

Answer:

$$\text{GDP mp} = \text{PFCE} + \text{GFCE} + \text{GDCF (GDFCF + change in stock)} + \text{NET EXPORT}$$

$$= 8000 + 1000 + (500 + 100) + (70 - 120)$$

$$= 9550 \text{ crores}$$

$$\text{NDP fc} = \text{GDP mp} - \text{Dep.} - \text{NIT}$$

$$= 9550 - 60 - 650 = 9550 - 710$$

$$= 8840 \text{ CRORES}$$

4. Calculate national Income

Sl. No.	Particulars	(in crore)
(i)	Net factor income to abroad	(-) 50
(ii)	Net indirect taxes	800
(iii)	Net current transfers from rest of the world	100
(iv)	Net import	200

(v)	Private final consumption expenditure	5000
(vi)	Government final consumption expenditure	3000
(vii)	Gross domestic capital formation	1000
(viii)	Consumption of fixed capital	150
(ix)	Change in stocks	(-) 50
(x)	Mixed income	4000
(xi)	Scholarship to students.	80

Answer:

$$\begin{aligned} \text{GDP mp} &= \text{PFCE} + \text{GFCE} + \text{GDCE} (\text{GDFCF} + \text{change in stock}) + \text{NET EXPORT} \\ &= 5000 + 3000 + 1000 - 200 \\ &= 8800 \text{ crores} \end{aligned}$$

$$\begin{aligned} \text{NNP fc} &= \text{GDP mp} - \text{Dep.} + \text{NFIA} - \text{NIT} \\ &= 8800 - 150 + (50) - 800 \\ &= 7900 \text{ CRORES} \end{aligned}$$

5. Calculate national Income

Sl. No.	Particulars	(in crore)
(i)	Government final consumption expenditure	60
(ii)	Net imports	10
(iii)	Change in stock	5
(iv)	Consumption of fixed capital	20
(v)	Private final consumption expenditure	250
(vi)	Net factor income from abroad	(-) 5
(vii)	Net domestic capital formation	40
(viii)	Net current transfer from abroad	10
(ix)	Net indirect tax	15

Answer:

$$\begin{aligned} \text{NDP mp} &= \text{PFCE} + \text{GFCE} + \text{NDCF} + \text{NET EXPORT} \\ &= 250 + 60 + 40 - 10 \\ &= 340 \text{ crores} \end{aligned}$$

$$\begin{aligned} \text{NNP fc} &= \text{NDP mp} + \text{NFIA} - \text{NIT} \\ &= 340 + (-) 5 - 15 \\ &= 320 \text{ crores} \end{aligned}$$

6. Calculate national Income

Sl. No.	Particulars	(in crore)
(i)	Imports	20
(ii)	Govt. final consumption expenditure	60
(iii)	Net factor income from abroad	(-)5

(iv)	Net current transfer from abroad	5
(v)	Private final consumption expenditure	200
(vi)	Subsidies	10
(vii)	Indirect tax	40
(viii)	Net domestic capital formation	70
(ix)	Export	20
(x)	Consumption of fixed capital	15

Answer:

$$\begin{aligned} \text{NDP mp} &= \text{PFCE} + \text{GFCE} + \text{NDCF} + \text{NET EXPORT} \\ &= 200 + 60 + 70 + (20 - 20) \\ &= 330 \text{ crores} \end{aligned}$$

$$\begin{aligned} \text{NNP fc} &= \text{NDP mp} + \text{NFIA} - \text{NIT} \\ &= 330 + (-) 5 - (40 - 10) \\ &= 330 - 5 - 30 = 295 \text{ crores} \end{aligned}$$

7. Calculate national Income

Sl. No.	Particulars	(in crore)
(i)	Net change in stock	50
(ii)	Government final consumption expenditure	100
(iii)	Net current transfer to abroad	30
(iv)	Gross domestic fixed capital formation	200
(v)	Private final consumption expenditure	500
(vi)	Net imports	40
(vii)	Depreciation	70
(viii)	Net factor income to abroad	(-) 10
(ix)	Net indirect tax	120
(x)	Net capital transfer to abroad.	25

Answer:

$$\begin{aligned} \text{GDP mp} &= \text{PFCE} + \text{GFCE} + \text{GDCF} (\text{GDFCF} + \text{change in stock}) + \text{NET EXPORT} \\ &= 500 + 100 + (200 + 50) + (-) 40 \\ &= 810 \text{ crores} \end{aligned}$$

$$\begin{aligned} \text{NNP fc} &= \text{GDP mp} - \text{dep.} + \text{NFIA} - \text{NIT} \\ &= 810 - 70 + 10 - 120 \\ &= 630 \text{ crores} \end{aligned}$$

8. Calculate compensation of employees from the following data:

Sl. No.	Particulars	Amount (in ₹crores)
(i)	Profits after tax	20
(ii)	Interest	45
(iii)	Gross Domestic Product at Market Price	200
(iv)	Goods and Services Tax	10
(v)	Consumption of Fixed Capital	50
(vi)	Rent	25
(vii)	Corporate Tax	5

Answer:

$$\begin{aligned}
 \text{Compensation of Employees} &= (\text{iii}) - (\text{v}) - (\text{iv}) - (\text{vi} + \text{ii} + \text{i} + \text{vii}) \\
 &= 200 - 50 - 10 - (25 + 45 + 20 + 5) \\
 &= ₹45 \text{ crores.}
 \end{aligned}$$

9. Calculate National Income by (i) income method (ii) expenditure method

Sl. No.	Particulars	In crores
(i)	Compensation of employees	1200
(ii)	Net factor income to abroad.	20
(iii)	Net subsidies	(-)120
(iv)	Dividend	500
(v)	Closing stock	200
(vi)	Private final consumption expenditure	2000
(vii)	Net domestic fixed capital formation	700
(viii)	Consumption of fixed capital	130
(ix)	Corporate tax	100
(x)	Opening stock	130
(xi)	Rent	400
(xii)	Interest	620
(xiii)	Net import	30
(xiv)	Undistributed profit	200
(xv)	Mixed income of self employed	700
(xvi)	Govt. final consumption expenditure	1100

Answer:

Income method

$$\begin{aligned} \text{NDP fc} &= \text{COE} + \text{OS} + \text{MI} \\ &= 1200 + (400 + 620 + 500 + 200 + 100) + 700 = 3720 \text{ crores} \\ \text{NNP fc} &= \text{NDP fc} + \text{NFIA} \\ &= 3720 + (-) 20 = 3700 \text{ crores} \end{aligned}$$

Expenditure method

$$\begin{aligned} \text{NDP mp} &= \text{PFCE} + \text{GFCE} + (\text{NDFCF} + \text{change in stock}) + \text{Net export} \\ &= 2000 + 1100 + [700 + (200 - 130)] + (-) 30 \\ &= 2000 + 1100 + 770 - 30 \\ &= 3840 \text{ crores} \\ \text{NNP fc} &= \text{NDP mp} + \text{NFIA} - \text{NIT} \\ &= 3970 + (-) 20 - (120) \\ &= 3840 - 20 - 120 = 3700 \text{ crores} \end{aligned}$$

10. Calculate GNP mp by (i) income method (ii) expenditure method

Sl. No.	Particulars	In crores
(i)	Mixed income of self employed	400
(ii)	Change in stock	10
(iii)	Wages and salaries	500
(iv)	Private final consumption expenditure	900
(v)	Net factor income from abroad	(-) 20
(vi)	Net indirect taxes	100
(vii)	Business fixed investment	200
(viii)	Employee's contribution to SSS	200
(ix)	Profit	350
(x)	rent	100
(xi)	Residential construction investment	70
(xii)	Govt. final consumption expenditure	450
(xiii)	Public investment	120
(xiv)	Interest	150
(xv)	Net export	(-) 30
(xvi)	Consumption of fixed capital	120

Answer:

Income method

$$\begin{aligned} \text{NDP fc} &= \text{COE} + \text{OS} + \text{MI} \\ &= (500 + 0) + (150 + 100 + 350) + 400 = 1500 \text{ crores} \\ \text{GNP mp} &= \text{NDP fc} + \text{Dep.} + \text{NFIA} + \text{NIT} \\ &= 1500 + 120 + (-) 20 + 100 = 1700 \text{ crores} \end{aligned}$$

Expenditure method

$$\text{GDP mp} = \text{PFCE} + \text{GFCE} + (\text{GDFCF} + \text{change in stock}) + \text{Net export}$$

$$= 450 + 900 + (200 + 70 + 120 + 10) + (-)30$$

$$= 450 + 900 + 400 - 30$$

$$= 1720 \text{ crores}$$

$$\text{GNP mp} = \text{GDP mp} + \text{NFIA}$$

$$= 1720 + (-) 20 = 1700 \text{ cores}$$

PREVIOUS YEAR QUESTIONS AND ANSWER

1. Give one example of ‘externality’ which reduces welfare of the people. (Delhi 2013)

Answer: When the activities of one result in harm to others with no payment made for the harm done, such activities are called negative externalities, e.g. factories produce goods but at the same time creates water and air pollution. Production of goods increases welfare but at the same time pollution reduces the welfare

2. What is Nominal Gross Domestic Product? (Delhi 2011)

Answer: Nominal Gross Domestic Product refers to market value of the final goods and services produced within the domestic territory of a country during a financial year, as estimated using the current year prices. It is also called GDP at current price.

3. Define domestic product. (All India 2011,2010)

Answer: The value of all factor incomes generated during an accounting year within the domestic territory of a country is termed as domestic product or domestic income of a country.

5. What is transfer payment? (All India 2011)

Answer: Transfer payments are all those unilateral payments corresponding to which there is no value addition in the economy, e.g. gifts, donations, etc.

6. What are externalities? Give an example of a positive externality and its impact on welfare of the people. (All India 2014)

Answer: Externalities refer to the benefits or harms a firm or an individual cause to another for which they are not paid. These externalities can be positive as well as negative. A positive externality exists when an individual or firm making a decision does not receive the full benefit of the decision, e.g. Immunization prevents an individual from getting a disease, but has the positive effect of the individual not being able to spread the disease to others.

It enhances the overall welfare of the society and creates positive externalities.

8. Explain how ‘non-monetary exchanges’ are a limitation in taking domestic product as an index of welfare? (Foreign 2014; All India 2011)

Answer: The non-monetary exchanges which take place in the informal sectors are not included in the calculation of GDP since money is not being used. For example, Service of a housewife, kitchen gardening, etc. This results in an under estimation of GDP. Hence, GDP calculated in the standard manner may not give us a clear indication of the productive activity and actual welfare of the country.

9. Explain how ‘distribution of Gross Domestic Product’ is a limitation in taking Gross Domestic Product as an index of welfare. (Delhi 2011)

Answer: If the Gross Domestic Product of a country is rising sharply, it may not necessarily indicate the welfare. This is because the rise in GDP may be concentrated in the hands of few

individuals or firms leading to increase inequality of income and wealth, i.e. the gap between the income of rich and poor widens which does not indicate increase in the welfare.

10. How can externalities be a limitation of using Gross Domestic Product as an index of welfare? (Delhi 2011 c)

Answer: Increase in Gross Domestic Product is due to increased economic activities like industrialization and urbanization. With increase industrialization certain problems for society also increase like pollution of air, water and soil and deforestation. Urbanization also results in housing problems, increase in road accidents, etc. On the whole welfare decreases and this decrease in welfare is ignored while calculation of GDP. So, we can say that externalities can be a limitation of using GDP as an index of welfare.

11. Give the meaning of factor income to abroad and factor income from abroad. Also give an example of each. (All India 2009)

Answer: Factor income to abroad It is the income earned by a non-resident factor of production working in domestic market, e.g. the earnings of a person from Bangladesh who is-working in India is factor income to abroad.

Factor income from abroad It is the income earned by residents of a country from rest of the world, e.g. an Indian citizen working in US, earns his salary and this is treated as factor income from abroad.

12. Distinguish between domestic product and national product. When can domestic product be more than the national product? (All India 2009)

Answer: The sum total of all factor incomes generated or produced during an accounting year within the domestic territory of a country is termed as domestic income or domestic product of a country. On the other hand, the sum total of all factor incomes earned by the normal residents of a country, irrespective of the fact that in which part of the world this income is generated, during an accounting year is called National Income or national product of a country.

National Product = Domestic Product + Net Factor Income from Abroad.

If Net Factor Income from Abroad (i.e. income paid to abroad is more than income received) is negative, the domestic product is more than the national product

13. Distinguish between Real Gross Domestic Product and Nominal Gross Domestic Product. Which of these is a better index of welfare of the people and why? (All India 2013)

OR

Distinguish between Real and Nominal Gross Domestic Product. (All India 2010)

Answer:

(i) Nominal GDP is the market value of all final goods and services produced in a geographical region usually a country, on the other hand, Real GDP is a macroeconomic measure of the value of output, economically adjusted for price changes. The adjustment transforms the Nominal GDP into an index for quantity of total output.

(ii) Nominal values of GDP from different time periods can differ due to changes in quantities of goods and services and/or changes in general price levels. Values for Real GDP are adjusted for difference in price levels while figures for Nominal GDP are not adjusted.

Real GDP is a better index of welfare of the people, when Real GDP rises, flow of goods and services tends to rise, other things remaining constant. This means greater availability of goods per person, implying higher level of welfare.

14. Explain why subsidies are added to and indirect taxes deducted from domestic product at market price to arrive at domestic product at factor cost? (Delhi 2010 c)

Answer: Subsidies by government are grants that decrease the price of a commodity, whereas indirect taxes are paid by a firm and households that increase the final price of a commodity. Hence, to derive Gross Domestic Product at Factor Cost from Gross Domestic Product at Market Price, we deduct indirect taxes and add subsidies. Also subsidies are the income received while indirect taxes are paid.

15. “Final goods include only those goods which are consumed by the households”. Defend or refute the given statement with valid reason.

Answer: The given statement is refuted as final goods include those goods which are either consumed by the households or purchased by a producer for investment purposes.

16. “Circular flow principle is based on the assumption that one’s expenditure will become other’s income.” Explain the given statement.

Answer: - In a two sector economy households and firms exist to run the economy. Households render factor services to the firms and earn factor incomes from them. Whereas; firms produce and sell goods and services to households and earn their income by an equal magnitude. Thus, in a circular income mode, the axiom that one’s expenditure is other’s income holds true.

17. Define Real Gross Domestic Product. (Delhi 2011)

Answer: Real Gross Domestic product is the sum total of the money value of all final goods and services produced in an economy during the year estimated at some given base year’s prices.

18. Discuss briefly the three components of ‘Income from Property and Entrepreneurship.’

Answer:

(a) Income from property and entrepreneurship (operating surplus) includes:

- i. Rent: rent is factor income generated from ownership of land and building.
- ii. Royalty: it refers to income generated for granting leasing right, copyright etc.
- iii. Interest: interest is a factor income generated from ownership of capital.
- iv. Profit: it is a factor income generated from entrepreneurship

19. What are ‘externalities’? State its types with suitable examples.

Answer: Externalities refer to the benefits/harms caused by a firm/individual to the society in general, without being penalized. There are two types of externalities: -

- (i) Positive externalities – Social benefits. E.g. saving of time/fuel with construction of better roads in a country
- (ii) Negative externalities - Social harms for example pollution caused by stubble burning in some states of India.

20. Calculate the value of “Change in Stock” from the following data:

Sl No	ITEM	Amount (in ₹Crores)
i	Sales	400
ii	Net value added at Factor Cost	200
iii	Subsidies	10
iv	Change in stock	?
v	Depreciation	40
vi	Intermediate consumption	100

Answer:

$$\begin{aligned} \text{Change in stock} &= (\text{ii}) + (\text{vi}) + (\text{v}) - (\text{iii}) - (\text{i}) \\ &= 200 + 100 + 40 - 10 - 400 \\ &= (-) ₹70 \text{ Crores.} \end{aligned}$$

21. Distinguish between 'value of output' and 'value added'. (CBSE 2020)

Answer: Value of output is the estimated money value of all the goods and services, inclusive of change in stock and production for self-consumption. Whereas; Value added is the excess of value of output over the value of intermediate consumption.

22. Define the problem of double counting in the estimation of National Income. Discuss two approaches to correct the problem of double counting.

Answer: Problem of double counting in the estimation of National Income arises due to counting the value of commodities more than once. This leads to overestimation of the value of goods and services produced in the economy. Two approaches to correct the problem of double counting are-

(i) Final Output Method: According to this method, value of only the final goods and services should be added to determine the national income.

ii) Value Added Method: According to this method, sum total of the value added by each producing unit should only be taken in consideration. It means the value of intermediate consumption should not be considered.

23. Define the following: (CBSE 2020)

- a) Capital Goods b) Gross Domestic Product
c) Flow Variables d) Income from property and entrepreneurship

Answer:

a) Capital Goods are those final goods which help in further production of other goods and services. e.g. machinery

b) Gross Domestic Product is the sum total of market value of all the final goods and services produces within the domestic territory of a country during a year.

c) Flow Variables are those economic variables which is measured over a period of time e.g. national income

d) Income from property and entrepreneurship is the income which arises from ownership of physical/financial/intellectual property and reward to the entrepreneur for his contribution to the production of goods and services in the form rent, royalty, interest and profit.

27. Question- 'Subsidies to the producers, should be treated as transfer payments.' Defend or refute the given statement with valid reason.

Answer: - The given statement is defended, as subsidy is a transfer payment. Subsidy is the financial assistance provided by the government to producers to fulfill its social welfare objectives. Government does not get anything in consideration for the same. It does not contribute to the current flow of goods and services and hence do not contribute to any value addition.

28. Explain Circular Flow of Income in a two sector economy.

Answer: - Two sector model consists of production sector and household sector. Households are the owners of factors of production and supply factor services to production sector. The production units in return make factor payment. Households spend the entire income on the purchase of goods and services produced by firms. Thus, consumption expenditure flows from households to firms, completing the circular flow of income.

29. "Management of a water polluting oil refinery says that it (oil refinery) ensures welfare through its contribution to Gross Domestic Product (GDP)." Defend or refute the argument of management with respect to GDP as a welfare measure of the economy.

Answer: No, the given statement is not true. The value added by oil refinery to the Gross Domestic Product (GDP) may also be polluting the nearby source of water. Such harmful effects that the refinery is causing to people and marine life is not penalized for the same. Thus these negative externalities are not ensuring the welfare of the economy through Gross Domestic Product (GDP).

30. Calculate Gross Value Added at Market price (GVAMP) from the following data:

Sl. No.	Particulars	Amount (in ₹ lakhs)
i	Depreciation	20
ii	Domestic sales	200
iii	Change in stock	(-)10
iv	Exports	10
v	Single use producer good	120
vi	Net Indirect Taxes	20

Answer: -

$$\text{GVA MP} = [(ii)+(iii)+(iv)]-(v)$$

$$= [200+(-)10+10]-120$$

$$=200-120 = ₹80 \text{ lakhs}$$

Unit2: Money and Banking

Key Points

- **Barter system of exchange:** It is a system in which goods are exchanged for goods. Such exchange exists in the C-C Economy (commodity to commodity exchange economy).
For example, wheat may be exchanged for cloth; house for horses, etc., or a teacher may be paid wheat or rice as a payment for his/her services.
- **Difficulties involved in the Barter Exchange:**
 - **Lack of a common measure of value.**
 - **Lack of double coincidence of wants**
 - **Lacks of standard of deferred payments.**
 - **Lack of store of value.**
 - **Lack of divisibility.**
- **Money:** Money may be defined as anything which is generally acceptable as a medium of exchange and at the same time acts as a measure, store of value and standard of deferred payment.
- **Functions of Money:**
 - 1. Primary Functions**
 - Medium of exchange
 - Measure of value or unit of value
 - 2. Secondary Functions**
 - Standard of deferred payment
 - Store of value
 - Transfer of value
- **Supply of Money:** -Supply of Money is a stock concept. It refers to stock of money available with the public/people at a point of time.
- **Stock of Money** with the government and the banking system of the country is not the part of money supply.
- **Components of Money Supply:** -Currency with Public + Demand Deposits with Commercial Banks

Measures of Money Supply

- $M_1 = C + DD + OD$ (Most liquid asset)
- $M_2 = M_1 +$ Post office savings deposits
- $M_3 = M_1 +$ Time deposits of commercial banks
- $M_4 = M_3 +$ Total deposits with the post office saving organization excluding the deposits on NSC (Least liquid asset)

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

Functions of Central Banks

- ❖ Bank of Issue
- ❖ Banker to the Government
- ❖ Banker's Bank and Supervisor.
- ❖ Controller of credit.
- ❖ Lender of last resort
- ❖ Custodian of foreign exchange reserves

MONEY CREATION OR CREDIT CREATION BY COMMERCIAL BANKS

The capacity of banks to create money or credit depends on *Amount of primary deposits and Legal reserve ratio(LRR)*.

- **Legal Reserve Ratio (LRR):** - is fixed by the central bank of a country and it is the minimum ratio of deposit legally required to be kept as reserve by banks.
- **Cash Reserve Ratio (CRR):** - It is a part of LRR which is to be kept with the central bank.
- **Statutory Liquidity Ratio (SLR):** - It is a part of LRR which is to be kept with the bank themselves.
- **Money Multiplier = $1/LRR$**
- **Credit creation = Initial deposit X $1/LRR$.**

Control on Credit Creation: -through the monetary policy RBI perform this function. For this RBI uses Quantitative instruments and Qualitative instruments.

QUANTITATIVE INSTRUMENTS

- **Bank Rate Policy** - It refers to the rate at which the central bank lends money to commercial banks as a lender of the last resort.
- **Repo Rate Policy** – It is the rate at which the central bank of the country (RBI) lends money to the commercial banks to meet their short-term needs.
- **Reverse Repo Rate** – It is the rate at which RBI borrows money from the commercial banks.
- **Open Market Operations** - It refers to the buying and selling of securities by the Central Bank from/ to the public and commercial banks.
- **Legal Reserve Ratio** - R.B.I. can influence the credit creation power of commercial banks by making changes in CRR and SLR.

Cash Reserve Ratio (CRR) - It refers to the minimum percentage of net demand and time liabilities to be kept by commercial banks with central bank. Reserve Bank increases CRR during inflation and decreases the same during deflation.

Statutory Liquidity Ratio (SLR) - It refers to minimum percentage of net demand and time liabilities which commercial banks required to maintain with themselves in the form of specified liquid assets including cash, gold and govt. securities. SLR is increased during inflation or excess demand and decreased during deflation or deficient demand.

QUALITATIVE INSTRUMENTS:

- **Margin Requirements** - It is the difference between the amount of loan and market value of the security offered by the borrower against the loan.

Multiple Choice Questions (MCQs)

- 1 Supply of money is a:
(a) Flow variable (b) Stock variable
(c) Real flow (d) None of these
- 2 Supply of money refers to
(a) currency held by the public
(b) currency held by Reserve Bank of India
(c) currency held by the public and demand deposits with the commercial banks
(d) currency held by Reserve Bank of India and demand deposits with commercial bank
- 3 Demand deposit include...
(a) Saving account deposits and fixed deposits
(b) Saving account deposits and current account deposits
(c) Current account deposits and fixed deposits
(d) All types of deposits
- 4 _____ is the main source of money supply in an economy.
(a) Central Bank (b) Commercial Banks
(c) Government (d) Both (a) and (b)
- 5 Which of the following is not included in money supply?
(a) Currency held by public (b) Inter-bank-deposits
(c) Demand deposits in Banks (d) Saving deposits with post office banks.
- 6 Supply of money refers to the quantity of money
(a) on 31st March (b) during any specific period of time
(c) on any point of time (d) during a fiscal year
- 7 Which one is included in the primary function of money?
(a) Medium of Exchange (b) Measure of Value
(c) Both (a) and (b) (d) None of these
- 8 Which of the following statements is correct?
(a) Supply of money refers to stock of money held by public at a point of time
(b) Supply of money is a flow variable
(c) Supply of money includes cash reserve of banks
(d) Supply of money refers to bank money
- 9 Which of the following is the supplier of money?
(a) Government and banking system (b) Cooperative societies
(c) General public (d) Life insurance corporation

- 10 Deposits which can be withdraw on demand by the depositors are called_____
- (a) Time deposits (b) Savings deposits
(c) Term deposits (d) Demand deposits
- 11 The central bank can increase availability of credit by:-
- a) Raising repo rate b) Raising reverse repo rate
c) Buying government securities d) Selling government securities
- 12 _____ is the main function of central Bank.
- (a) Notes issue (b) Credit creation
(c) Accepting deposits front e public (d) None of these
- 13 Which is the most liquid measure of the money supply?
- (a) M4 (b) M3
(c) M2 (d) M1
- 14 Which of the following is not the function of the Central Bank?
- (a) Banking facilities to government (b) Lending to commercial banks
(c) Banking facilities to public (d) Lending to government
- 15 When the central act as a banker to the government, what does it do?
- (a) It carries out government transactions
(b) It advises on monetary and financial matters
(c) It keeps accounts of the government
(d) It carries out government transactions, advises on monetary and financial matters and keeps accounts of the government
- 16 Central Bank is an apex bank of the country that:
- (a) Controls the entire banking system of the country
(b) accepts and lending of deposits to public
(c) store of value
(d) creates credit
- 17 The lender of the last resort is the function of:
- (a) Rural Bank (b) Central Bank
(c) Post office (d) Commercial bank
- 18 Credit Control means
- (a) Contraction of credit only (b) Extension and contraction of money supply

- (c) extension of credit only (d) supply of money remains the same
- 19 Quantitative instrument of monetary policy includes:
- (a) Margin Requirement (b) Direct Action
- (c) Statutory Liquidity Ratio (d) Rationing of Credit
- 20 Identify qualitative measure of central bank:
- (a) Bank rate (b) Open market operation
- (c) Margin Requirement (d) Cash reserve ratio
- 21 What will be the effect of an increase in the 'Repo Rate on the Money Supply?
- a) Money supply will increase
- b) Money supply will decrease
- c) Money supply will remain the same
- d) Money supply will initially increase and then it will decrease
- 22 _____ is the rate of interest charger by the Central Bank on loans given to commercial banks.
- (a) Bank rate (b) CRR
- (c) Statutory liquidity Ratio (d) Reserve Repo Rate
- 23 Ms. Sakshi, an economics teacher, was explaining the concept of 'minimum percentage of the total deposits to be kept by any commercial bank with the Central Bank of the country, as per norms and statute prevailing in the country'. From the following, choose the correct alternative which specifies towards the concept explained by her?
- a) Cash Reserve Ratio
- b) Repo Rate
- c) Bank Rate
- d) Statutory Liquidity Ratio
- 24 Which of the following is not a quantitative Method of Credit Control?
- a) Open Market Operation b) Margin Requirements
- c) Variable Reserve Ratio d) Bank Rate Policy
- 25 _____ refers to that portion of total deposits of a commercial bank which it has to keep with itself in the form of liquid assets
- (a) Statutory Liquidity Ratio(SLR) (b) Cash Reserve Ratio(CRR)
- (c) Bank Rate (d) Reserve Repo Rate
- 26 Which agency is responsible for issuing Rs.1 currency notes in India?
- (a) Ministry of Finance (b) Ministry of Home Affairs
- (c) Reserve Bank of India (d) All of the above
- 27 Who regulates money supply?

- (a) Government of India (b) Reserve Bank of India
(c) NITI Aayog (d) Commercial Banks
- 28 Who creates credit in the economy?
(a) Government of India (b) Reserve Bank of India
(c) NITI Aayog (d) Commercial Banks
- 29 If the total deposits created by commercial banks is ₹. 10,000 crores and legal reserve requirements is 40% then amount of initial deposits will be
(a) ₹ 2000 (b) ₹ 2500 (c) ₹ 4000 (d) ₹ 10,000
- 30 What will be the value of money multiplier when initial deposits are ₹ 500 crores and LRR is 10%?
(a) 0.1 (b) 0.2 (c) 10 (d) 20
- 31 The amount of initial deposits is 3000cr and LRR is 25%. Calculate the amount of total deposits created by commercial banks
(a) 10000 crore (b) 11000 crore (c) 12000 crore (d) 13000 crore
- 32 Deposit creation by bank comes to an end when
(a) Fresh deposit with banks become zero
(b) LRR become zero
(c) Money multiplier become zero
(d) Total reserve equal to initial deposit
- 33 What would be the total money creation in the economy, If initial fresh deposits with banks = 50,000 and LRR = 20%.
(a) `2,50,000 (b) `5,00,000 (c) `10,00,000 (d) `12,00,000
- 34 Which one of the following is used for credit creation?
(a) $K = 1/LRR$ (b) $K = 1/SLR$ (c) $K = 1/\text{Bank Rate}$ (d) $K = 1/\text{Repo Rate}$
- 35 The value of credit multiplier will be high when
(a) Cash reserve ratio is high (b) Cash reserve ratio is low
(c) Cash reserve ratio is zero (d) Cash reserve ratio is infinity
- 36 In a hypothetical economy, Mr. Neeraj has deposited ₹100 in the bank. If it is assumed that there is no other currency circulation in the economy, then the total money supply in the economy will be _____
a) zero
b) ₹ 100

- c) not defined
d) ₹ 120
- 37 Two friends Akash and Amit were discussing about the features of central bank.
“This features saves the commercial banks from possible breakdown”
The above mentioned statement was given by Akash, identify the feature was he taking about...
- (a) Banker’s bank (b) Lender of the last resort
(c) Controller of credit (d) Financial advisor
- 38 Read the following statements carefully and choose the correct alternatives given below:
Statement 1 – Central bank lends money to borrowers at a very low interest.
Statement 2 – Ministry of finance circulates all mint and one rupee note in India.
Alternatives:
a) Both the statements are true.
b) Both the statements are false.
c) Statement 1 is true and Statement 2 is false
d) Statement 2 is true and Statement 1 is false
- 39 Read the following statements carefully and choose the correct alternatives given below:
Statement 1 – The value of money multiplier is determined by the reserve ratio prevailing in the monetary system.
Statement 2 – The process of credit creation directly relates to the value of reserve ratio.
Alternatives:
a) Both the statements are true.

- b) Both the statements are false.
- c) Statement 1 is true and Statement 2 is false
- d) Statement 2 is true and Statement 1 is false
- 40 Choose the correct statement from given below
- (a) Commercial banks create credit out of primary deposits.
- (b) The money multiplier is directly related to the legal reserve ratio.
- (c) The central bank of the country is not authorized to maintain foreign exchange reserves.
- (d) All of the above
- 41 **Assertion(A):** Currency Held by Public is a monetary liabilities of central bank
Reason(R): Central bank control credit, whereas commercial bank create credit with currency held by Public.
- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
- (b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)
- (c) Assertion(A) is true but Reason(R) is false
- (d) Assertion(A) is false but Reason(R) is true
- 42 **Assertion (A):** Central Bank as a banker to the government, works as a custodian of cash reserves.
Reason(R): The Central Bank acts as a clearinghouse for the transfer and settlement of mutual claims of commercial banks.
- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
- (b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)
- (c) Assertion(A) is true but Reason(R) is false
- (d) Assertion(A) is false but Reason(R) is true
- 43 **Assertion(A):** Central bank as a banker to government, work as a financial advisor
Reason(R): Government borrow internally from banks and general public.
- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
- (b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)

- (c) Assertion(A) is true but Reason(R) is false
(d) Assertion(A) is false but Reason(R) is true
44 **Assertion(A):** Demand deposits are also called bank money.
Reason(R): Demand deposits are created by commercial banks.
- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)
(c) Assertion(A) is true but Reason(R) is false
(d) Assertion(A) is false but Reason(R) is true
45 **Assertion(A):** LRR represents the minimum reserve ratio essential to be maintained by banks.
Reason(R): Banks create deposits in the process of making loans to their customers.
- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)
(c) Assertion(A) is true but Reason(R) is false
(d) Assertion(A) is false but Reason(R) is true
46 **Assertion(A):** The Central Bank is also known as the bank of issue.
Reason(R): The Central Bank enjoys the sole monopoly of issuing currency to ensure control over volume of currency and money supply.
- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)
(c) Assertion(A) is true but Reason(R) is false
(d) Assertion(A) is false but Reason(R) is true
47 **Assertion(A):** Demand deposits are created by commercial banks.
Reason(R): Demand deposits form a significant part of the total money supply in the economy.
- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)
(c) Assertion(A) is true but Reason(R) is false
(d) Assertion(A) is false but Reason(R) is true
48 **Assertion(A):** Only net demand deposits held by commercial banks are taken as part of money supply.
Reason(R): Only deposits of the public held by the banks are included in money supply

- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)
(c) Assertion(A) is true but Reason(R) is false
(d) Assertion(A) is false but Reason(R) is true
- 49 **Assertion(A):** Credit creation is inversely related to the Legal Reserve Ratio.
Reason(R): LRR is fixed by the market forces of demand and supply.
- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)
(c) Assertion(A) is true but Reason(R) is false
(d) Assertion(A) is false but Reason(R) is true
- 50 **Assertion(A):** The monetary policy is the policy formulated by central bank of a country
Reason(R) : The policy measures involves measures taken by the central bank to regulate the supply of money, availability and cost of credit in the economy.
- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)
(c) Assertion(A) is true but Reason(R) is false
(d) Assertion(A) is false but Reason(R) is true
- 51 **Assertion(A):** Banks issues currencies.
Reason(R): Commercial Bank is an institution that accepts deposits and provides loans to the public.
- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)
(c) Assertion(A) is true but Reason(R) is false
(d) Assertion(A) is false but Reason(R) is true
- 52 **Assertion(A):** An increase in CRR results in decrease in the value of multiplier
Reason(R): Banks lend money many times more than their cash reserves.
- (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)
(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)
(c) Assertion(A) is true but Reason(R) is false
(d) Assertion(A) is false but Reason(R) is true

53 **Assertion (A)**- Credit creation process increases the money supply in economy.
Reason (R)- through the credit creation process commercial banks can distribute loans many times as compare to their primary deposits

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

54 **Assertion (A)**-settlement of liabilities of commercial banks is done by RBI.
Reason (R)- RBI holds the accounts of all commercial banks and commercial banks keep funds in it essentially.

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

55 **Assertion (A):** Statutory liquidity ratio is the ratio of demand deposits of a commercial bank which, it has to keep with itself in the form of specified liquid assets.

Reason (R): Statutory liquidity ratio is a component of legal reserve ratio, which affects the credit creation in the economy.

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

ANSWER

Q.NO	ANSWER	Q.NO	ANSWER	Q.NO	ANSWER
1	B	21	B	41	B
2	C	22	A	42	B
3	B	23	A	43	C
4	D	24	B	44	A
5	B	25	A	45	B
6	C	26	A	46	A
7	C	27	B	47	B
8	A	28	D	48	A

9	A	29	C	49	C
10	D	30	C	50	A
11	C	31	C	51	D
12	A	32	D	52	B
13	D	33	A	53	B
14	C	34	A	54	B
15	D	35	B	55	B
16	A	36	B		
17	B	37	B		
18	B	38	D		
19	C	39	C		
20	C	40	A		

Short Answer: question (3/4 Marks)

1. Money acts as a yardstick of standard measure of value to which all other things can be compared. Discuss it.

Money serves as a measure of value in terms of unit of account. Measurement of value was the main difficulty of the barter system. Introduction of money has removed this difficulty. It acts as a yardstick of standard measure of value to which all other things can be compared.” Money measures the value of everything or the prices of all goods and services can be expressed in terms of money.

2. Give meaning of money supply. State its components.

It refers to stock of money available with the public/people at a point of time.

Measures of Money Supply

- $M_1 = C + DD + OD$
- $M_2 = M_1 +$ Post office savings deposits
- $M_3 = M_1 +$ Time deposits of commercial banks
- $M_4 = M_3 +$ Total deposits with the post office saving deposit excluding the deposits on NSC

3. Explain the role of the Reserve Bank of India as the “lender of last resort”

As banker to the banks, the central bank acts as the lender of the last resort. In other words, in case the commercial banks fail to meet their financial requirements from other sources, they can, as a last resort, approach to the central bank for loans and advances. The central bank assists such banks through discounting of approved securities and bills of exchange.

4. Explain ‘Banker’s Bank’ function of central bank.

Central bank acts as the banker to the banks in three ways:

- (i) custodian of the cash reserves of the commercial banks;
- (ii) as the lender of the last resort; and
- (iii) as clearing agent.

(i) Custodian of the cash reserves of the commercial banks: Every commercial bank has to keep a certain percent of its cash reserves with the central bank by law.

(ii) Lender of the Last Resort.

As banker to the banks, the central bank acts as the lender of the last resort, in case the

commercial banks fail to meet their financial requirements from other sources, they can, as a last resort, approach to the central bank for loans and advances.

(ii) Clearing Agent

Since it is the custodian of the cash reserves of the commercial banks, the central bank can act as the clearinghouse for these banks.

5.Explain ‘banker to the government’ function of the Central Bank

Central bank everywhere in the world acts as banker, fiscal agent and adviser to their respective government.

(i) As Banker: As a banker to the government, the central bank performs same functions as performed by the commercial banks to their customers.

(ii) As Fiscal Agent: As a fiscal agent, it performs the following functions:

- It manages the public debt.
- It collects taxes and other payments on behalf of the government.

(iii) As Adviser

- The central bank also acts as the financial adviser to the government.

6.Explain central bank’s function as currency authority.

The central bank has the sole monopoly to issue currency notes. Commercial banks cannot issue currency notes. Currency notes issued by the central bank are the legal tender money. Central Bank is obliged to back the currency with assets of equal value (usually gold coins, gold bullions, foreign securities etc.)

7.‘Banks required to keep only a fraction of deposits as cash reserves’. Why?

Banks are required to keep only a fraction of deposits as cash reserves because of the following two reasons:

(a) First, the banking experience has revealed that not all depositors approach the banks for withdrawal of money at the same time and also that normally they withdraw a fraction of deposits.

(b) Secondly, there is a constant flow of new deposits into the banks. Therefore, to meet the daily demand for withdrawal of cash, it is sufficient for banks to keep only a fraction of deposits as a cash reserve.

8.What do you mean by Money Multiplier/Credit Multiplier?

It refers to the fraction by which commercial banks would be able to multiply money from their initial level of deposits.

$$\text{Money Multiplier} = 1/\text{LRR}$$

9.What do you mean by Legal reserve ratio (LRR)? Explain the components of Legal Reserve Ratio.

The minimum percentage of a bank's total demand and time deposits, that is required to be maintained in the form of cash or specified liquid assets by the commercial banks with the Central Bank is termed as Legal Reserve Ratio.

The components of Legal Reserve Ratio are as follows:

- (i) Cash Reserve Ratio : The percentage of total deposits, which a commercial bank needs to keep as reserve with the Central Bank.
- (ii) Statutory Liquidity Ratio : Every commercial bank is required to maintain a fixed percentage of its assets in the form of cash or other liquid assets.

10. Distinguish between 'Qualitative and Quantitative tools' of credit control as may be used by a Central Bank.

Two types of methods are adopted by the central bank to control credit. These are quantitative methods and qualitative methods.

(a) Quantitative methods aim at controlling the cost and volume of credit created by commercial banks by using instruments like bank rate, open market operation, legal reserve ratios, repo rate and reverse repo rate.

(b) Qualitative methods regulate the direction of flow of credit among various users rather than influencing just the availability of credit. Example: margin requirement, credit rationing, direct action and moral suasion.

11. What are the quantitative instruments of credit control?

The quantitative instruments of credit control include:

Bank Rate Policy - It refers to the rate at which the central bank lends money to commercial banks as a lender of the last resort.

Repo Rate Policy – It is the rate at which the central bank of the country (RBI) lends money to the commercial banks to meet their short-term needs.

Reverse Repo Rate – It is the rate at which RBI borrows money from the commercial banks.

Open Market Operations - It refers to the buying and selling of securities by the Central Bank from/ to the public and commercial banks.

Legal Reserve Ratio - R.B.I. can influence the credit creation power of commercial banks by making changes in CRR and SLR.

12. What are the qualitative instruments of credit control?

The qualitative instruments of credit control include:

- (i) Marginal Requirements
- (ii) Rationing of Credit
- (iii) Moral Suasion
- (iv) Direct Action

Long Answer: questions (6Marks)

Q1. What are the functions of money?

OR

Explain primary and secondary functions of money.

Primary Function

i) Medium of exchange:

It means that money can be used to make payments for all the transactions of goods and services. A buyer can buy goods through money and a seller can sell goods for money. It is an essential function of money.

ii) Measure of value:

Money serves as a measure of value. The value of all goods and services is expressed in terms of money.

Secondary Function

i) Standard of deferred payments:

It means that money acts as a 'standard' for making future payments. It has made deferred payments much easier than before.

Example: When we borrow money from somebody, we have to return both the principal as well as the interest amount in the future.

ii) Store of value:

A store of value implies a store of wealth. Money can be easily stored for future use. It is the most convenient and economical means to store earnings and wealth.

iii) Transfer of value:

Money also serves for transfer of value. It facilitates buying and selling of goods not only in the domestic country but also in other parts of the world

2. How does a central bank control the availability of credit by open market operation?

Open market operation is the policy of the central monetary authority to sell and buy the government securities in the market. RBI purchases government securities from commercial banks and general public in a bid to increase the stock of high-powered money in the economy. Similarly, RBI sells government securities to commercial banks and general public in a bid to decrease the stock of high-powered money in the economy.

3. Explain the effect of an increase in bank rate on credit creation by commercial banks.

The bank rate is the minimum rate at which the central bank discounts the first-class bills of exchange and provides credit to the commercial banks.

Increase in the bank rate makes the borrowings from the central bank costlier than before. This reduces the lending or credit creation capacity of the commercial banks as they get funds at a higher interest rate from the central bank. Increase in bank rate also increases the rate at which commercial banks lend to the general public. Consequently, credit contracts in the economy.

4. Explain the process of Money creation by the commercial banks with the help of a numerical example.

or

What role does it play in determining the credit creation power of the banking system?

Use a numerical illustration to explain.

Credit creation is the most important functions of Commercial bank.

The capacity of banks to create money or credit depends on:

a) **Amount of primary deposits** b) **Legal reserve ratio(LRR).**

To understand this process we have to make two assumptions:

- 1) The entire commercial banking system is one unit and is termed as banks.
- 2) All the payments and receipts are made through banks i.e all payments are made to check and all receipts are deposited in the banks.

Let us understand the process of credit creation with the following example.

Suppose there is an initial deposit of Rs. 1000 and L.R.R. is 20% i.e., the banks have to keep Rs. 200 and lend Rs. 800/-. All the transactions are routed through banks.

	Deposits (in Rs.)	Loans (in Rs.)	Cash Reserve Ratio (20%)
Initial deposit	1000	800	200
First round	800	640	160
Second round	640	512	128
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
Total	5000	4000	1000

The deposit creation comes to end when the total cash reserves become equal to the initial deposit.

Money Multiplier = $1/LRR$

Credit creation = Initial deposit X $1/LRR$.

$$\text{Credit creation} = 1000 \times 1/20\% \\ 1000 \times 100/20 = \text{Rs } 5000$$

In this way, commercial banks create credit many more times than their cash reserves and contributes to increase money supply in the economy.

Case Study/Source based Questions

1. Read the following case study paragraph carefully and Answer: the questions on the basis of the same.

The central bank of India i.e. Reserve Bank of India, is the apex institution that control the

entire financial market. Its one of the major functions is to maintain the reserve of foreign exchange. Also, it intervenes in the foreign exchange market to stabilise the excessive fluctuations in the foreign exchange rate.

In other words, it is the central bank's job to control a country's economy through monetary policy; if the economy is moving slowly or going backward, there are steps that central bank can take to boost the economy. These steps, whether they are asset purchases or printing more money, all involve injecting more cash into the economy. The simple supply and demand economic projection occur and currency will devalue.

When the opposite occurs, and the economy is growing, the central bank will use various methods to keep that growth steady and in-line with other economic factors such as wages and prices. Whatever the central bank does or in fact don't do, will affect the currency of that country. Sometimes, it is within the central bank's interest to purposefully effect the value of a currency. For example, if the economy is heavily reliant on exports and their currency value becomes too high, importers of that country's commodities will seek cheaper supply; hence directly effecting the economy.

1. Which of the following tools are used by the central bank to control the flow of money in domestic economy?

- (a) Fiscal tools (b) Quantitative monetary tools
(c) Qualitative monetary tools (d) Both (b) and (c)

2. Dear money policy of central bank, which is used to keep the growth steady and in-line with other economic factors, refers to

- a) Tighten the money supply in the economy
b) Ease the money supply in the economy
c) Allow commercial banks to work under less strict environment
d) Both (b) and (c)

3. Which of the following steps should be taken by the central bank if there is an excessive rise in the foreign exchange rate?

- (a) Supply foreign exchange from its stock
(b) Demand more of other foreign exchange
(c) Not intervene in the market as the exchange rate is determined by the market forces
(d) Help central government to stabilize the foreign exchange rate.

ANSWER

1. (d) Both (b) and (c)
2. (a) Tighten the money supply in the economy
3. (a) Supply foreign exchange from its stock

2. Read the para given below and Answer: the questions that follow:

The Reserve Bank of India (RBI) on Friday kept interest rates on hold while assuring to maintain support for reflecting the economy by ensuring ample liquidity to manage the government's near-record borrowing.

The six-member Monetary Policy Committee (MPC) voted to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of

Covid-19 on the economy while ensuring that inflation remains within the target, Governor Shaktikanta Das said. While the Union Budget 2021 laid down an expansive fiscal strategy over the medium term to strengthen the growth engine in the economy, the RBI affirmed its support to such a plan through appropriate monetary tools.

To absorb higher government borrowings, the Central Bank provided retail investors a direct option to invest in government securities. It also sapped some funds from banks by raising the Cash Reserve Ratio (CRR) and using the money for more targeted market operations.

The MPC, which cut borrowing costs by 115 basis points last year, kept the repurchase or repo rate unchanged at 4 percent. Consequently, the reverse repo rate will also continue to earn 3.35 per cent for banks for their deposits kept with the RBI. Das announced the restoration of CRR - the amount of deposits lenders must set aside as reserves - to 3.5 per cent in March and 4 per cent in May. The cash returning to the central bank can be used by it for open market operations and other liquidity measures.

1. The two essential conditions for a financial institution to become a bank are:
 - (a) accepting deposits and lending
 - (b) printing currency notes
 - (c) both (a) and (b)
 - (d) neither (a) nor (b)
2. Which of the following is not a quantitative method of credit control?
 - (a) open market operation
 - (b) bank rate policy
 - (c) legal reserve requirements
 - (d) margin requirements.
3. The central bank does not perform the following functions.
 - (a) conducts sale and purchase of securities for foreign governments securities.
 - (b) acts as a lender of the last resort.
 - (c) controls money supply and credit.
 - (d) manages the nation's reserves of international currency.

ANSWER

1. (a) accepting deposits and lending
2. (d) margin requirements
3. (a) conducts sale and purchase of securities for foreign governments securities.

3. Read the para given below and Answer: the questions that follow:

Heightened uncertainty in India caused by the Coronavirus pandemic led to a surge in the currency in circulation as people hoarded cash or put money in accessible deposits to safeguard themselves against salary cuts or job losses.

According to RBI data, India's M3 money supply rose 6.7% in the first five months of 2020 compared with the same period in 2019, the highest growth in seven years. Currency in circulation, which measures money with the public and in banks has also surged. Gross capital formation, or total investments toward fixed capital in the country, fell significantly. Savings and current account deposits fell 8% due to higher withdrawals. The growth in currency notes held by the public was much higher than the deposits made in banks.

A rise in money supply usually is seen as a leading indicator of growth in consumption and business investments, but the rise this time was unlikely to bolster either, analysts said. The increase was a reflection of higher cash withdrawals by depositors to meet the needs during the lockdown period, until normalcy returns.

1. _____ (quantitative/qualitative) instruments of monetary policy affect the direction of credit in the economy.

2. Choose the correct pair of statements from the given statements in Column I and II:

Sl NO	Column I	Column II
1	LRR	A. rate of interest at which Central Bank lends to commercial banks for long term
2	Reverse Repo Rate	B. rate at which the RBI borrows money from commercial banks
3	Bank Rate	C. rate at which Central Bank advances short term loans to commercial banks
4	. Repo Rate	D. minimum reserve maintained by a commercial bank

(a) 1-A

(b) 2-B

(c) 3-C

(d) 4-D

3. Which of the following statements is true?

- (a) Money Multiplier is inversely related to LRR.
- (b) Loans given by Commercial banks are equal to the amount of deposits they receive.
- (c) CRR is decreased to control inflation
- (d) Demand deposits refer to the cash reserves of Commercial Banks.

ANSWER

1. qualitative

2. (b) 2-B

3. (a) Money Multiplier is inversely related to LRR.

4. Read the para given below and Answer: the questions that follow:

The Reserve Bank of India is the Central Bank of India, which means it is at the apex of the banking structure of the economy. It is one of the main governing bodies and regulatory bodies in India and helps the government in its role as a business facilitator.

The RBI was first established on the 1st of April 1935 and nationalized in 1949. The governing of the RBI is done in accordance to the RBI Act by the government. Its day-to-day affairs are taken care of by the Board of Directors who are chosen by the government.

The RBI is the only authorized body that can issue currency in the country. So, they print, distribute and regulate the flow of currency in the economy. The RBI provides the central and state government with basic banking functions and facilities like depositing money, remittances etc. It can also make advances and provide loans to the government whenever necessary. It also supervises all other commercial banks in the country and provides financial assistance to these banks like short-term loans and advances. It is the function of the RBI to maintain the value of the rupee in the global economy. It does so by acting as the custodian of foreign exchange reserves in the country. It maintains enough reserves to battle against fluctuations. The RBI also maintains control of credit and money in the market. It uses qualitative and quantitative methods to either expand or contract the available credit in the economy according to circumstances.

1. If the legal reserve ratio is 20%, the value of money multiplier would be:
(a) 2 (b) 3 (c) 5 (d) 4
2. In order to encourage investment in the economy, the central bank may:
(a) reduce cash reserve ratio.
(b) increase cash reserve ratio.
(c) sell government securities in open market.
(d) increase the bank rate.
3. The monetary policy generally targets to ensure:
(a) price stability in the economy.
(b) employment generation in the country.
(c) stable foreign relations.
(d) greater tax collections for the government.
4. Lowering the bank rate is a measure to:
(a) encourage foreign investment in the economy.
(b) increase money supply in the economy.
(c) discourage investment activity in the economy.
(d) increase government expenditure.

ANSWER

1. (c) 5
2. (a) reduce cash reserve ratio.
3. (a) price stability in the economy.
4. (b) increase money supply in the economy.

5. Read the following case study paragraph carefully and Answer: the questions on the basis of the same.

India's total Money Supply (M3) stood at Rs 18907383 crore as on April 9th 2020, recording a rise of 11.3% over the same time last year. Currency with the public stood at Rs 2787941 crore, up 16.7% over the year. Demand deposits with banks were up 17% at Rs 1867606 crore.

Time deposits with banks were also up 9.6% at Rs 14205545 crore. The bank credit to commercial sector edged up 5.1% on year to Rs 11552069 crores. However, this indicates moderation from 7.2% at the same time last year.

1. How does increase in deposits with commercial banks will affect credit creation process: -
a) Credit creation process will increase
b) Credit creation process will remain unaffected

- c) Credit creation process will reduce
 - d) None of above
2. M3 is consist of: -
- a) C +OD + Time deposits
 - b) C + DD + OD + time deposits with commercial bank
 - c) M1 + deposits of post office saving bank
 - d) All of above
3. What is indicated by increasing deposits?
- a) People prefer to save more now
 - b) Income level of people are increasing
 - c) People prefer to keep money in the bank accounts after demonetisation
 - d) All of above

ANSWER

- 1. a) Credit creation process will increase
- 2. b) C + DD + OD + time deposits with commercial bank
- 3. d) All of above

7. Read the following article and Answer: the questions given below:

The reserve bank of India unexpectedly cut its key deposit rate for the second time in three weeks, to discourage banks from parking idle funds with it and spur lending instead, to revive a flagging economy amid the corona virus lockdown. This week, Prime Minister Narendra Modi extended until May 3 a lockdown of population of 1.3 billion as India's tally of infections exceeded 10000, despite the 3-week shutdown order from March 24.

The RBI cut its reverse repo rate by 25 basis points (bps) to 3.75 percent with immediate effect. Governor Shaktikanta Das told a video conference. The rate had already been cut by 90bps on March 27. "The surplus liquidity in the banking system has risen significantly in the wake of government spending and the various liquidity enhancing measures undertaken by the RBI". He added. "In order to encourage banks to deploy these surplus funds in investments and loans in productive sectors of the economy, it has been decided to reduce the fixed-rate reverse repo rate".

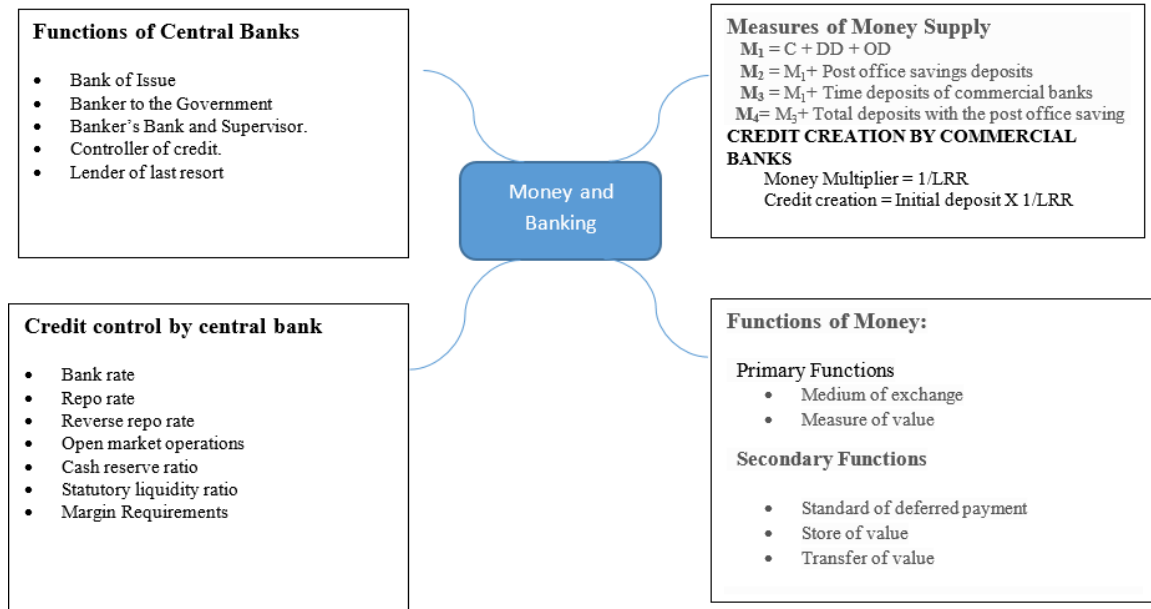
(Source: Business Today, April17 2020)

- 1. The Reserve Bank of India lowered reverse repo rate to discourage banks from parking idle funds with _____ (RBI/Commercial Banks)
- 2. RBI's measure of reduction in reverse repo rate is done to enable commercial banks _____
 - (a) To use the surplus funds for investment
 - (b) To grant loans for productive purposes
 - (c) To widen economic and financial land space
 - (d) all of these
- 3. Reverse repo rate is _____ (increased/decreased) to correct excess demand
- 4. When reverse repo rate is reduced, it _____
 - (a) Discourages the commercial banks to park their surplus funds with RBI
 - (b) Encourages the commercial banks to park their surplus funds with RBI
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (b)

ANSWER

1. RBI
2. (d) all of these
3. increased
4. (a) discourages the commercial banks to park their surplus funds with RBI

MIND MAP



UNIT 3: DETERMINATION OF INCOME AND EMPLOYMENT

Basic Concepts:

AGGREGATE DEMAND AND ITS COMPONENTS

AGGREGATE DEMAND:

Aggregate demand refers to the demand for all finished goods and services in an economy during a given period of time. It is the total level of spending in the economy. It is often measured for the period of an accounting year and hence is a flow concept.

Components of Aggregate demand

Aggregate demand is measured in terms of aggregate expenditure on goods and services by different sectors of the economy. The components of aggregate demand may be discussed for closed economy and open economy. A closed economy is composed of a two sector economy

including households and firms. An open economy includes households, firms, government sector and rest of the world.

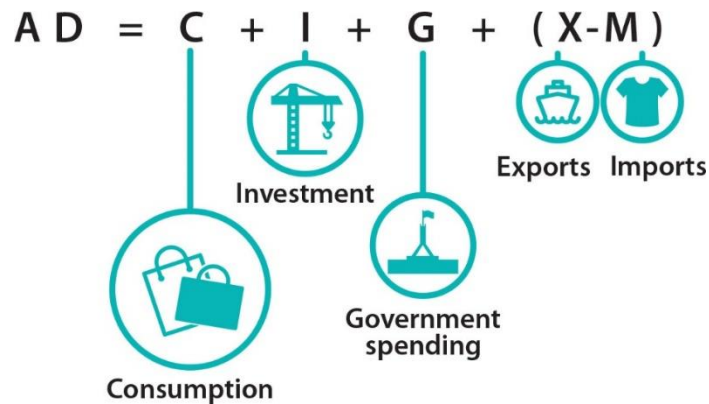
Components of aggregate demand for a closed economy consisting of two sectors include:

- a. Household consumption expenditure (C)
- b. Private investment expenditure (I)

Components of aggregate demand for an open economy consisting of four sectors include:

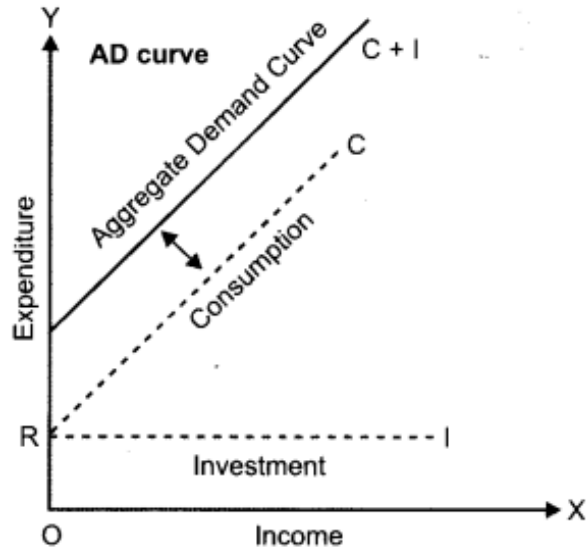
1. Household consumption expenditure (C)
2. Private Investment expenditure (I)
3. Government expenditure (G)
4. Net export by rest of the world (X-M)

For an open economy, $AD = C + I + G + (X - M)$ and for a closed economy $AD = C + I$.



Aggregate Demand Formula = $C + I + G + (X - M)$

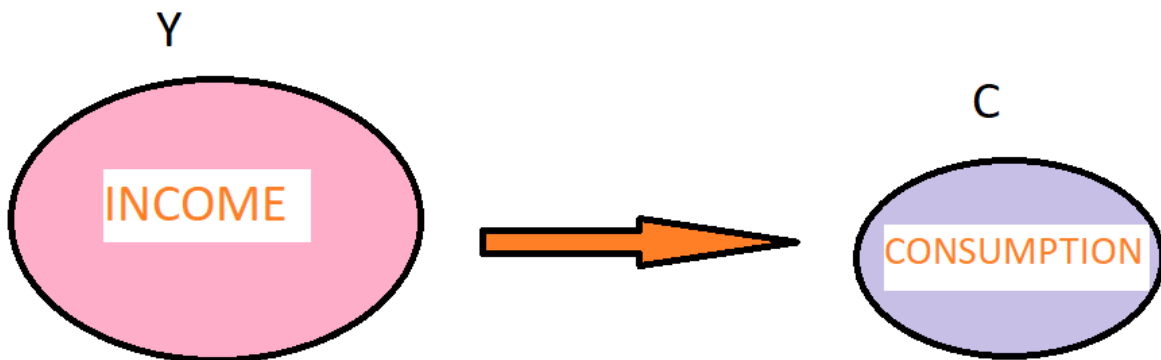




Consumption Function

The functional relationship between consumption and income is called consumption function. Household consumption expenditure (C) is the most important determinant of aggregate demand and is directly proportional to level of income in the economy (Y).

$$C = f(Y), \text{ where } Y = \text{income and } C = \text{Consumption.}$$



Tabular presentation of Consumption function

Income (Y) in Rs.	Consumption (C) in Rs.
0	50
50	75
100	100
200	150
300	200

The table shows consumption at various levels of income. As income increases, consumption also increases. John Maynard Keynes propounded the fundamental psychological law of consumption which forms the basis for consumption function. The law states that, as income increases consumption increases but not as much as the increase in income.

Relationship between Consumption and Income

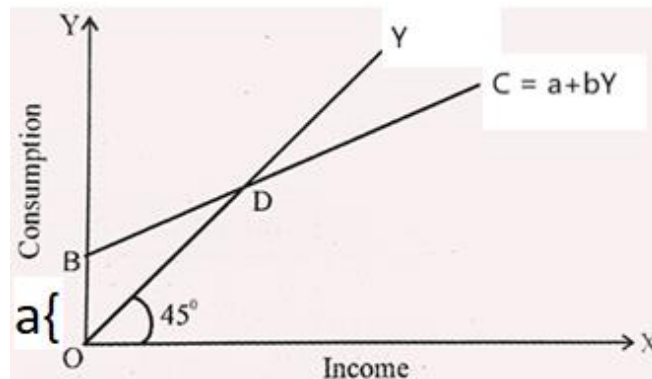


Figure 1 consumption curve

1. Consumption can never be zero. Even at zero level of income, there is always a minimum level of consumption. This is known as autonomous consumption (a). The positive intercept OB in the Y axis in the fig 1 indicates the autonomous consumption (a). The autonomous consumption at the level of income zero is Rs. 50 crores.
2. Consumption and income are directly related. A rise in income causes a rise in consumption and vice versa.
3. When consumption expenditure increases and reaches the level of income, it is called break-even point. At the level of income $Y = \text{Rs. } 100$ crores, $Y = C$. This is called break-even point. At this level, savings in the economy will be zero and $Y=C = \text{Rs. } 100$ crores. Break-even point is marked as point D in the figure 1.

4. With an increase in income, the entire increase in income is not consumed. A part of the income is saved as well. Hence with increase in income, the rate of increase in consumption is less than the increase in income. This is explained by the Keynes psychological law of consumption. When Y increases each time by Rs.100 crores, C increase by less than 100 crores.

Consumption curve

When income is plotted along the X axis and consumption is plotted along the Y axis of a graph paper, we derive the consumption curve.

In the figure, C represents the consumption function and Y is a 45° line representing income. The slope of the consumption curve is the marginal propensity to consume (b). It refers to the rate at which C responds to a given increase in Y.

Linear consumption function

Algebraically linear consumption function is expressed in the following equation:

$$C = a + b Y$$

Where, a = autonomous consumption

b = marginal propensity to consume

Y = National income

Given autonomous consumption (a) = Rs. 50 and marginal propensity to consume b = 0.5, consumption at various levels of income is derived using the linear equation in the table given below:

	Income (Y)	Consumption (C = a + b Y)
	Rs.in crores	Rs. in crores
	0	$50 + 0.5 \times 0 = 50$
	50	$50 + 0.5 \times 50 = 75$
	100	$50 + 0.5 \times 100 = 100$
	200	$50 + 0.5 \times 200 = 150$
	300	$50 + 0.5 \times 300 = 200$

Table

2

consumption schedule

Propensity to consume

Propensity to consume is the proportion of total income or an increase in income that the consumer tends to spend on goods and services. Propensity to consume is of two types:

- 1) average propensity to consume (APC) and
- 2) marginal propensity to consume (MPC).

Average propensity to consume (APC): The ratio of total consumption to total income is known as average propensity to consume.

$$APC = \frac{\text{Total consumption}}{\text{Total income}} = \frac{C}{Y}$$

Income (Y) in Rs. Crores	Consumption (C) in Rs. Crores	APC
0	50	-
50	75	1.5
100	100	1
200	150	.75
300	200	0.66

Table 2 APC schedule

Properties of APC

1. APC decreases with increase in income. Income rises faster than consumption and the rich are expected to save more from their income than the poor.
2. APC can never be zero, as consumption can never be zero.
3. APC can never be negative, as consumption can never be negative.
4. The value of APC can be equal to 1, at break-even point when $Y = C$.
(When $Y = C$, $C/Y = 1$).
5. The value of APC can be more than 1 at lower levels of income. The APC of poor economies are greater than 1. (when $C > Y$, $C/Y > 1$).
6. The value of APC can be less than 1 at higher levels of income. The APC of rich economies are less than 1. (when $C < Y$, $C/Y < 1$).

Marginal Propensity to Consume (MPC): The ratio of change in consumption to change in income is known as marginal propensity to consume.

$$MPC = \text{change in consumption} / \text{change in income} = \Delta C / \Delta Y$$

Income (Y) in Rs. crores	Consumption (C) in Rs. crores	ΔY	ΔC	MPC
0	50	-	-	-
50	75	50	25	0.5
100	100	50	25	0.5
200	150	100	50	0.5
300	200	100	50	0.5

Table 3 MPC schedule

Properties of MPC

1. The value of MPC ranges from 0 to 1. $0 < \text{MPC} < 1$.
2. When the entire increase in income is consumed, the value of MPC will be 1. (when $\Delta Y = \Delta C$, $\Delta C/\Delta Y = 1$). This indicates that, change in income has resulted in a corresponding change in consumption.
3. When the entire increase in income is saved and nothing is consumed, the value of MPC will be 0. (when $\Delta C = 0$, $\Delta C/\Delta Y = 0$). This indicates that, the change in income has not led to a change in consumption.
4. When the change in income has resulted in a relatively less change in consumption, MPC will be less than 1. When $\Delta C > \Delta Y$, $\Delta C/\Delta Y > 1$.
5. The MPC is higher in case of poor economies and lower in case of developed economies.
6. MPC can never be greater than 1.

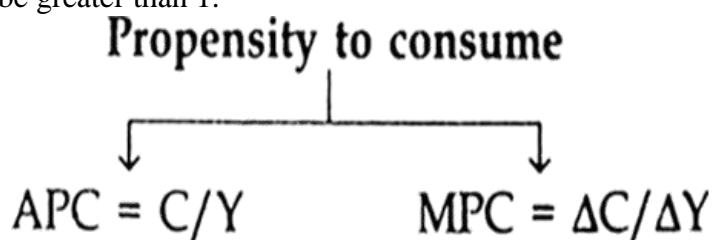
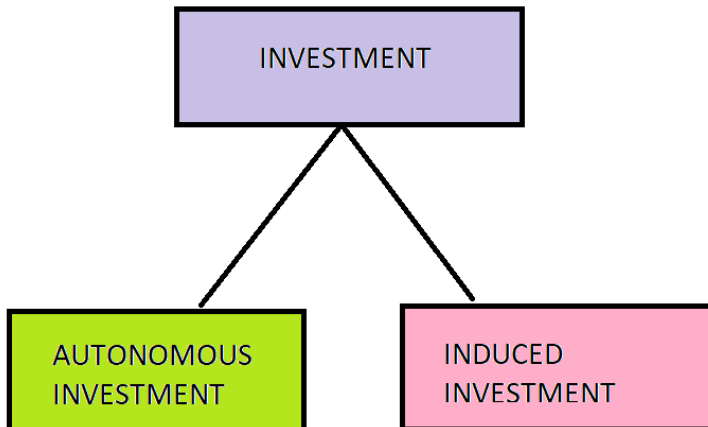


Figure 2 Propensity to consume

Investment Function (I)

Investment is often referred to the addition to the existing stock of capital or capital formation. According to Keynes, investment is a function of marginal efficiency of capital (MEC) and the rate of interest (r). Investment refers to the expenditure incurred on purchase of capital assets viz., machinery, building, equipment etc. Investments can be autonomous investment and induced investment.

Figure 3 Types of Investment



Marginal Efficiency of Capital:

MEC is the expected rate of return from additional investment. It is directly proportional to investment. If MEC is high, so will be the investment and vice versa.

Rate of interest:

Rate of interest is the cost of borrowing money for financial investments. It is inversely proportional to investment. If the rate of interest is high, the investment will be low and vice versa.

Autonomous investment:

Autonomous investment is the investment which is independent of the level of income or profit. This investment is not influenced by the change in the level of income. Autonomous investment is not made for profit. It remains constant at any level of income. Such investments are generally made by the government.

Income (Y) in Rs.	Autonomous Investment (I) in Rs.
0	100
100	100
200	100
300	100

Table 4 Autonomous Investment schedule

Induced investment:

Induced investment is the investment which depends on the level of income or profit. It is influenced by the change in the level of income and is made with the sole aim of profit motive. This investment varies with the level of income. Such investments are made by private sector.

Income (Y) in Rs.	Induced Investment (I) in Rs.
0	0
100	100
200	150
300	200

Table 5 Induced Investment schedule

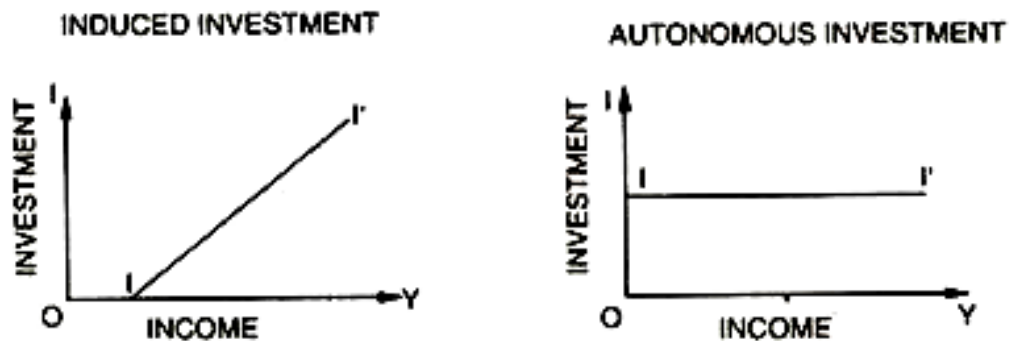
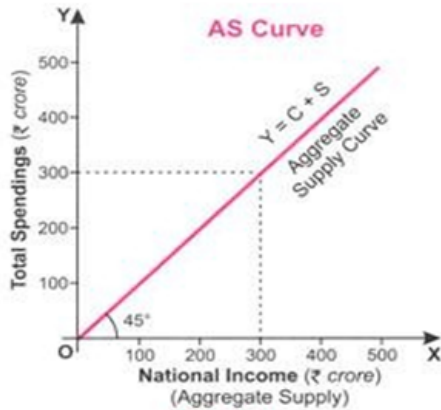


Figure 4 Investment curves

The induced investment curve slopes upwards from left to right, while autonomous investment curve is a straight line parallel to the X-axis.

Aggregate Supply

Aggregate supply is the total flow of goods and services in an economy during a period of one year. Aggregate supply shows the total quantity of output in an economy during an accounting year. Hence aggregate supply can be treated as national income. $AS = Y$



Income (Y) Rs.	Aggregate Supply Rs.
0	0
100	100
200	200
300	300
400	400
500	500

Figure 5 Aggregate Supply curves

Table 6 Aggregate Supply schedule

Components of Aggregate supply

The components of aggregate supply are savings and consumption.

$$AS = C + S$$

C = Consumption

S = Savings

Savings Function

Savings function shows the functional relationship between savings and income.

$$S = f(Y), \text{ where } S = \text{savings, } Y = \text{income}$$

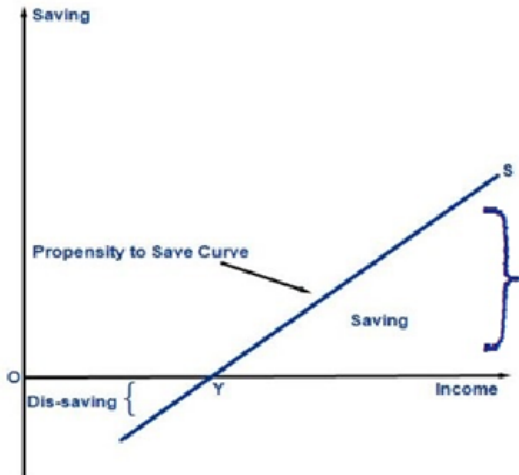
Linear savings function

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

Where -a = dissaving

$$1-b = \text{MPS}$$

Y = national income



Income (Y) in Rs.	Savings (C) in Rs.
0	-50
50	-25
100	0
200	50
300	100

Figure 6 Savings curves

Table 6 Savings schedule

Propensity to Save

It is the proportion of total income or the increase in income that is saved. Propensity to save is of two types: average propensity to save and marginal propensity to save.

Average Propensity to Save (APS)

It is the ratio of total savings to total income. It is the proportion of total income saved.

$$APS = \text{Total savings} / \text{Total income} = S/Y$$

Income (Y) in Rs. Crores	Savings (C) in Rs. Crores	APS = S/Y
0	-50	-
50	-25	-0.5
100	0	0
200	50	0.25
300	100	0.33

Table 7 APS schedule

Properties of APS

1. APS can never be 1 or more than 1, because Savings can never be equal to income or more than income.
2. APS can be negative or less than 1, at lower levels of income.
3. APS can be zero, when savings is zero at break-even point.
4. APS increases with increase in income, as level of income saved increases with income.

Marginal propensity to save

It is defined as the ratio of change in savings to change in income. It is the incremental savings with incremental income.

$$\text{MPS} = \text{change in savings} / \text{change in income} = \Delta S / \Delta Y$$

Income (Y) in Rs. Crores	Savings (C) in Rs. Crores	ΔY	ΔS	MPS = $\Delta S / \Delta Y$
0	-50	-	-	-
50	-25	50	25	0.5
100	0	50	25	0.5
200	50	100	50	0.5
300	100	100	50	0.5

Table 7 MPS schedule

Properties of MPS

1. MPS varies between 0 and 1.
2. The minimum value of MPS is zero, when the entire increase in income is consumed and not saved.
3. The maximum value of MPS is 1, when the entire increase in income is saved and not consumed.
4. MPS for e developed economies are high and for under developed economies are low.

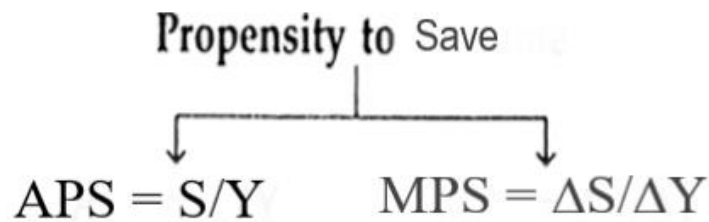


Figure 7 Propensity to save

Relationship between propensity to consume and propensity to save

The relationship between propensity to consume and save can be expressed in the following equations:

1. $APC + APS = 1$
2. $MPC + MPS = 1$

$APC + APS$ is always equal to 1. If half of the total income is consumed, then the other half must be saved.

$$Y = C + S$$

$$Y/Y = C/Y + S/Y \text{ (Dividing both the side by } Y)$$

$$\text{i.e. } APC + APS = 1 \quad (C/Y = APC, S/Y = APS)$$

$MPC + MPS$ is always equal to 1. If half of the increase in income is consumed, then the other half of the increase in income must be saved.

$$Y = C + S$$

$$\text{Then } \Delta Y = \Delta C + \Delta S$$

$$\Delta Y/\Delta Y = \Delta C/\Delta Y + \Delta S/\Delta Y \text{ (dividing both sides by } \Delta Y)$$

$$MPC + MPS = 1 \quad (\Delta C/\Delta Y = MPC, \Delta S/\Delta Y = MPS)$$

SHORT RUN EQUILIBRIUM OUTPUT

In the short run, the output is exclusively determined by the level of employment in the economy. An economy is said to be in short run equilibrium when the level of aggregate output demanded is equal to the level of aggregate output supplied. The equilibrium level of output is determined using two approaches.

1. AD – AS approach
2. Savings – Investment approach

AD-AS approach

AD is the level of GDP that the buyers wish to buy during an accounting year and AS is the desired level of output that the producers wish to produce in an economy. Equilibrium level of income / GDP is that level of GDP which the producers wish to produce is exactly equal to what the buyers wish to buy during an accounting year. It implies the equality between AD and AS

$$AD = AS$$

Table 8 Determination of equilibrium level of income using AD-AS approach

Income(Y)	Consumption(C)	Savings(S)	Investment(I)	AD = C+I	AS = C+S	Remarks
Rs.	Rs.	Rs.	Rs.			
0	50	-50	100	150	0	
100	100	0	100	200	100	}AD>AS
200	150	50	100	250	200	
300	200	100	100	300	300	AD = AS
400	250	150	100	350	400	
500	300	200	100	400	500	}AD<AS
600	350	250	100	450	600	

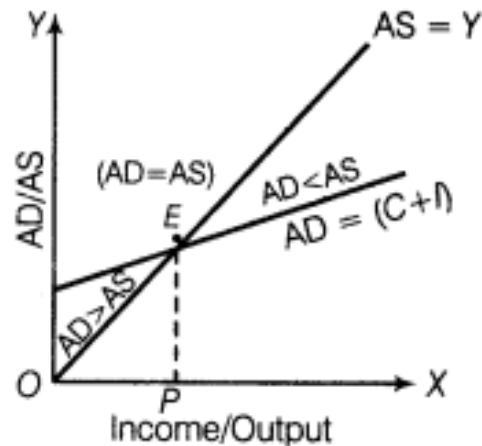


Figure 8 Determination of equilibrium income using AD-AS approach

The table 8 and figure 8 represents how equilibrium level of income is determined using AD-AS approach. The 45° AS line intersects the AD curve at point E, which is the equilibrium point. OP is the equilibrium level of income determined where what the producers wish to produce is exactly equal to what the households wish to buy in the economy. The equilibrium level of income or output is 300, where AD = AS = 300. At point E there is no excess demand or deficient demand in the economy.

What happens when AD>AS?

When AD is more than AS, the supply of goods and services in the economy is less than the demand for goods and services. The existing stock or the inventories will be sold out and the

producers would plan to increase the production to rebuild the stocks. As a result of increase in production, AS would increase to match the AD and the equilibrium is restored.

What happens when $AD < AS$?

When AD is less than AS, the supply of goods and services in the economy is more than the demand for goods and services. The existing stock or the inventories remains unsold and pile up. To clear the unwanted stocks, the producers would plan to cut the production. This reduces the AS to match with the AD prevailing in the economy to restore the equilibrium.

Savings –Investment approach (alternative approach)



When $AD = AS$,

$$C+I = C+S$$

The equilibrium equation is then written as $S = I$ (as C is common on both sides of the identity).

Income (Y)	Consumption (C)	Savings (S)	Investment (I)	Remarks
Rs. Crores	Rs. Crores	Rs. Crores	Rs. Crores	
0	50	-50	100	
100	100	0	100	} $S < I$
200	150	50	100	
300	200	100	100	AD = AS
400	250	150	100	
500	300	200	100	} $S > I$
600	350	250	100	

Table 9 Determination of equilibrium level of income using savings – investment approach

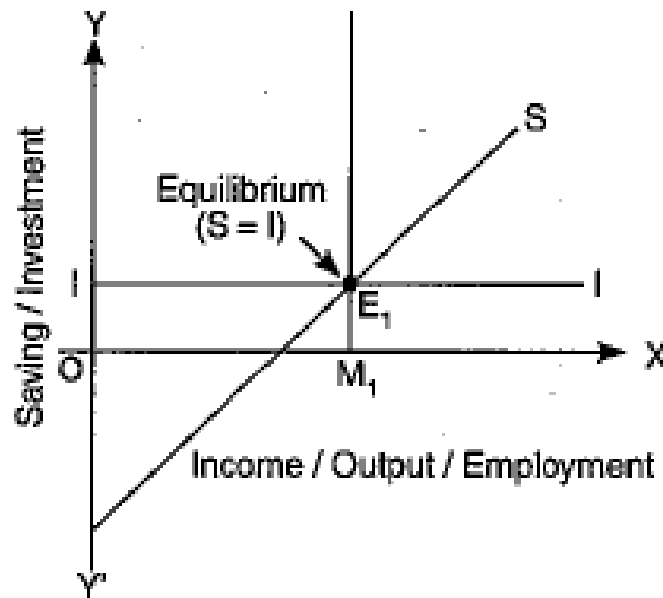


Figure 9 Determination of equilibrium level of income using savings – investment approach

The equilibrium level of income is determined using S-I approach when, $S = I$. E_1 is the point of equilibrium where $S = I$. OM_1 is the equilibrium level output determined when $S=I$. At this point there are no excess demand or deficient demand.

What happens when $S < I$?

When $S < I$, the households are saving less and making more of expenditure. The producers in this situation are experiencing an increase in demand and would suffer a shortage of unsold stock or inventories. This will prompt the producers to increase the production. This will increase the income and savings in the economy until the equality between savings and investment is achieved to restore the equilibrium.

What happens when $S > I$?

When $S > I$, the households are saving more and demanding less. In this situation the producers would be experiencing an increase in the unsold stock or inventories. To clear the unsold stock, the producers would go for a cut in the production until the equality between savings and investment is achieved to restore equilibrium.

Investment Multiplier

Investment multiplier refers to the increase in income due to an increase in income in the economy. It is the ratio of change in income to change in investment. It is the number of times by which the increase in income exceeds the increase in investment.

Investment Multiplier (k) = Change in income / Change in investment = $\Delta Y/\Delta I$

Mechanism of Investment multiplier

Investment multiplier measures the number of times an increase in investment in the economy leads to an increase in income. Additional investment in the economy means additional expenditure and thus additional income. The investment multiplier is based on the principle that “one man’s expenditure is another man’s income”. It is influenced by the expenditure and propensity to consume in the economy.



Investment multiplier depends on the marginal propensity to consume. They are directly related. Higher the value of MPC, higher will the value of multiplier and vice versa. The relationship between multiplier and MPC may be established as below:

$$Y = C + I$$

$$\Delta Y = \Delta C + \Delta I \quad (\text{divide both the sides by } \Delta Y)$$

$$\Delta Y/\Delta Y = \Delta C/\Delta Y + \Delta I/\Delta Y$$

$$1 = MPC + 1/k \quad (k = \Delta Y/\Delta I, \text{ so } \Delta I/\Delta Y = 1/k)$$

$$K = 1/1-MPC$$

$$K = \frac{1}{1 - mpc}$$

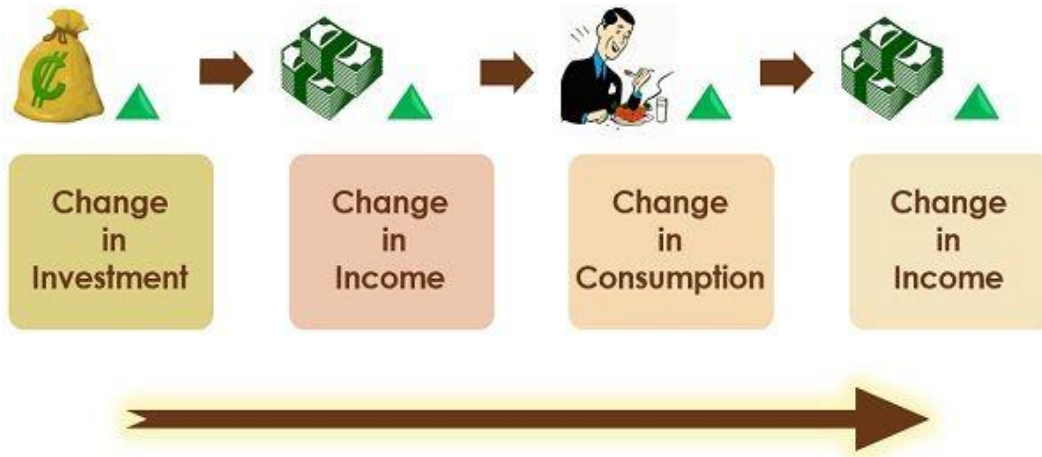
Assuming that in the economy MPC is 0.5, the mechanism of investment multiplier is explained with the numerical schedule given below.

Rounds of income generation	Increase in investment (ΔI)	Increase in income (ΔY)	Increase in consumption (ΔC)	Increase in savings (ΔS)
Round 1	100	100 →	50	50
Round 2	-	50 →	25	25
Round 3	-	12.5 →	6.25	6.25
Round 4	-	6.25 →	3.125	3.125
Round 5	-	3.125 →	-	-
-	-	-	-	-
Last round	100	200	100	100

Table 10. Working of investment multiplier.

Working of multiplier

- The MPC in the economy is assumed to be 0.5. The initial increase in investment in the economy is $\Delta I = 100$. If $\Delta I = 100$, then $\Delta Y = 100$.
- The increase in income in round 1 is $\Delta Y = 100$. Which would split into ΔC and ΔS as 50 each (MPC and MPS is 0.5 respectively).
- In round 2, ΔC is converted into $\Delta Y = 50$. This will again split into increase in consumption = Rs.25 crore and increase in savings = Rs.25 crores.
- In round 3, there will be an increase in income of Rs. 25 due to an increase in consumption of Rs.25 crores in the second round.
- At each rounds, ΔC is converted into ΔY and the process continues till there is not scope for further increase in income.
- There are so many rounds of increase in income caused by increase in consumption.
- The multiple times by which an increase in consumption leads to increase in income is defined by the equation $k = 1/1-mpc$.
 $K = 1/1-0.5 = 2$. Investment multiplier = 2
- It implies that there will be a two times increase in income in the economy due to initial increase in investment.
 $K = \Delta Y/\Delta I$, $\Delta Y = k \times \Delta I = 2 \times 100 = \text{Rs. } 200$ crores is the increase in income in the economy due to an initial increase in income of Rs. 100 crores.



Full Employment, Voluntary unemployment and Involuntary Unemployment

Full employment refers to a situation in the economy when all those who are able and willing to do work at the prevailing wage rate are getting work. At full employment there is no excess capacity or unemployment and economy is in a state of equilibrium.

Voluntary unemployment: is a situation when people choose to remain unemployed even when jobs are available. In this situation, people are not willing to work at the prevailing wage rate.

Involuntary unemployment refers to a situation when people are able and willing to work at the prevailing wage rate and are not getting work. The aggregate demand in the economy is not sufficient to use the existing resources in the economy.

Excess and Deficient demand.

Excess demand is a situation when AD is more than what is required for full employment. Excess demand is defined as a situation when AD is greater than AS at full employment.

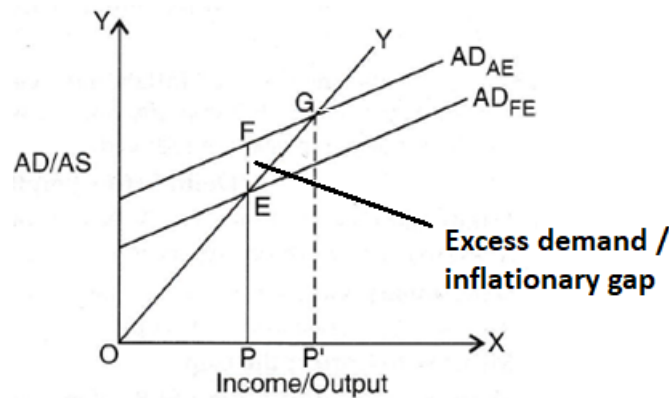


Figure 10. Excess demand and inflationary gap

In the diagram, the full employment equilibrium is attained at point E where the AS and AD for full employment (AD FE) are intersecting. AD AE shows aggregate demand in the economy which is higher than the aggregate demand for full employment AD FE. The vertical difference between AD AE and AD FE is excess demand.

Excess demand in the economy arises due to following reasons:

1. An increase in the private consumption (C)
2. An increase in the investment expenditure by firms (I)
3. An increase in the government expenditure (G)
4. Increase in exports.
5. Decrease in imports.

Inflationary gap and excess demand

Excess demand leads to inflationary gap in the economy. The increase in aggregate demand leads to increase in price levels and then to inflationary gap. Inflationary gap is measured as the difference between aggregate demand beyond full employment and aggregate demand required for full employment. In the diagram, inflationary gap is the vertical difference between AD AE and AD FE, i.e., FE.

Problems of excess demand

When there is excess demand in the economy, the demand for goods and services exceeds more than the production in the economy. To meet this excess demand, the producers starts selling the unsold stock and inventories decreases. With excess demand, the price level in the economy starts increasing and leads to inflation.

Measures to correct Excess demand

The measures to correct excess demand are classified into:

1. Fiscal policy: Government expenditure and taxes.
2. Monetary policy: Quantitative and qualitative tools.

Fiscal policy measures to correct excess demand:

1. Increase in taxes.
2. Decrease government expenditure.
3. Increase in public debt.
4. Decrease deficit financing.

Monetary Policy measures to correct excess demand:

1. Increase in bank rate.
2. Sale of securities.

3. Increase in CRR.
4. Increase in SLR.
5. Increase in repo rate.
6. Increase in reverse repo rate.
7. Increase in margin requirements.

Deficient demand

Deficient demand is a situation when AD is less than what is required for full employment. Deficient demand is defined as a situation when AD is less than AS at full employment.

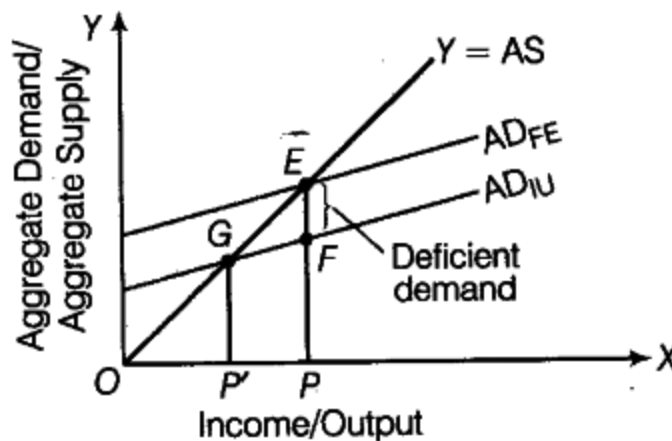


Figure 11. Deficient demand and deflationary gap

In the diagram, the full employment equilibrium is attained at point E where the AS and AD for full employment (AD FE) are intersecting. AD IU shows aggregate demand in the economy which is less than the aggregate demand for full employment AD FE. The vertical difference between AD FE and AD IU is deficient demand.

Deficient demand in the economy arises due to following reasons:

1. A decrease in the private consumption (C)
2. A decrease in the investment expenditure by firms (I)
3. A decrease in the government expenditure (G)
4. Decrease in exports.
5. Increase in imports.

Deflationary gap and deficient demand

Deficient demand leads to deflationary gap in the economy. The decrease in aggregate demand leads to decrease in price levels and then to deflationary gap. Deflationary gap is measured as the difference between aggregate demand less than full employment and aggregate demand

required for full employment. In the diagram, deflationary gap is the vertical difference between AD_{FE} and AD_{IU}, i.e., EF.

Problems of deficient demand

When there is deficient demand in the economy, the demand for goods and services decreases than what is produced in the economy. This leads to piling up of unsold stock/inventories in the economy. To overcome this deficient demand, the producers cut the production of goods and services. As a result, the price level in the economy starts decreasing to clear the unsold stock and leads to deflation.

Measures to correct deficient demand

The measures to correct deficient demand are classified into:

1. Fiscal policy: Government expenditure and taxes.
2. Monetary policy: Quantitative and qualitative tools.

Fiscal policy measures to correct deficient demand:

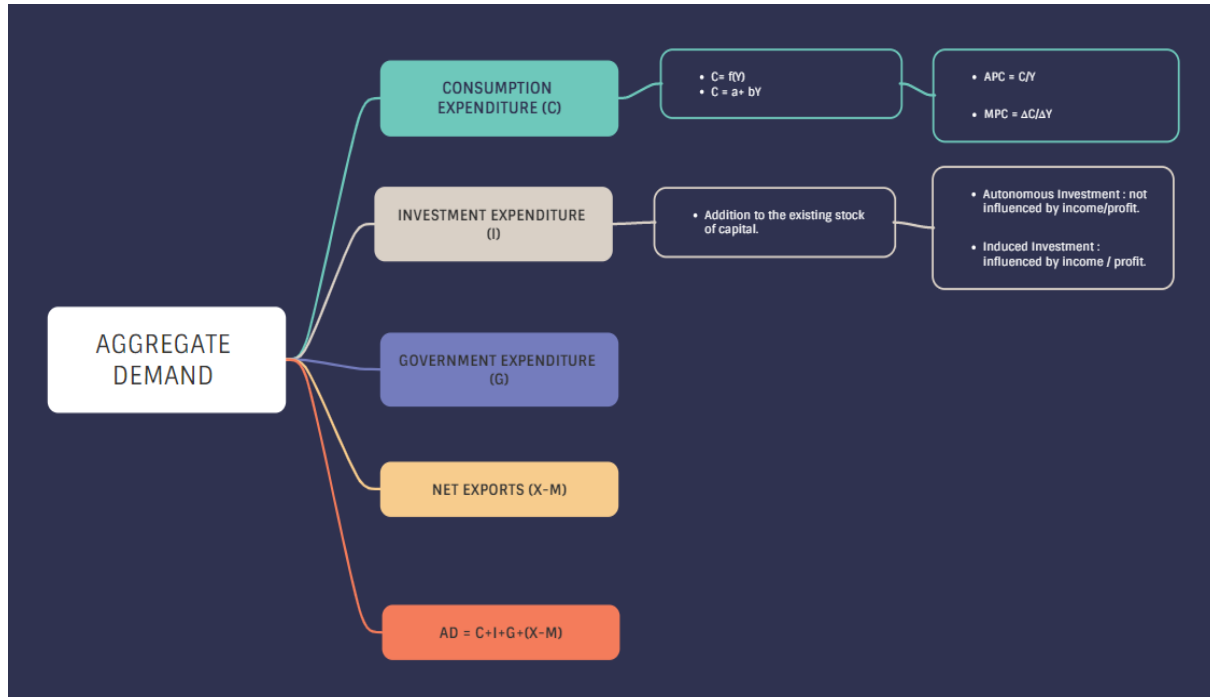
1. Decrease in taxes.
2. Increase government expenditure.
3. Decrease in public debt.
4. Increase in deficit financing.

Monetary Policy measures to correct deficient demand:

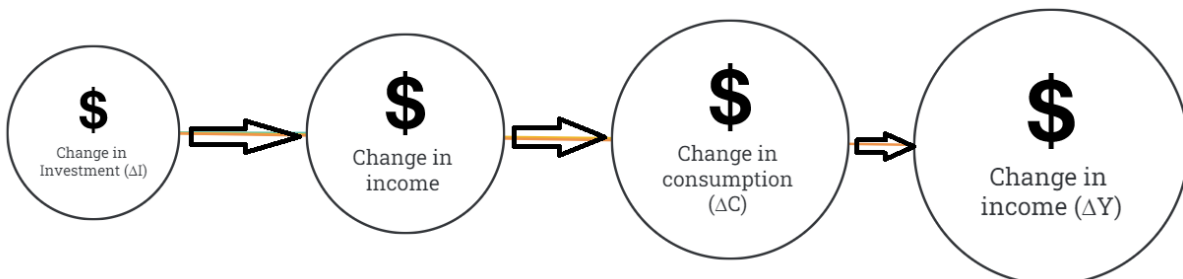
1. Decrease in bank rate.
2. Purchasing of securities.
3. Decrease in CRR.
4. Decrease in SLR.
5. Decrease in repo rate.
6. Decrease in reverse repo rate.
7. Decrease in margin requirements.

MIND MAPS

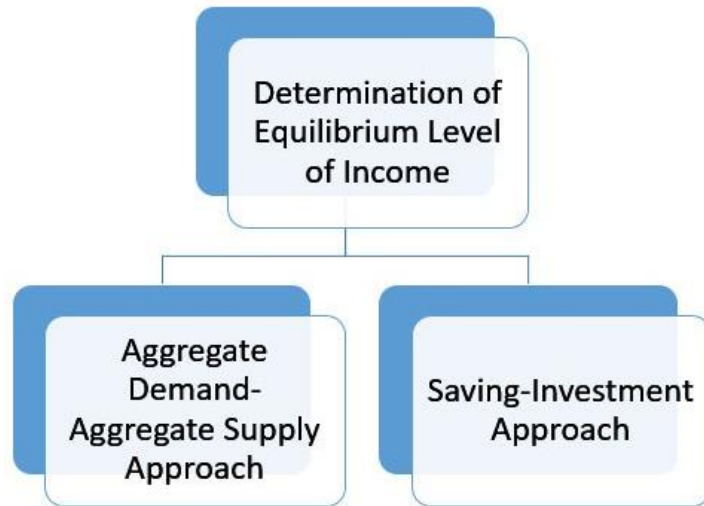
1. Components of Aggregate Demand



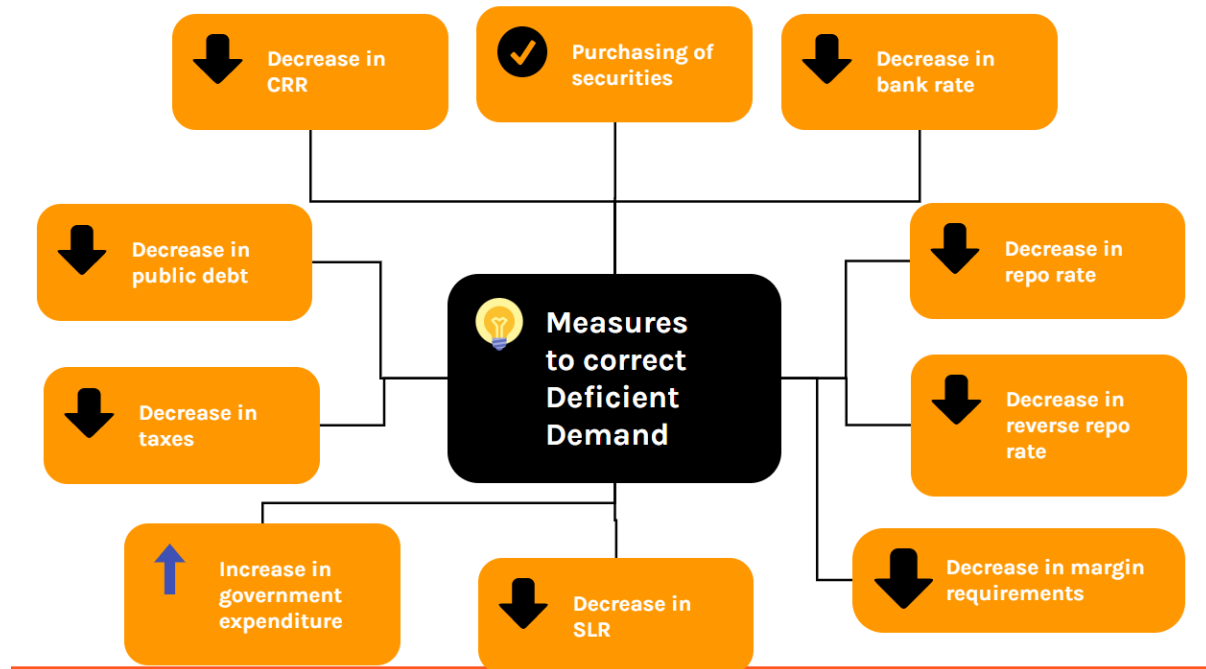
2. Investment Multiplier: Mechanism



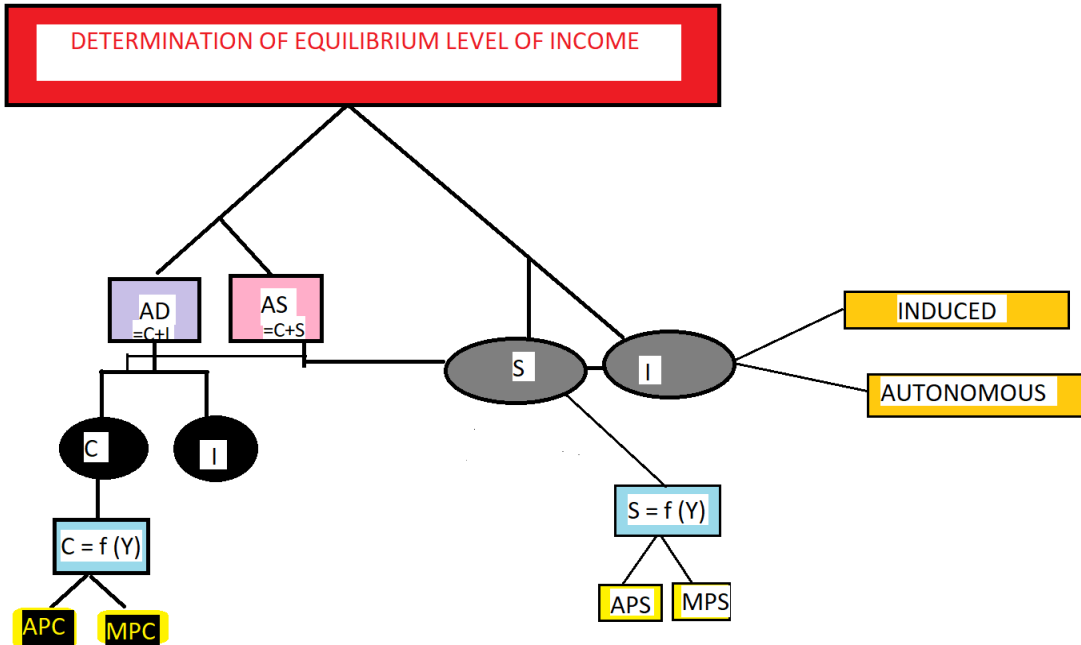
3. Approaches for determination of equilibrium level of income



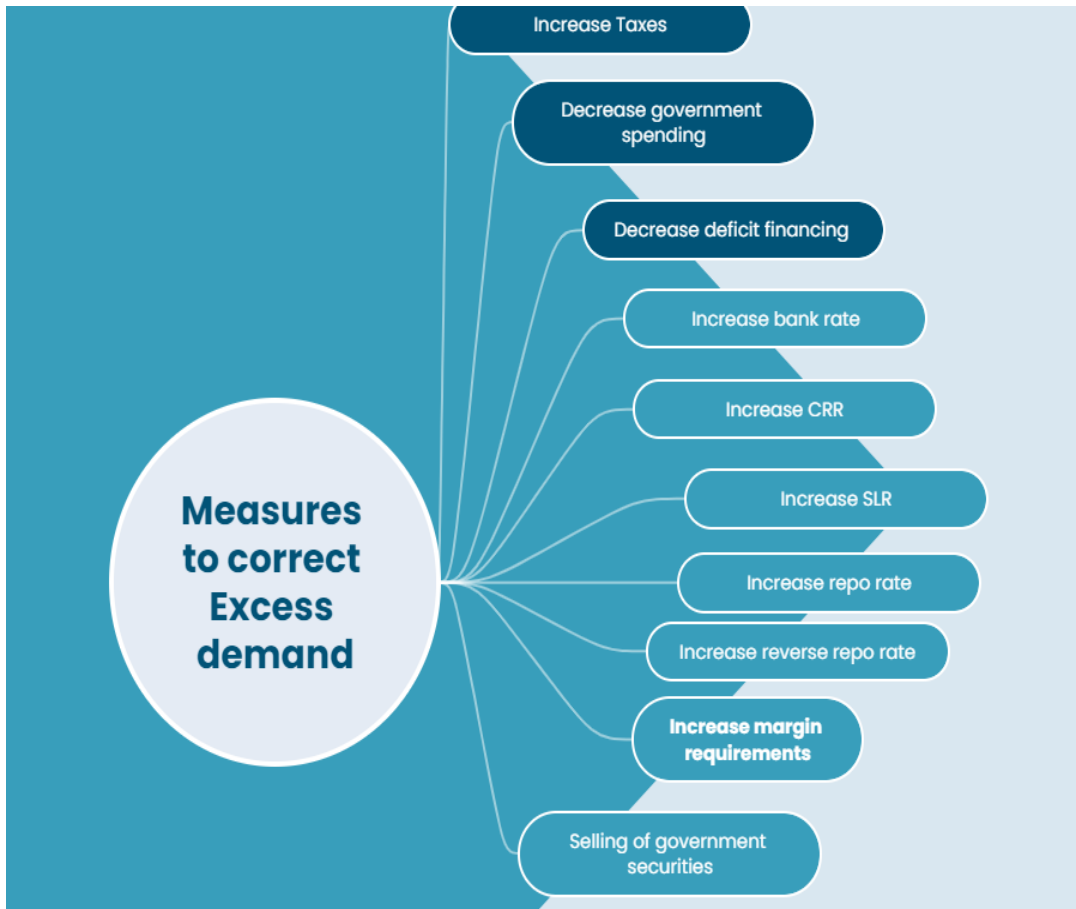
4. Measures to correct Deficient Demand



5. Determination of equilibrium level of income



6. Measures to correct Excess demand



Assertion and Reason Questions:

9. Read the following statements

Assertion and Reason and choose the correct option:

Assertion (A): During the deflationary situation public expenditure is to be increased.

Reason(R): Additional public expenditure always leads to additional income in the economy.

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

10. Read the following statements

Assertion and Reason and choose the correct option:

Assertion (A): Average propensity to consume is directly proportional to income.

Reason(R): An increase in income leads to an increase in consumption.

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

Answer:

- | | |
|--------|---------|
| 1. (b) | 2. (a) |
| 3. (a) | 4. (b) |
| 5. (c) | 6. (b) |
| 7. (b) | 8. (b) |
| 9. (a) | 10. (a) |

(CASE BASED QUESTIONS)

Read the following passage carefully and Answer: the given questions:

Changes in aggregate demand bring about changes in the level of output, employment, income, and price. These changes are generally cyclical in nature. These changes, more generally, follow a cycle of four different stages namely boom, recession, depression and recovery. The cyclical nature of economic activity is known as trade cycle or business cycle. Boom is a stage of economic activity characterized by rising prices, rising employment, rising purchasing power. During the boom period economy may get overheated, if it so happens, the monetary authorities, the financial institutions begin to play cautiously. There may be cuts in investment, resulting in cuts in employment; decline in purchasing power, economy may be caught in a web of pessimism, leads to recession. During this stage, if effective corrective measures are not undertaken, the economy may find itself caught in the whirlpool of depression. It is a stage where investment, employment, output touches the bottom. As the economy moves out of depression, it enters the phase of recovery. Keynesian diagnosis of trade cycles is given in terms of changes in aggregate demand. These are 'excess demand' and 'deficient demand' that cause trade cycle.

1. During the time of 'excess demand', Govt. should the public expenditure.

- a) Reduce b) increase c) unchanged d) none of these.

Answer: Reduce

2. Investment depends on: a) Supply b) income c) saving d) Both (a) and (c)

Answer: Income.

Read the following passage carefully and Answer: the given questions:

There is a big difference between the term disinflation and deflation. When an economy undergoes a deflationary shock, the implication can be both positive and negative for consumers and businesses. Disinflation usually occurs during a period of recession and manifests itself by slowing down the rate at which prices increases.

If the inflation rate drops to a lower level than before, technically that difference is disinflation. Deflation, on the other hand, can be thought as the opposite of inflation or a negative inflation and it occurs when the supply of goods or services rises faster than the supply of money.

1. helps to correct the situation of deflationary shock in a country through its credit control policy.

- a) Central bank b) Commercial bank c) Neither (a) or (b) d) None of the above.

Answer: Central bank

2. Which of the following step is to be taken by the central bank to boost demand in the economy during deflationary gap?

- a) Increase in public expenditure
- b) Reduce the rate of tax
- c) Decrease legal reserve requirements
- d) Increase in foreign exchange reserve.

Answer:- Decrease legal reserve requirements

Very Short Answer: questions:

1. Define Aggregate Demand.

Aggregate Demand refers to the total planned demand (ex-ante) for final goods and services in an economy during an accounting year.

2. Define Aggregate Supply.

Aggregate Supply refers to the total planned availability of final goods and services in an economy during an accounting year.

3. What are the components of Aggregate Demand?

- 1. Private final consumption expenditure (C)
- 2. Government final consumption expenditure. (G)
- 3. Investment expenditure (I)
- 4. Net Exports (x-m)

$$\left[AD = C + G + I + (X-M) \right]$$

4. Mention two components of Aggregate Supply.

- i) Consumption
- i) saving

5. What is consumption function?

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

6. What is meant by break-even point?

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

7. What are the two kinds of propensity to save?

- i) Average propensity to save (ii) Marginal propensity to save.

8. Define Marginal propensity to save.

MPS refers to the ratio of change in saving (ΔS) to change in income (ΔY).

$$\left[\text{MPS} = \frac{\text{change in saving}}{\text{change in income}} \right]$$

9. What is meant by effective demand?

Effective demand refers to that level of aggregate demand which is equal to aggregate supply.

10. Define the term 'investment multiplier.

Multiplier refers to the ratio of change in income to the change in investment.

11. What is the relationship between the MPS and Multiplier?

Multiplier is inversely proportional to MPS, higher the MPS the lower the value of Multiplier.

12. What is the minimum and maximum value of investment multiplier?

Minimum value of investment multiplier is one ($MPC = \text{Zero}$) and the maximum value is infinity ($MPC = 1$).

13. Define inflationary gap.

It refers to the gap by which actual aggregate demand exceeds the Aggregate demand required for the full employment equilibrium.

14. Give the meaning of 'deficient demand'.

Deficient demand refers to the situation when aggregate demand is less than aggregate supply corresponding to the full employment level in the economy.

15. Can Average propensity to consume be ever zero?

APC can never be equal to zero as consumption can never be zero at any level of income.

Short Answer: questions (3 & 4 Marks)

1. Explain the consumption function with the help of schedule and diagram.

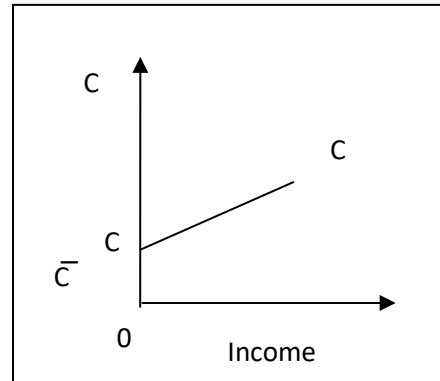
Answer:-

- Consumption function refers to the functional relationship between national income and consumption.
- It shows the consumption level at different levels of income in an economy.
- It is a psychological concept.

$$C = f(Y)$$

The relationship between consumption and income can be seen with the help of the following schedule and diagram.

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



Consumption curve starts from point 'C' on OY axis; this indicates that there is 'Autonomous consumption' of 'OC', even when the national income is zero.

It is an upward sloping curve, but the rise in consumption is less than proportionate rise in income since apart of income is saved.

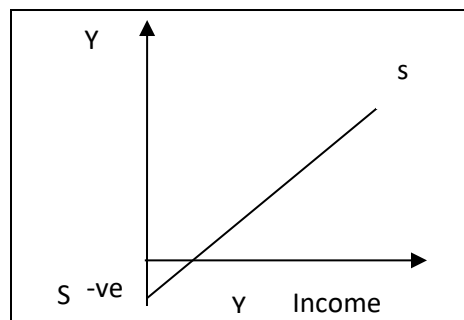
2. Explain the saving function with the help of schedule and diagram.

Answer:-

- Saving function refers to the functional relationship between saving and national income.
- It shows the saving at different levels of income in an economy.

$$S = f(Y)$$

The relationship between saving and income can be seen with the help of the following schedule and diagram.



Income (Rs.)	Consumption (Rs.)	Saving(Rs.)
0	40	(-) 40
100	120	(-) 20
200	200	0
300	280	20
400	360	40

Saving curve starts from point 'S' on the OY axis, this indicates that there is negative saving (equal to the amount of 'Autonomous consumption'), when the national income is zero. It is an upward sloping curve, indicates a positive relationship between saving and income.

3. What are the different components of Aggregate demand? Explain.

Answer:

Major components of AD are: -

1. Private final consumption expenditure (C)

It refers to the total final expenditures incurred by households or firms on purchase of final goods and services during an accounting year. It depends upon the disposable income.

2. Government final consumption expenditure. (G)

It refers to the final expenditures incurred by government on purchase of goods and services to satisfy the needs of an economy.

3. Investment expenditure (I)

It refers to the total expenditure increased by all private firms on capital goods. It includes gross domestic fixed capital formation and change in stock.

4. Net Exports (x-m).

It is the difference between value of exports of goods and services and values Import of goods and services

4. Distinguish between Average propensity to save and Marginal propensity to save. Give a numerical example.

Answer: There are TWO types of saving function. They are:

1. Average Propensity to Save (APS): APS refers to the ratio of saving to the corresponding level of national income. $APS = \text{Saving} / \text{Income (S/Y)}$

2. Marginal Propensity to Save (MPS):_MPS refers to the ratio of change in saving (ΔS) to change in income (ΔY). $MPS = \text{Change in saving} / \text{change in income} (\Delta S / \Delta Y)$

Following table shows the numerical illustrations of APS and MPS

Income (Rs.) (Y)	Consumption (Rs.)	Saving(Rs.) (S)	APS (S/Y)	ΔS	ΔY	MPS $\frac{\Delta S}{\Delta Y}$
0	40	(-) 40	--	--	--	---
100	120	(-) 20	(-)0.20	20	100	0.2
200	200	0	0	20	100	0.2
300	280	20	0.067	20	100	0.2
400	360	40	0.10	20	100	0.2

5. Define investment multiplier. Write the relationship between investment multiplier with MPC and MPS.

Answer:

Investment Multiplier refers to a multiple change in income (ΔY).as a result of a small change in investment (ΔI).

$$k = \Delta Y / \Delta I$$

Relation between 'k' & MPC

$$k = 1 / 1 - MPC \text{ (POSITIVE RELATION)}$$

If MPC value is 0.25, then $k = 1 / 1 - 0.25$, $k = 1 / 0.75$ $k = 1.33$

If MPC value is 0.75, then $k = 1 / 1 - 0.75$, $k = 1 / 0.25$, $k = 4$

POSITIVE RELATION BETWEEN MPC & k

Relation between 'k' & MPS

$$k = 1 / MPS \text{ (NEGATIVE RELATION)}$$

If MPS value is 0.25, then $k = 1 / 0.25$, $k = 4$

If MPS value is 0.75, then $k = 1 / 0.75$, $k = 1.33$.

NEGATIVE RELATION BETWEEN MPS & k

6. Explain the working of investment multiplier with the help of a numerical example.

Answer:-

- The working of multiplier is based on the fact that 'One person's expenditure is another person's income'.
- When an additional investment is made, then income increases many times more than the increase in investment.
- It depends upon the value of MPC.

The working of investment multiplier can be able to see with the help of the following example.

Increase in investment (ΔI) = 100 crores, MPC= 0.9

$$k = 1/1 - MPC, 1/1 - 0.9, 1/0.1 = 10$$

$$\text{Total increase in income } (\Delta Y) = k \times \Delta I, 10 \times 100 = \mathbf{1000} \text{ crores.}$$

The minimum value of $k = 1$ (one)

$$k = 1 / 1 - MPC$$

The maximum value of $k = \text{Infinity}$

$$\text{Total increase in income} = k \times \Delta I$$

7. Explain the meaning of excess demand with the help of a diagram.

Answer:; -

A situation where planned Aggregate Demand is greater than the required Aggregate Supply in an economy, corresponding to the full employment, is known as excess demand.

$$AD > AS \text{ (Corresponding to full employment)}$$

In other words, any excess of planned aggregate expenditure (AD) over the full employment level of expenditure is known as EXCESS DEMAND.

Excess demand leads to inflationary situation in the economy.

There for the excess demand situation is also known as inflationary gap.

Thus inflationary gap represents the situation where the actual AD exceeds the AD required to maintain full employment level.

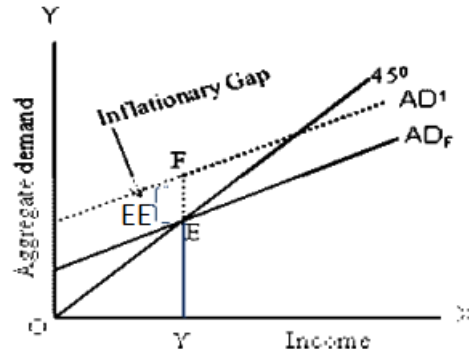
This situation can be expressed in the form of following diagram.

From the diagram, we can see that economy's equilibrium level of income is OY, where AD= AS

When AD increases above this equilibrium level i.e., AD', we can see the situation of excess demand or inflationary gap.

ie., $YF - YE = EE$

The situation of excess demand is also known as OVER FULLEMPLOYMENT situation. Leads to rise in the general price level.



8. What are the measures to control excess demand?

Answer: :-

FISCAL POLICIES

- DECREASE in public expenditure
- INCREASE the tax rate and even impose some new taxes

MONETARY POLICIES

- Increase in Bank Rate
- Increase in Legal Reserve Requirement
- Increase in Repo Rate
- Increase in Reverse Repo Rate.
- Increase in Margin Requirement.
- SELL the securities to the public as an open market operation policy.

(These all will lead to a decrease in the money supply or availability of credit.)

9. Explain the meaning of deficient demand with the help of a diagram.

DEFICIENT DEMAND: -

A situation when planned Aggregate Demand is less than the Aggregate Supply corresponding to full employment level of output in the economy.

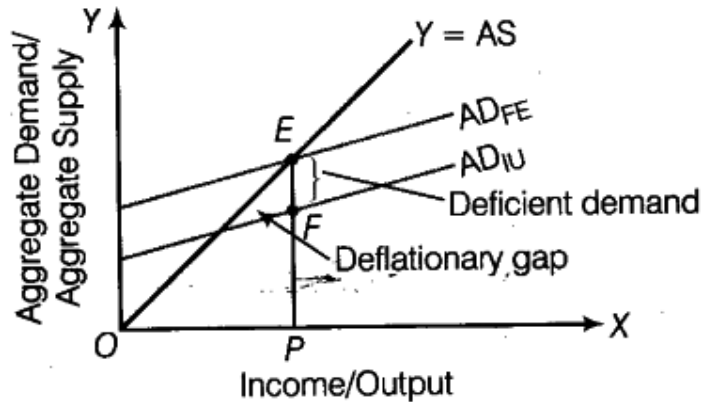


AD < AS (Corresponding to full employment)

This leads to deficient demand, and is known as DEFLATIONARY GAP situation. Results a fall in general price level.

It leads to underemployment equilibrium and there exists involuntary unemployment in the economy.

This situation can be expressed in the form of following diagram.



The gap between EF indicates the deflationary gap.

10. Write any four important points related to APC.

- APC is always more than one ($APC > 1$) before the break-even point
- APC is equal to 1 at the break-even point. ($Y=C$).
- APC is less than 1 after the break-even point.
- APC falls with increase in income.
- APC can never be zero or Negative.
-

10. What are the measures to control deficient demand?

Answer:-

FISCAL POLICIES

- INCREASE public expenditure
-
- DECREASE the tax rate and to withdraw the new taxes which were imposed earlier.
- DECREASE public borrowings.

MONETARY POLICIES

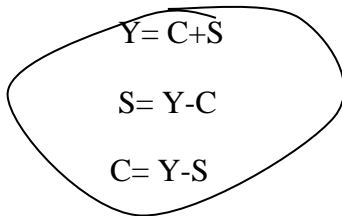
- Decrease in Bank Rate
- Decrease in Legal Reserve Requirement
- Decrease in Repo Rate
- Decrease in Reverse Repo Rate.
- Decrease in Margin Requirement
- PURCHASE the securities from the public as an open market operation policy.

(These all will lead to an increase in money supply or the availability of credit.)

LONG ANSWER: QUESTIONS: (6 Marks)

1 Outline the steps required to be taken in deriving saving curve from the given consumption curve. Use schedule / diagram. (CBSE 2014, 2016, 2017)

- Consumption function refers to the functional relationship between national income and consumption.
- It shows the consumption level at different levels of income in an economy.
- Saving function refers to the functional relationship between saving and national income.
- It shows the saving at different levels of income in an economy.


$$Y = C + S$$
$$S = Y - C$$
$$C = Y - S$$

The following table shows the derivation of saving from the consumption.

Income (Rs.) (Y)	Consumption (Rs.)	Saving(Rs.) (S)
0	40	(-) 40
100	120	(-) 20
200	200	0
300	280	20
400	360	40

At zero level of income there is consumption, known as autonomous consumption. As income increases, consumption also increases.

The following diagram illustrates the derivation of saving curve from the consumption curve.

From the above diagram, we can see that, at 'OY' level of income both Income and consumption are equaled, known as 'break-even point'. At this situation saving is zero.

2. Explain the determination of equilibrium level of income using 'Investment and saving' approach. Use diagram. (CBSE 2015, 2018)

OR

Explain with the help of a schedule, how equilibrium level of income is determined considering aggregate demand and aggregate supply. (CBSE 2012, 2016)

OR

Explain the Keynesian theory of full employment equilibrium

Answer:-

According to the Keynesian theory, an economy reaches equilibrium level, when planned (ex-ante) AD for goods and services is equal to the planned (ex-ante) AS, during an accounting year.

Full employment equilibrium is a situation, where all the resources of the country get employment. It implies that the volume of Aggregate Demand is just sufficient for the full utilization of country's available resources and the production is being done to the maximum possible resources and to the maximum possible limit. It means aggregate demand is neither in excess nor deficient.

AD represents consumption and investment and AS represents consumption and saving.

Hence the equilibrium level is achieved, when;

$$AD = AS$$

$$AD = C + I$$

$$AS = C + S$$

So, when an economy reaches equilibrium;

$$C + I = C + S$$

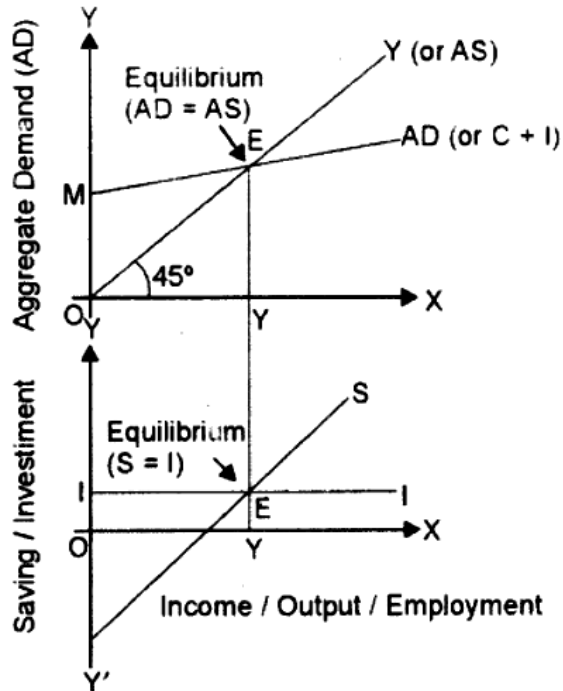
$$I = S$$

The determination of equilibrium level of income can be better understood with the help of the following schedule.

Income (Y)	Consumption (C)	Saving (S)	Investment (I)	AD (C+I)	AS (C+S)	Remarks
0	40	-40	20	60	0	} AD>AS Employment
100	120	-20	20	140	100	
200	200	0	20	220	200	
<u>300</u>	<u>280</u>	<u>20</u>	<u>20</u>	<u>300</u>	<u>300</u>	} AD=AS (Full employment)
400	360	40	20	380	400	} AD<AS Employment
500	440	60	20	460	500	

From the table we can see that, when income is at Rs. 300, both ex- ante AD and ex- ante AS reaches equilibrium. ($AD=AS$, $300=300$), there for 300 is known as equilibrium income. At the same situation, both ex- ante Saving and ex- ante Investment also reaches equilibrium. ($S=I$, $20=20$). There for we can say that Rs. 300 as equilibrium level of income. This situation is also known as EFFECTIVE DEMAND situation.

The following diagram illustrate the determination of income and employment by using AD & AS and S& I analysis.



As per the above diagram, we can see that economy reaches equilibrium at ‘OY’ level of income, where AD equals to AS, In the same situation we could see that S & I are also equal. The situation is also known as ‘EFFECTIVE DEMAND’ situation.

Numerical Illustrations:

1. In an economy, the consumption function is $C = 500 + 0.75Y$. Calculate the equilibrium level of income and consumption expenditure, when investment expenditure is Rs.5000.

Solution:

1) Equilibrium level of income

$$Y = C + I.$$

$$Y = 500 + 0.75Y + 5000$$

$$0.25Y = 5500$$

$$Y = 5500 / 0.25$$

$$Y = 22,000$$

2) Consumption at Equilibrium level of income

$$C = 500 + 0.75Y$$

$$C = 500 + 0.75 \times 22000$$

$$C = 17000.$$

2. Find National income from the following: Autonomous consumption =100

$$MPC = 0.80$$

$$\text{Investment} = 50$$

Solution:

$$Y = C + I$$

$$C = \bar{C} + b(Y)$$

$$b = MPC$$

$$Y = \bar{C} + b(Y) + I$$

$$Y = 100 + 0.8Y + 50$$

$$0.2Y = 150$$

$$Y \text{ (National Income)} = \text{Rs.}750.$$

3. If APC of an economy is 0.8, what should be saving at an income level of Rs. 4000 crores?

Solution:

$$APC + APS = 1$$

$$\text{Then, } APS = 1 - APC$$

$$APS = 0.2, \text{ i.e.,}$$

$$APS = \text{Saving} / \text{Income}$$

$$(S/Y = 0.2)$$

$$0.2 = \text{Saving} / 4000$$

$$\text{Saving} = 0.2 \times 4000$$

$$= 800 \text{ crores.}$$

4. Complete the following table.

Income	MPC	Saving	APS
0	-	-90	-
100	0.6	-	-
200	0.6	-	-
300	0.6	-	-

Solution

Income	MPC	MPS	ΔS	Saving	APS
0	-	-	-	- 90	-
100	0.6	0.4	40	- 50	-0.50
200	0.6	0.4	40	- 10	-0.05
300	0.6	0.4	40	30	0.10

$$\Delta S = MPS \times \Delta Y$$

$$MPS = 1 - MPC$$

$$APS = S / Y$$

5. Complete the following table.

Income	Saving	MPC	APS
0	-12		-
20	-6	-	-
40	0	-	-
60	6	-	-

Solution

Income	Saving	Consumption	MPC	APS
0	-12	12	-	-
20	-6	26	0.70	-0.30
40	0	40	0.70	0
60	6	54	0.70	0.10

CBSE PREVIOUS YEARS QUESTIONS:

1. In an economy, the consumption function is $C = 50 + 0.5 Y$ and investment expenditure is Rs.2000. Calculate

(i) Equilibrium level of national income

(ii) Consumption expenditure at equilibrium level of national income. (CBSE 2013)

Answer:(1) Rs. 4100 (ii) Rs.2100

2. Explain the working of investment multiplier with the help of a numerical example. (CBSE 2017)

(Refer Q. No. 6 Short Answer: question)

3. Explain determination of equilibrium level of national income by using aggregate demand and aggregative supply approach. Use diagram. (CBSE Delhi Compt. 2017)

(Refer Q. No. 2 Long Answer: question)

4. Explain the meaning of equilibrium level of income and output by using saving and investment approach. Use a diagram. (CBSE Delhi 2008).

(Refer Q. No. 2 Long Answer: question)

5. Explain the meaning of investment multiplier. What can be its minimum value and why? (CBSE 2008, 2014, 2016).

(Refer Q. No. 6 Short Answer: question)

6.. Explain the concept of 'inflationary gap'. Also explain the role of 'legal reserves in reducing it. (CBSE 2012).

(Refer Q. No. 7 & 8 Short Answer: question)

7. How can increase in the govt. expenditure solve the problem of deficient demand? (CBSE foreign 2016).

(Refer Q. No. 10 Short Answer: question)

8. Explain how controlling money supply is helpful in reducing excess demand? (CBSE, All India 2016)

(Refer Q. No. 8 Short Answer: question)

9. Answer: the following questions based on the data given below. (CBSE ,Delhi 2020)

i) Planned investment = Rs. 100 crores.

ii) $C = 50 + 0.50 Y$. (a) Determine the equilibrium level of income.

(b) Calculate the value of savings at equilibrium level of national income.

(c) Calculate the value of investment multiplier.

Answer:(a) 300 (b) 100 (c) 2

10. On the basis of the following schedule, Answer: the given questions: -

Income	0	50	100	150	200
(in crore rupees)					
Savings	(-) 20	(-)10	0	30	60
(in crore rupees)					

(i) Calculate MPS at Rs.150 crore level of income.

(ii) What is the value of autonomous consumption? (CBSE 2022)

Answer: (i) 0.6 (ii) 20

UNIT 4: Government Budget and the Economy

Govt. budget: - An annual statement of estimated receipts and estimated expenditure of the govt. during an accounting year (fiscal year). Current Fiscal year is from 1st April 2021 to 31st March 2022

Objectives of Govt. budget:

1. Re-allocation of resources: -Govt. aims to reallocate resources in accordance with the economic and social priorities of the country.

- To encourage investment, govt. gives tax concessions and subsidies etc., to the producers.
- Govt. discourages the production of the harmful goods by imposing heavy taxes and encourages the production of needful goods like 'khadi products' by providing subsidies.
- Also undertake production of those goods where private sector does not take interest.

2. Economic equality: -Reducing inequality is an inherent part of every economic system.

- By imposing taxes on the rich and through providing welfare programs to the poor people govt. is achieving this goal.
- Also known as **redistribution of income & wealth**
- Progressive taxes on the rich and through providing job opportunities and also through transfer payments govt. is achieving this goal.
- Govt. **also aims to achieve regional equality** by providing facilities to the rural areas, basically infrastructural Facilities for bringing balanced growth.

3. Economic stability: -

- Govt. budget is used to prevent the business fluctuations like booms or depressions (inflations or deflations) to achieve the goal of **balanced growth** (economic stability).
- The policy of surplus budget during the time of inflation and deficit budget during the time of deflation helps the govt. to achieve this goal.

4. Economic Growth: -

- Economic growth depends on the rate of saving and investment in the economy. **Increase in GDP**
- Govt. budget aims to mobilise sufficient resources for investment in the economy.
- Various provisions are making in the govt. budget for increasing the investment in the economy.

5. Management of public sector enterprises: - All public sector enterprises are managed through the govt. budget, functioning for social welfare

Components of Govt. budget:

- It also refers to the **structure** of the govt. budget.

There are basically TWO COMPONENTS of govt. budget. They are:

(1) Revenue Budget (2) Capital Budget.

Revenue Budget has TWO parts; they are Revenue receipts and Revenue expenditure.
Capital budget consists of Capital receipts and Capital expenditure.

Budget Receipts (BR): - Refers to the estimated money receipts of the govt. from all sources during a given fiscal year. There are two types of budget receipts.

They are: 1. Revenue **Receipts** (RR) & 2. **Capital Receipts** (CR):

1. **Revenue Receipts** (RR): -

Receipts which **Neither** creates liability **nor** reduces the assets of the govt.

Major features are:

1. It does not create liability to the govt.

2) It does not reduce the assets of the govt.

- They are regular and recurring in nature.
- Major sources are: **Tax revenue and Non- tax revenue**

Tax Revenue: - Tax is a compulsory contribution made by individuals and institutions to the govt. without any direct return.

Direct Tax: -

- Taxes that are imposed on property and income of individuals and firms and are directly paid by them to the govt.
- The burden of tax cannot be shifted.
- The Impact and incidence of tax falls on same person.
- For e.g.: - Income tax, property tax. etc.

Indirect Tax: -

- Taxes that are levied on goods and services.
- The burden of tax can be shifted.
- The Impact and incidence of tax falls on different persons.
- They are regressive in nature.
- For e.g.: - GST (Goods & Service tax).

Non tax revenue:-

- Non tax revenue refers to revenue receipts of the govt. other than the tax revenue.
- Major sources are: - Administrative revenue (Fess, Fines & penalties, Escheats, License fees, forfeitures etc.) Gift & grants, Income from govt. properties, special assessments, interest received, dividends etc.

2. **Capital Receipts (CR):** - Receipts which **either** creates liability **or** reduces the assets of the govt.

Major features:

1) It creates liability for the govt.

2) It reduces the assets of the govt.

- They are irregular and non-recurring in nature.

Major sources are:

1. Borrowings: -

- These are the funds raised by the govt. to meet the excess expenditures.
- Govt. borrows funds from internal sources (RBI, Open market) External sources (Foreign governments, foreign financial institutions like IMF, IBRD etc.)

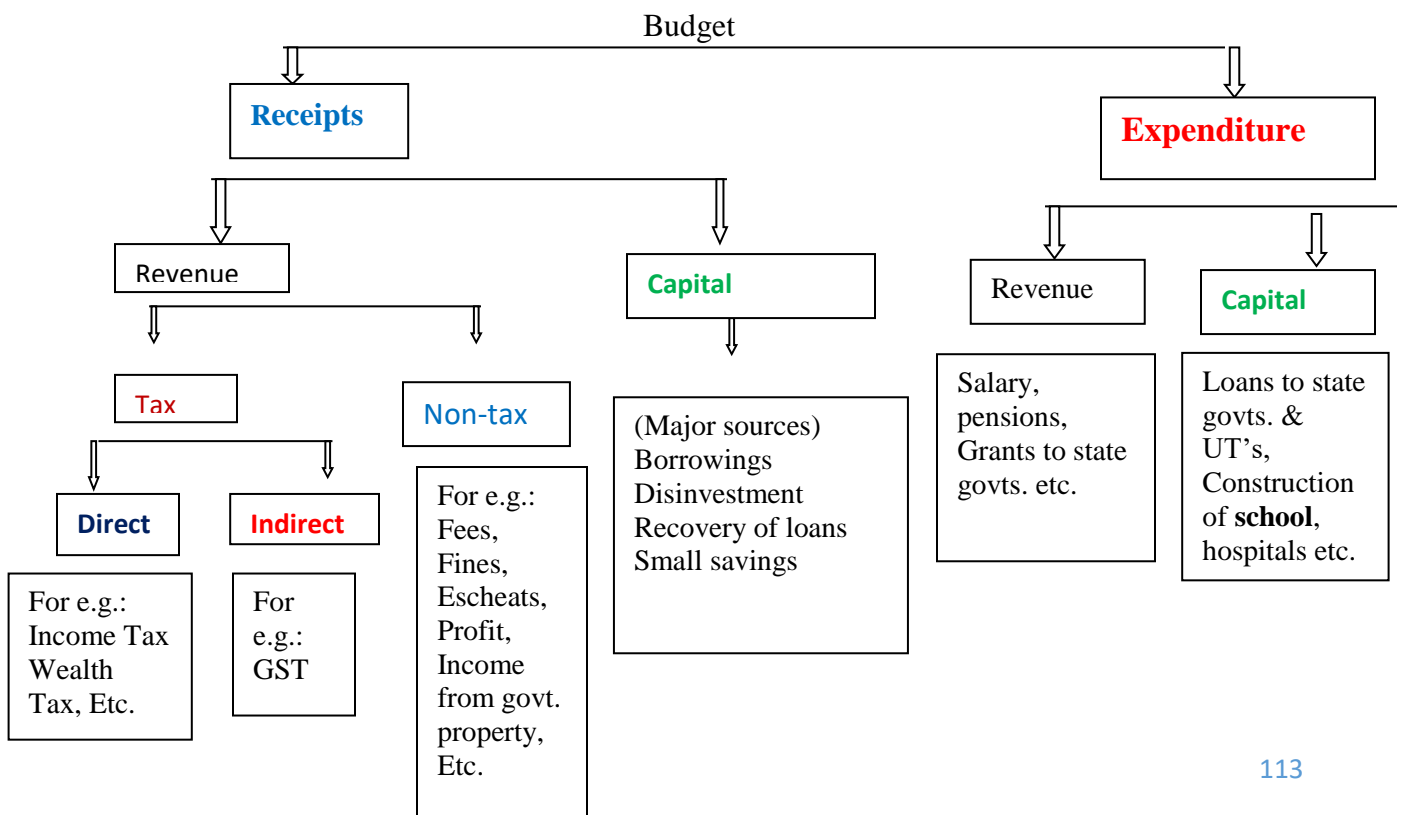
- Borrowings are capital receipts as they create liability and reduce the assets of the government.
2. Disinvestment:
- It refers to the act of selling a part or the whole unit of selected public sector undertakings held by the government to the private agencies.
 - It reduces the assets of the govt.
 - It leads to transfer of ownership of PSU's to the private enterprises
3. Recovery of loans: -
- Govt. provides various loans to the state government or UT's or even to foreign countries.
 - Recovery of such loan is a capital receipt as it reduces the assets of the govt.
4. **Small Savings:** - Small savings in the form of Post office deposits, NSC are other sources of capital receipts as it leads to an increase in liability.

Budget expenditure: - It refers to the estimated expenditure of the government during a given fiscal year.

Capital expenditure and Revenue expenditure

- Any expenditure by the government that either creates an asset (for example construction of School building etc.) or reduces a liability (for example repayment of loan) is categorised as **capital expenditure**.
- Any expenditure by the government that neither creates an asset nor reduces a liability is categorized as **revenue expenditure**, (for example interest payment, subsidies, grants given to the state governments etc.)

Structure of Government Budget



Un- balanced budget: - If Budgetary Receipts are not equal to the Budgetary Expenditure of the govt., then it is known as un balanced budget. Major TYPES of unbalanced budget are:
Surplus Budget & Deficit Budget

Surplus Budget

If Budgetary Receipts are MORE THAN the Budgetary Expenditure of the govt., then it is known as Surplus budget.

$$BR > BE \text{ or } TR > TE$$

Deficit Budget

If Budgetary Receipts are LESS THAN the Budgetary Expenditure of the govt., then it is known as Deficit budget.

$$BR < BE \text{ or } TR < TE$$

Types of budgetary deficits: -

1. REVENUE DEFICIT (RD)
2. FISCAL DEFICIT (FD)
3. PRIMARY DEFICIT (PD)

REVENUE DEFICIT (RD)

If Revenue Expenditures are MORE THAN the Revenue Receipts of the govt., then it is known as REVENUE DEFICIT (RD) during an accounting year.

$$RD = RE - RR \text{ or } RD = RE > RR$$

Major implications: -

1. It is a warning signal to the govt. either to reduce the revenue expenditure or to increase the revenue receipts.
2. It indicates the inability of the govt. to meet its regular and recurring expenditure.
3. It also implies that the govt. has to make up this deficit from capital receipts which may lead to inflationary situation in the economy.

FISCAL DEFICIT (FD)

- FD refers to the excess of Budgetary Expenditure over Budgetary receipts, excluding borrowings, during an accounting year.

$$FD = BE - BR \text{ (Excluding borrowings)}$$

Major implications: -

- 1 Leads to Debt trap: - Borrowings not only involves repayment of borrowed amount but it also requires payment of interest. Interest payments increases revenue expenditures which leads to revenue deficits, ultimately leads to debt trap.
2. Creates inflationary situation in the economy: - Borrowings leads to increase in money supply in the economy creates inflation.
3. Foreign dependence: - Govt. borrows money from the foreign countries and foreign financial institutions, which ultimately increases its dependences on these countries and institutions.

4. Financial burden on future generations: - If the country did not repay the borrowed amount in time, its burden will go to the future generations, which will hamper the future growth of the country.

PRIMARY DEFICIT (PD)

Primary Deficit refers to the difference between Fiscal Deficit of the current year and the interest payments of the previous borrowings.

$$PD = FD - \text{Interest payment on previous borrowings}$$

A low or zero PD indicates that interest commitments on earlier loans had forced the government to borrow.

Numerical illustrations:

Estimate the value of RD, FD, & PD (For practice)

	Amount (Rs. Crs)
1. Capital receipts	635902
(a) Recovery of Loans	10753
(b) Other receipts	69500
(c) Borrowings & other liabilities	555649
2. Revenue Receipts	1141575
3. Total Receipts	1777477
4. Plan Expenditure	465277
(a) Own revenue a/c	330020
(b) Own capital a/c	135257
5. Non plan expenditure	1312200
(a) Own revenue a/c	1206027
(b) Own capital a/c	106173
6. Total Expenditure	1777477
7. Interest payments	456145

Answer:

RD = 394472 Crs

FD = 555649 crs

PD = 99504 Crs

1 MARK QUESTIONS

1. Which of the following is Revenue expenditure?
 - a) Construction of school
 - b) Borrowings
 - c) Grants given to the state governments.
 - d) Loans given to the state governments
- 2 Indicates the borrowing requirement of the govt.
 - a) Revenue deficit
 - b) Budgetary deficit
 - c) Fiscal deficit
 - d) Primary deficit
3. Identify which of the following is not an example of tax revenue for the government. (Choose the correct alternative)
 - a) Wealth Tax
 - b) Special Assessments
 - c) Income Tax
 - d) Corporate Tax
4. Find out incorrect statement from the following:
 - (a) A government budget is an estimation of receipts and expenditure for current year.
 - (b) A government budget is an estimation of receipts and expenditure for next financial year.
 - (c) Capital receipts decreases assets of the government.
 - (d) Subsidies are not treated as capital expenditure of the government.
5. Which of the following is a basis for comparison between direct and indirect taxes?
 - a) Impact
 - b) Shift of burden
 - c) Coverage
 - d) All of the above
6. Identify the correct formula to calculate Fiscal Deficit.
 - a) Total expenditure - Total Receipt (other than borrowings)
 - b) Revenue Expenditure- Revenue Receipt
 - c) Capital Expenditure- Capital Receipt
 - d) Revenue Expenditure + Capital expenditure - Revenue Receipt.
7. Match the item in column A to those in column B and choose the correct option:

Column A	Column B
A Capital Budget	(I) Total expenditure = Total Revenue
B Balanced Budget	(II) Total expenditure < Total Revenue
C Surplus budget	(III) Total expenditure > Total revenue
D Deficit Budget	(IV) Capital receipts + capital expenditure

a) A-(iv), B-(i), C-(ii), D- (iii)
b) A-(iv), B-(i), C-(iii), D- (ii)

- c) A-(iv), B-(iii), C-(ii), D- (i)
- d) A-(i), B-(iv), C-(ii), D- (iii)

8. In a govt. budget, revenue deficit is Rs. 50000 crores and borrowings are Rs.75000 crores. The fiscal deficit will be:

- a) Rs. 25000 crores
- b) Rs.125000 crores
- c) Rs.50000 crores
- d) Rs.75000 crores

9. Read the following statements carefully and choose the correct alternatives given below:

Statement 1 – Tax Revenue and non-tax revenue are increasing but recovery of loan is reducing.

Statement 2 –Revenue receipts and capital receipts are decreased from 2019 to 2021

Alternatives:

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

Read the following statements – Assertion (A) and Reason (R). Choose one of the correct alternatives given below (Questions 26-30).

10. Assertion (A): GST is imposed on goods and services and it is an indirect tax.

Reason (R): Indirect taxes are those tax whose money burden cannot be shifted.

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

11. Assertion (A): Recovery of loan by the government is capital receipts.

Reason (R): Disinvestment is revenue receipts of the government.

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

Read the following paragraph carefully and Answer: the given questions from 12 to 13

Every govt. seeks to control and give direction to economic activities. For this purpose, it may exercise a large number of instruments available to it. Among these instruments, the most important is the fiscal policy, which operates through the financial operations of the government. In modern times the responsibilities and functions of a government have been gradually increasing as the areas of the activity are expanding continuously. It requires more and more finance as the corresponding expenditures are moving northwards. The government has to perform innumerable functions for ensuring economic growth and development of the country for which it has to take care of public revenue and public expenditure.

12. Fiscal policy is the policy of the

- a) Government
- b) Central Bank
- c) Both govt. and central bank
- d) None of these.

13. During the time of inflation, govt. should go for budget.

- a) Deficit
- b) Surplus
- c) Balanced
- d) Capital

Read the following paragraph and Answer: the given questions from 14 to 15

In the modern world, govt. aims at maximizing the welfare of the people and the country. It requires various infrastructure and economic welfare activities. These activities require huge govt. spending through appropriate planning and policy. Budget provides a solution to all these concerns. Budget is prepared by the government at all levels.

Estimated expenditure and receipts are planned as per the objectives of the government. In India, budget is prepared by the parliament on such a day as the president may direct. The parliament approves the budget before it can be implemented. The receipts and expenditures as shown in the budget are only the estimated values for the upcoming fiscal year, and not the actual figure.

14. Which of the following is not an objective of the govt. budget?

- a) Reallocation of resources.
- b) Re distribution of income
- c) Reducing expenditure
- d) Economic stability.

15. Govt. budget is a statement of actual receipts and payments of the govt. (True/False)

- a) True
- b) False

ANSWER

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15
C c b a d a a d c c c a b c b

Short Answer: Question and Answer (3, 4 marks)

1. What are the different sources of nontax revenue? 3 marks

- Non tax revenue refers to revenue receipts of the govt. other than the tax revenue.
- Major sources are: - Administrative revenue (Fess, Fines & penalties, Escheats, License fees, forfeitures etc.) Gift & grants, Income from govt. properties, special assessments, interest received, dividends etc.

2. Distinguish between revenue receipt and capital receipt. 3 marks

Revenue Receipts (RR): -

Receipts which neither creates liability nor reduces the assets of the govt.

Major features are:

It does not create liability to the govt. It does not reduce the assets of the govt.

They are regular and recurring in nature.

Major sources are: **Tax revenue and Non- tax revenue**

Capital Receipts (CR): -

Receipts which **either** creates liability **or** reduces the assets of the govt.

Major features:

It creates liability for the govt. It reduces the assets of the govt.

They are irregular and non-recurring in nature. For example; disinvestment, recovery of loans, small savings etc.

3. Define fiscal deficit and write any three implications of fiscal deficit. 3 marks

Fiscal deficit refers to the excess of Budgetary Expenditure over Budgetary receipts, excluding borrowings, during an accounting year.

$$FD = BE - BR \text{ (Excluding borrowings)}$$

Major implications:

1 Leads to Debt trap: - Borrowings not only involves repayment of borrowed amount but it also requires payment of interest. Interest payments increases revenue expenditures which leads to revenue deficits, ultimately leads to debt trap.

2. Creates inflationary situation in the economy: - Borrowings leads to increase in money supply in the economy creates inflation.

3. Foreign dependence: - Govt. borrows money from the foreign countries and foreign financial institutions, which ultimately increases its dependences on these countries and institutions.

4. Financial burden on future generations: - If the country did not repay the borrowed amount in time, its burden will go to the future generations, which will hamper the future growth of the country.

4. Explain how the govt. is using as an instrument for reducing the inequalities in income.

4 marks

Answer:-

Reducing inequality is an inherent part of every economic system.

- By imposing taxes on the rich and through providing welfare programs to the poor people govt. is achieving this goal.
- Also known as redistribution of income & wealth
- Progressive taxes on the rich and through providing job opportunities and also through transfer payments govt. is achieving this goal.
- Govt. also aims to achieve regional equality by providing facilities to the rural areas, basically infrastructural Facilities for bringing balanced growth.
-

5. What do you mean by deficit budget? What are its types?

3 marks

Answer:- Deficit Budget: If Budgetary Receipts are LESS THAN the Budgetary Expenditure of the govt., then it is known as Deficit budget.

$$BR < BE \text{ or } TR < TE$$

Types of budgetary deficits: -

1. Revenue Deficit (RD)
2. Fiscal Deficit (FD)
3. Primary Deficit (PD)

6. "Through its budgetary policy govt. allocates resources in accordance with the requirements of the country." Do you agree? Justify your Answer: with valid reason. 4 marks

Answer: Re-allocation of resources is the major objectives of the govt. Govt. aims to reallocate resources in accordance with the economic and social priorities of the country.

- To encourage investment, govt. gives tax concessions and subsidies etc., to the producers.
- Govt. discourages the production of the harmful goods by imposing heavy taxes and encourages the production of needful goods like 'khadi products' by providing subsidies.
- Also undertake production of those goods where private sector does not take interest.

7. What do you mean by revenue deficit? Write its implications.

Answer:-

If Revenue Expenditures are MORE THAN the Revenue Receipts of the govt., then it is known as REVENUE DEFICIT (RD) during an accounting year.

$$RD = RE - RR \text{ or } RD = RE > RR$$

Major implications are: -

1. It is a warning signal to the govt. either to reduce the revenue expenditure or to increase the revenue receipts.
2. It indicates the inability of the govt. to meet its regular and recurring expenditure.
3. It also implies that the govt. has to make up this deficit from capital receipts which may lead to inflationary situation in the economy.

8. What do you mean by unbalanced budget? What are its types?

Un- balanced budget: -

If Budgetary Receipts are not equal to the Budgetary Expenditure of the govt., then it is known as un balanced budget. Major TYPES of unbalanced budget are: **Surplus Budget & Deficit Budget**

Surplus Budget

If Budgetary Receipts are MORE THAN the Budgetary Expenditure of the govt., then it is known as Surplus budget.

$$BR > BE \text{ or } TR > TE$$

Deficit Budget

If Budgetary Receipts are LESS THAN the Budgetary Expenditure of the govt., then it is known as Deficit budget.

$$BR < BE \text{ or } TR < TE$$

LONG ANSWER: QUESTIONS (6 marks)

1. Define govt. budget and explain its major objectives.

Answer: An annual statement of estimated receipts and estimated expenditure of the govt. during an accounting year (fiscal year).

Major objectives are:

1. Re-allocation of resources: -Govt. aims to reallocate resources in accordance with the economic and social priorities of the country.
 - To encourage investment, govt. gives tax concessions and subsidies etc., to the producers.
 - Govt. discourages the production of the harmful goods by imposing heavy taxes and encourages the production of needful goods like 'khadi products' by providing subsidies.
 - Also undertake production of those goods where pvt. Sector does not take interest.
2. Economic equality: -Reducing inequality is an inherent part of every economic system.
 - By imposing taxes on the rich and through providing welfare programs to the poor people govt. is achieving this goal.
 - Also known as redistribution of income & wealth
 - Progressive taxes on the rich and through providing job opportunities and also through transfer payments govt. is achieving this goal.
 - Govt. also aims to achieve regional equality by providing facilities to the rural areas, basically infrastructural Facilities for bringing balanced growth.
3. Economic stability: -
 - Govt. budget is used to prevent the business fluctuations like booms or depressions (inflations or deflations) to achieve the goal of balanced growth (economic stability).
 - The policy of surplus budget during the time of inflation and deficit budget during the time of deflation helps the govt. to achieve this goal.
4. Economic Growth: -
 - Economic growth depends on the rate of saving and investment in the economy. Increase in GDP
 - Govt. budget aims to mobilise sufficient resources for investment in the economy.
 - Various provisions are making in the govt. budget for increasing the investment in the economy.
5. Management of public sector enterprises: - All public sector enterprises are managed through the govt. budget, functioning for social welfare

2. Define tax and differentiate between direct and indirect tax. Give examples

Answer: Tax is a compulsory contribution made by individuals and institutions to the govt. without any direct return.

Direct Tax: -

- Taxes that are imposed on property and income of individuals and firms and are directly paid by them to the govt.
- The burden of tax cannot be shifted.
- The Impact and incidence of tax falls on same person.
- For e.g.: - Income tax, property tax etc.

Indirect Tax: -

- Taxes that are levied on goods and services.
- The burden of tax can be shifted.
- The Impact and incidence of tax falls on different persons.

For e.g.: - GST (Goods & Service tax

3. What are the different sources of capital receipts? Explain. 4 marks

Answer:-

Major sources of capital receipts are:

1. Borrowings: -

- These are the funds raised by the govt. to meet the excess expenditures.
- Govt. borrows funds from internal sources (RBI, Open market) External sources (Foreign governments, foreign financial institutions like IMF, IBRD etc.)
- Borrowings are capital receipts as they create liability and reduce the assets of the government.

2. Disinvestment:

- It refers to the act of selling a part or the whole unit of selected public sector undertakings held by the government to the private agencies.
- It reduces the assets of the govt.
- It leads to transfer of ownership of PSU's to the private enterprises

3. Recovery of loans: -

- Govt. provides various loans to the state government's or UT's or even to foreign countries.
- Recovery of such loan is a capital receipt as it reduces the assets of the govt.

4. Small Savings: - Small savings in the form of Post office deposits, NSC are other sources of capital receipts as it leads to an increase in liability.

4. Question No. 1 – 5 are to be Answered on the basis of the data given below (in ₹ Crores)

Budget at a Glance
(In ₹ crores)

	2019-2020	2020-2021
	Actuals	Budget Estimates
1. Revenue Receipts	1684059	2020926
2. Tax Revenue (Net to Centre)	1356902	1635909
3. Non Tax Revenue	327157	385017

4. Capital Receipts ¹	1002271	1021304
5. Recovery of Loans	18316	14967
6. Other Receipts	50304	210000
7. Borrowings and Other Liabilities ²	933651	796337
8. Total Receipts (1+4)	2686330	3042230
9. Total Expenditure (10+13)	2686330	3042230
10. On Revenue Account of which	2350604	2630145
11. Interest Payments	612070	708203
12. Grants in Aid for creation of capital assets	185641	206500
13. On Capital Account	335726	412085

1. The percentage change in the Tax Revenue, between 2019- 20 (Actual) and 2020-21 (Budgeted Estimate), taking the 2019-20 as base, would be _____.

(Fill up the blank with correct alternative)

- a) 15.02%
- b) 20.56%
- c) 17.06%
- d) 20.01%

2. The value of borrowings and other liabilities has _____ crores between 2019-20 (Actual) and 2020- 21 (Budgeted Estimate).

(Fill up the blank with correct alternative)

- a) Fallen by ₹ 137314
- b) Risen by ₹ 137314
- c) Fallen by ₹ 137324
- d) Risen by ₹ 137324

3. 8. The value of borrowings for the year 2020-21, would be ₹ _____ crores. (Fill up the blank with correct alternative))

- a) 88134
- b) 796337
- c) 933651
- d) 666545

4. The percentage change in the Total receipts, between 2019- 20 (Actual) and 2020-21 (Budgeted Estimate), taking the 2020- 21 as base, would be _____.

(Fill up the blank with correct alternative)

- a) 11.70%
- b) 13.14%
- c) 13.24%
- d) 10.01%

5. Define revenue receipt and write 2 examples of each (2 marks) (Refer question no.2 short Answer:)

Answer:-

1	2	3	4
b	a	b	a

CBSE PREVIOUS YEARS QUESTIONS

1. 'Taxation is an effective tool to reduce the inequality of income' Justify the given statement with valid reason. 4 marks (2020) (Refer Q. No. 4 Short Answer: question)

2. The govt., under Ujjwala Yojana, is providing free kitchen gas connection to the families below the poverty line. What objective the govt. is trying to fulfil through the govt. budget and how? Explain. CBSE 2017

(Refer Q. No. 4 Short Answer: question)

3. Explain the objective of 'allocation of resources' in the govt. budget. 4 marks (2020) (Refer Q. No. 6 Short Answer: question)

4. Explain the meaning of the following a) Revenue deficit b) Fiscal deficit c) Primary deficit 3 marks (CBSE 2017)

Answer:- If Revenue Expenditures are MORE THAN the Revenue Receipts of the govt. then it is known as REVENUE DEFICIT (RD) during an accounting year.

$$RD = RE - RR \text{ or } RD = RE > RR$$

Fiscal Deficit refers to the excess of Budgetary Expenditure over Budgetary receipts, excluding borrowings, during an accounting year.

$$FD = BE - BR \text{ (Excluding borrowings)}$$

Primary Deficit refers to the difference between Fiscal Deficit of the current year and the interest payments of the previous borrowings.

$$PD = FD - \text{Interest payment on previous borrowings}$$

5. Differentiate between direct tax and indirect tax. Give examples 4 marks (CBSE 2014, 2018) (Refer Q. No. 2 Long Answer: question)

6. What do you mean by fiscal deficit? Write any two implication of fiscal deficit. 3 marks (2013, 2016)

(Refer Q. No. 3 Short Answer: question)

7. 'Fiscal deficit is necessarily inflationary in nature' Do you agree? Support your Answer: with valid reasons. CBSE 2017)

Answer: Borrowings are generally financed by issuing new currency which may led to inflation. However, borrowings are for infrastructural development, this may lead to capacity building and may not be inflationary.

(Also Refer Q. No. 3 Short Answer: question)

8. Explain the 'economic stability' objective of a govt. budget. (CBSE 2011,2012 2014) (Refer Q. No.1 Long Answer: question)
9. Distinguish between revenue receipt and capital receipt and give two examples of each, (CBSE 2012,2013,2017)
(Refer Q. No. 2 Short Answer: question)
10. Define capital receipts. Explain any three sources of capital receipts. (CBSE 2016)
(Refer Q. No. 3 Long Answer: question)

UNIT 5: BALANCE OF PAYMENTS

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

Economic Transaction: refer to those transactions which involve transfer of the title or ownership of goods, services, money and assets.

1. Visible Items: include all types of physical goods which are exported and imported.
2. Invisible Items: include all types of services like shipping, banking, insurance etc. which are given and received.
3. Unilateral Transfers include gifts, personal remittances and other "one-way" transactions.
4. Capital Transfers relate to capital receipts (through borrowings or sale of assets) and capital payments (through capital repayments or purchase of assets)

Balance of trade is the net difference of Import and export of all visible items between the normal residents of a country and rest of the world.

Components of Balance of Payments

- (a) Current Account
- (b) Capital Account

Current Account refers to an account which records all the transactions relating to export and import of goods and services and unilateral transfers during a given period of time.

Components of Current Account are:

1. Export and Import of Goods (Merchandise Transaction or Visible Trade)
2. Export and Import of services (Invisible Trade)
3. Unilateral Transfers to and from abroad
4. Income receipts and payments to and from abroad

Components of Capital Accounts

1. Borrowings and lending to and from abroad
2. Investments to and from abroad
3. Change in foreign exchange reserve

Balance of Payment Surplus: BOP is in surplus when Receipts of foreign exchange are more than payments of foreign exchange

Balance of Payment Deficit: BOP is in deficit when receipts of foreign exchange are less than payments of foreign exchange

Multiple Choice Questions

- 1 From the following which is not included in "Residents" in Balance of Payments transactions? 1
 - a) Firms
 - b) Foreign Military Personnel
 - c) Government agencies
 - d) Individuals
 - e) None of these

- 2 Balance of Payments is a concept. 1
 - a) Flow
 - b) Stock
 - c) Vibrant
 - d) Narrow

- 3 is the difference between value of goods sold to the rest of the world and value of goods imported from rest of the world. 1
 - a) Balance of payment
 - b) Balance of trade
 - c) Balance of current account
 - d) Balance of capital account

- 4 'Import of Machinery' is recorded in the Account and 'Borrowings from abroad' is recorded in the account. 1
 - a) Current, Capital
 - b) Capital, Current
 - c) Capital, Capital
 - d) Current, Current

- 5 In current account, when value of credit items are more than debt items, it indicates net of foreign exchange. 1
 - a) Asset
 - b) Liability
 - c) Inflow

d) Outflow

Answer

1 b

2 a

3 b

4 a

5 b

Assertion and Reason Type Questions:

Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below:

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

1 Assertion (A): A country always tries to balance the BOP i.e.; balance in the current account equals to balance in capital account 1

Reason (R): Balanced BOP indicates stable economic relation with the rest of the world

2 Assertion (A): Current account is a part of balance of trade 1

Reason (R): Current account records exports and imports of goods and services and transfer payments

3 Assertion (A): Current account transactions bring a change in the capital stock of country 1

Reason (R): Make in India will increase the inflow of foreign exchange

4 Assertion (A): If an Indian buys a UK car company, it enters in capital account as a debit item 1

Reason (R): Sales of assets like sale of shares of an Indian company to a Chinese customer is a credit item in the capital account

- 5 Assertion (A): The export of sugar is recorded in the capital account 1

Reason (R): “Atmanirbhar Bharat” will decrease the inflow of foreign exchange

Answer

- | | |
|---|---|
| 1 | a |
| 2 | d |
| 3 | d |
| 4 | b |
| 5 | d |

Short Answer: Questions & Answer (3 Marks)

- Distinguish between balance of payments and balance of trade.

Balance of Trade

Balance of trade or BoT is a financial statement that captures the nation’s import and export of commodities with the rest of the world.

Balance of trade (BoT) is the difference that is obtained from the export and import of goods.

Transactions related to goods are included in BoT

Balance of Payment

Balance of payment or BoP is a financial statement that keeps track of all the economic transactions by the nation with the rest of the world.

Balance of payments (BoP) is the difference between the inflow and outflow of foreign exchange.

Transactions related to transfers, goods, and services are included in BoP.

- State the components of capital account of balance of payments

The components of the Capital Account are foreign investment, such as FDI and FPI, immovable properties, intangible assets, trade credits, borrowings from other nations, banking capital, and changes in the foreign exchange reserve.

- Explain the meaning of deficit in balance of payment account
When total inflows of foreign exchange on account of autonomous transactions are less than total outflows on account such transaction then there is a deficit in Bop.

Short Answer: Questions & Answer (4 Marks)

1. State the components of Current account of BOP

Current Account refers to an account which records all the transactions relating to export and import of goods and services and unilateral transfers during a given period of time.

Components of Current Account are:

1. Export and Import of Goods (Merchandise Transaction or Visible Trade)
2. Export and Import of services (Invisible Trade)
3. Unilateral Transfers to and from abroad
4. Income receipts and payments to and from abroad

2. Distinguish between the components of current account and capital account.

Components of Current Account	Components of Capital Account
1. Visible items (import and export of goods).	1. Foreign Direct investment.
2. Invisible items (import and export of services).	2. Loans.
3. Unilateral transfers.	3. Portfolio investment.
4. Income receipts and payments from and to abroad.	4. Banking capital transactions.
5. These are the transactions which do not affect the assets or liabilities position of the country.	5. These are the transactions which affect assets or liabilities position of the country.
6. It is a flow concept.	6. It is a stock concept.

3. Case Study Questions India's balance of payments position improved dramatically in 2013-14 particularly in the last three quarters. This moved in large part to measure taken by the government and the Reserve Bank of India (RBI) and eat some part to the overall macro-economic slowdown that fed into the external sector. current account deficit (CAD) declined sharply from a record high of U.S. dollar 88.2 billion (4.7% of GDP) in 2012 -1/3 to U.S. dollars 32.4 billion (1.7% of GDP) in 2013 -14. after staying at perilously unsustainable levels off well over 4.0 percentage of GDP in 2011 -12 and 2012 -13, the improvement in BOP position is a welcome relief, and there is need to sustain the position going forward. This is because even as CAD came down, net capital flows moderated sharply from U.S. dollars 92.0 billion in 2012 -13 do U.S. dollar 47.9 billion in 2013-14, that two after a special swap window of The RBI under the nonresident Indian (NRI) scheme / overseas borrowings of banks alone yielded U.S. dollar 3 4.0 billion. This led to some increase in the level of external debt, but it has remained at the manageable levels. the large depreciation of the rupee during the course of the year, note with standing sizable accretion to reserve in 2013 – 14, could partly be attributed to frictional forces and partly to the role of expectations in the forex market. the rupiah has stabilized the recently, reflecting an overall sense of confidence in the forex market as in the other financial markets of a change for better economic prospects there is a need to nurture and build upon this optimism through creation of an enabling environment for investment inflows so as to sustain the external position in an as yet uncertain global milieu.

----- The Hindu, archives

- 1 External debt is recorded at:
 - a) credit, capital account
 - b) debit, capital account
 - c) credit, current account
 - d) debit, current account

- 2 Money sent by NRI to their families in India included in:
 - a) credit, capital account
 - b) debit, capital account
 - c) credit, current account
 - d) debit, current account

- 3 Which of the following is not a component of BOP?
 - a) current account
 - b) revenue account
 - c) capital account
 - d) official reserves

- 4 Positive balance of net capital flow shows:
 - a) outward flow of foreign exchange

- b) inward flow of foreign exchange
- c) decrease in the level of external debt
- d) decrease in future claims

ANSWER: KEY

1. b

2. c

3. b

4. d

Foreign Exchange

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

SYSTEM OF EXCHANGE RATE:

1. Fixed exchange rate
2. Flexible exchange rate.

In fixed exchange rate system, the rate of exchange is officially fixed or determined by Government or Monetary Authority of the country.

Merits of Fixed Exchange Rate

- Stability in exchange rate
- Promotes capital movement and international trade.
- It forces the govt. to keep inflation in check.

Demerits of Fixed Exchange Rate

- Need to hold foreign exchange reserves.
- No automatic adjustment in the 'Balance of payments.'
- It may result in undervaluation or overvaluation of currency.

In a system of **flexible exchange rate** (also known as floating exchange rates), the exchange rate is determined by the forces of market demand and supply of foreign exchange.

The **demand of foreign exchange** has the inverse relation with flexible exchange rate. If flexible exchange rate rise the demand of foreign exchange falls. Vice versa.

Sources of Demand for Foreign Exchange

- To purchase goods and services from the rest of world.
- To purchase financial assets (i.e., to invest in bonds and equity shares) in a foreign country.
- To invest directly in shops, factories, buildings in foreign countries.
- To send gifts and grants to abroad.
- To undertake foreign tours.

The **supply of foreign exchange** has the positive relation with foreign exchange rate.

If foreign exchange rate rises the supply of foreign exchange also rises and vice versa.

Sources of Supply of Foreign Exchange

- Direct purchase by foreigners in domestic market.
- Direct investment by foreigners in domestic market.
- Remittances by non-residents living abroad.
- Exports of goods and services.

Merits of Flexible Exchange Rate

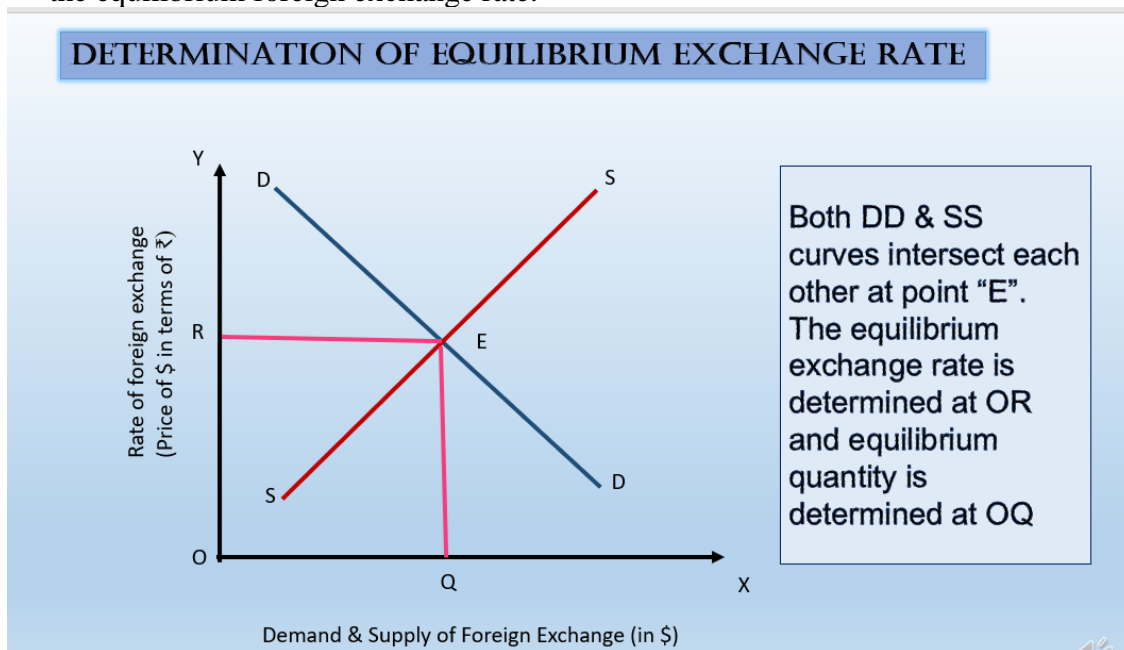
- No need to hold foreign exchange reserves
- Leads to automatic adjustment in the 'balance of payments.
- To enhances efficiency in resources allocation.

Demerits of Flexible Exchange Rate

- Fluctuations in future exchange rate.
- Encourages speculation.
- Discourages international trade and investment.

Determination of Equilibrium Foreign Exchange Rate:

- Equilibrium FER is the rate at which demand for and supply of foreign exchange is equal.
- Under free market situation, it is determined by market forces i.e., demand for and supply of foreign exchange.
- There is inverse relation between demand for foreign exchange and exchange rate.
- There is direct relationship b/w supply of foreign exchange and exchange rate.
- Due to above reasons demand curve downward sloping and supply curve is upward sloping curve Graphically intersection of demand Curve and supply curve determines the equilibrium foreign exchange rate.



- ❖ **Devaluation of a currency:** When government or monetary authority of a country officially lowers the external value of its domestic currency (in respect of all other foreign currency) is called devaluation of a currency.
It takes place by government order under fixed exchange rate system.
- ❖ **Revaluation of a currency:** When government or monetary authority of a country officially raises the external value of its domestic currency is called revaluation.
It takes place by government order under fixed exchange rates system.
- ❖ **In currency depreciation** there is a fall in the value of domestic currency, in term of foreign currency due to change in demand and supply of the currency under flexible exchange rate system.
- ❖ **In currency appreciation**, there is a rise in the value of domestic currency in terms of foreign currency due to change in demand and supply of the currency under flexible exchange rate system.

- ❖ **Managed floating regime** is an international financial environment in which exchange rates fluctuate from day to day, but central banks attempt to influence their countries' exchange rates by buying and selling currencies to maintain a certain range.
When central bank finds the rate is too high, it starts selling foreign exchange from its reserve to bring down it. When it finds the rate is too low. It starts buying to raise the
The peg used is known as a crawling peg.

Multiple Choice Questions

- 1 Other things remaining the same, when in a country the market price 1
of foreign currency rises, national income is likely
- a) to rise
 - b) to fall
 - c) to rise or to fall
 - d) to remain unaffected
- 2 Which exchange rate is officially declared by the government? 1
- a) Managed floating rate
 - b) Floating exchange rate
 - c) Fixed exchange rate
 - d) None of these

- 3 Investments by large multinational corporations (MNCs) in India will ensure greater inflow of foreign exchange, leading to an increase in the 1
- a) Supply of foreign currency
 - b) Supply of domestic currency
 - c) Demand for foreign currency
 - d) Demand for domestic currency
- 4 Depreciation of domestic currency leads to rise in exports. 1
- a) True
 - b) False
- 5 Flexible exchange is determined by 1
- a) Private party
 - b) Government
 - c) Foreign exchange market
 - d) None of these

Answer:

- 1 b
- 2 c
- 3 a
- 4 a
- 5 c

Assertion and Reason Type Questions:

Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below:

- e) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)
- f) Both Assertion (A) and Reason (R) are True and the Reason(R) is Not the correct explanation of Assertion (A)
- g) Assertion (A) is True but Reason (R) is False
- h) Assertion (A) is False but Reason (R) is True

- 1 Assertion (A): In case of the floating exchange rate system the currency price of a nation is set by the forex market based on supply and demand relative to other currencies

Reason (R): Government intervenes in the foreign exchange market under Floating Exchange Rate System to restrict the fluctuations in the exchange rate with certain limits

2 Assertion (A): Import of goods and services reflects demand of foreign currency

Reason (R): import of goods and services shows inflow of foreign exchange

3 Assertion (A): Demand for foreign exchange and exchange rate moves in the same direction

Reason (R): when the exchange rate rises, domestic goods become cheaper in the international market

4 Assertion (A): fixed exchange rate system is also known as floating exchange rate system

Reason (R): In fixed exchange rate system, currency of home country is tied with some external standard like gold etc.

5 Assertion (A): Managed the floating rate system is a hybrid of a fixed exchange rate and a flexible exchange rate system

Reason (R): Central bank maintains reserves of foreign exchange under managed floating rate system to ensure that the exchange rate stays within the targeted value

Answer:

1 c

2 c

3 a

4 d

5 b

1. Read the following paragraph and Answer: the questions given below on the basis of the same:

Venezuelan President Nicolas Maduro carried out one of the greatest currency devaluations in history over the weekend – a 95% plunge that will rest the capacity of an already beleaguered Population to stomach even more pain.

The official rate for the currency we'll go from about 285, 000 per dollar to 6 million, a shock that officials tried to partly offset by raising the minimum wage 3, 500 per cent to the equivalent just \$30 a month. While my Maduro boasted in Friday night's announcement that the International Monetary Fund wasn't involved in the policies, aspects of the moves bore a resemblance to a Classic orthodox economic adjustment albeit with Some confusing twists.

----- The Economic Times, August 20, 2018

1. As a result of devaluation:
 - (a) exports from Venezuela will be increase
 - (b) imports in Venezuela will be increase
 - (c) exports from Venezuela will decrease
 - (d) both (b) and (c)
2. Devaluation leads to:
 - (a) increasing supply of foreign currency in the international money market
 - (b) increase in supply of domestic currency in the international market
 - (c) increase in demand of foreign currency in the international market
 - (d) both (b) & (c)
3. Devaluation of currency is possible in:
 - (a) managed to floating
 - (b) fixed exchange rate regime
 - (c) flexible exchange rate regime
 - (d) both (a) and (b)
4. A substantial decrease in foreign reserves often leads to:
 - (a) appreciation of foreign currency
 - (b) depreciation of foreign currency
 - (c) devaluation of domestic currency
 - (d) devaluation of foreign currency

Answer: Key

1. a
2. d
3. b
4. a

Short Answer: Question & Answer (3/4 Marks)

1. Give the three sources of demand and supply of foreign exchange
Sources of Demand for Foreign Exchange

- To purchase goods and services from the rest of world.
- To purchase financial assets (i.e., to invest in bonds and equity shares) in a foreign country.
- To invest directly in shops, factories, buildings in foreign countries.

Sources of Supply of Foreign Exchange

- Direct purchase by foreigners in domestic market.
- Direct investment by foreigners in domestic market.
- Remittances by non-residents living abroad.

2. Distinguish between currency appreciation and currency depreciation

Currency appreciation is an increase in the value of country's currency with respect to one or more foreign reference currencies, in a floating exchange rate system.

Currency depreciation is the loss of value of a country's currency with respect to one or more foreign reference currencies, in a floating exchange rate system.

3. Explain the effect of appreciation and depreciation up on exports and imports

Appreciation	Depreciation
Exports Decrease	Exports Increase
Imports Increase	Imports Decrease
National Income Increase	National Income Decrease

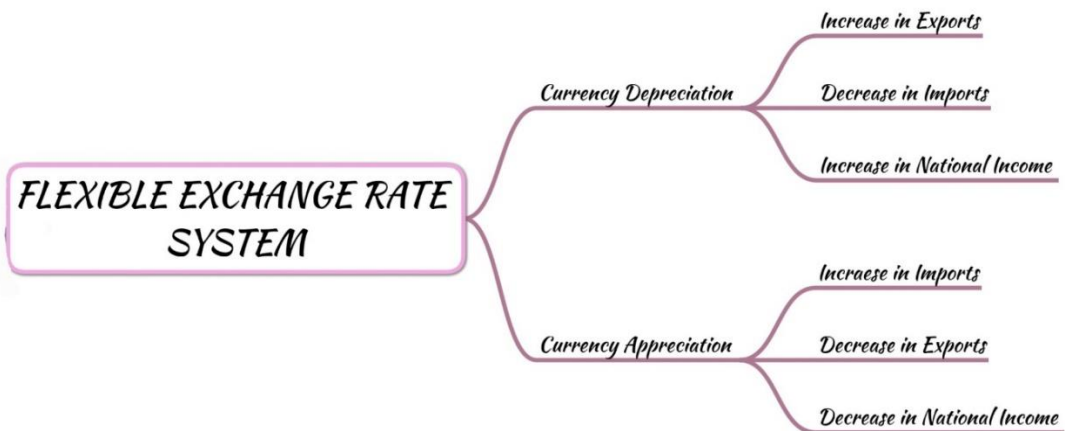
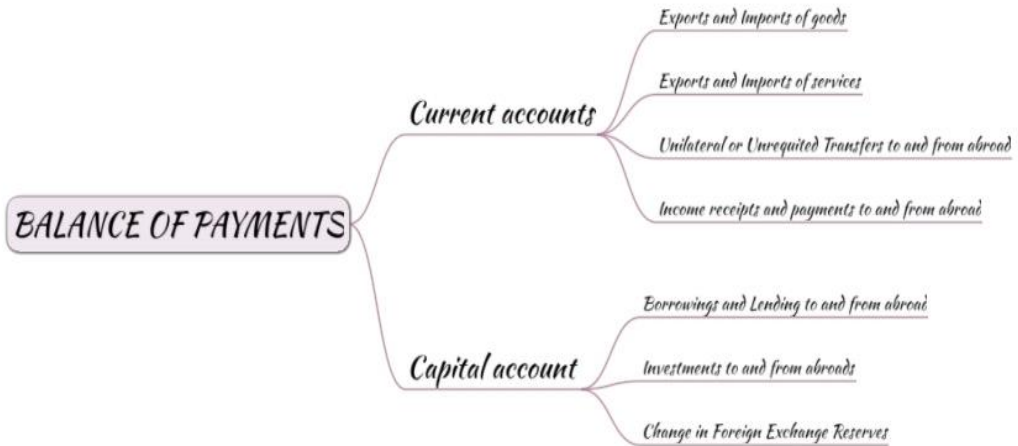
4. Explain the determination of exchange rate in a flexible exchange rate market system with the help of diagram.

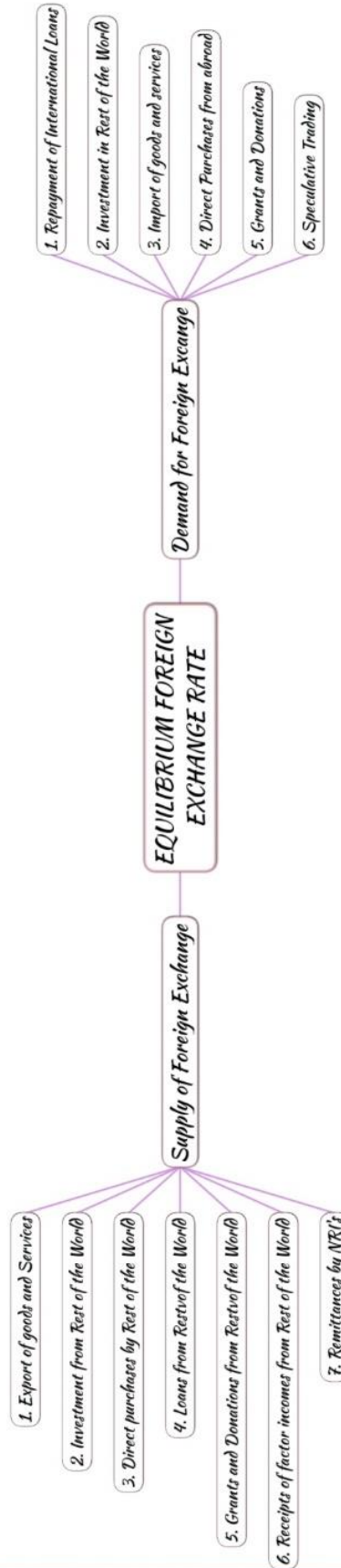
Determination of Equilibrium Foreign Exchange Rate:

- Equilibrium FER is the rate at which demand for and supply of foreign exchange is equal.
- Under free market situation, it is determined by market forces i.e., demand for and supply of foreign exchange.
- There is inverse relation between demand for foreign exchange and exchange rate.
- There is direct relationship b/w supply of foreign exchange and exchange rate.

Due to above reasons demand curve downward sloping and supply curve is upward sloping curve Graphically intersection of demand Curve and supply curve determines the equilibrium foreign exchange rate. (Diagram with explanation)

MIND MAPs

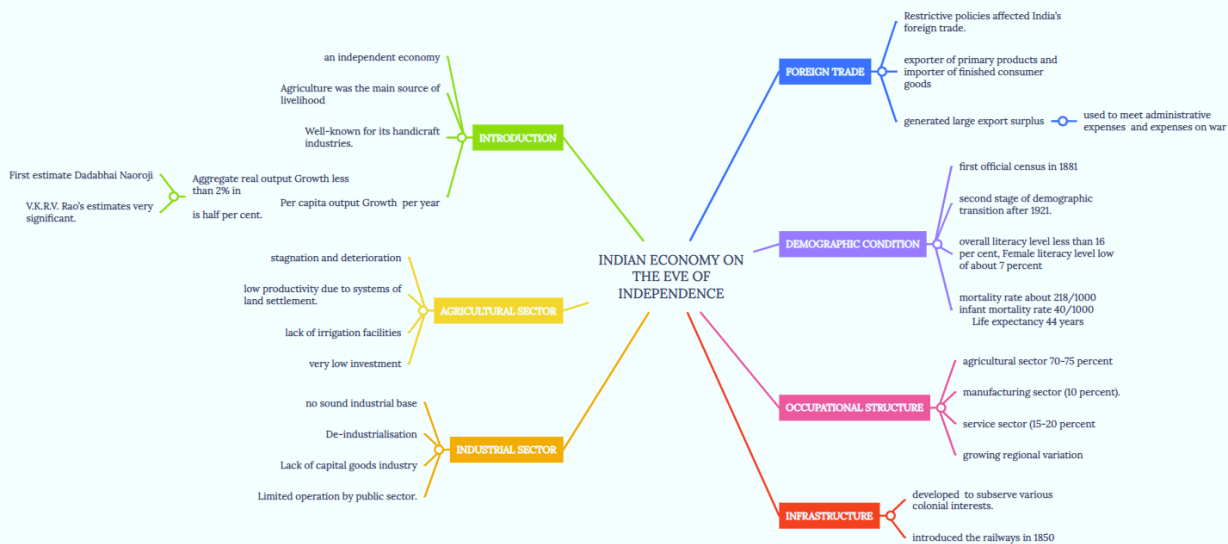




PART B INDIAN ECONOMIC DEVELOPMENT

UNIT 1: DEVELOPMENT EXPERIENCE (1947-1990) AND ECONOMIC REFORMS SINCE 1991

CHAPTER 1 INDIAN ECONOMY ON THE EVE OF INDEPENDENCE



Key points

INTRODUCTION

- An understanding of the economy before independence is necessary to know and appreciate the level of development achieved during the post-independence period
- India had an independent economy before the advent of the British rule.
- Agriculture was the main source of livelihood)
- Well-known for its handcraft industries.
- Economic policies of the colonial government brought about a fundamental change in the structure of the Indian economy.
- Transformed the country into supplier of raw materials and consumer of finished industrial products from Britain.
- Dadabhai Naoroji was the first to discuss the concept of poverty line in pre-independent India)
- V.K.R.V. Rao's estimates during the colonial period was considered very significant.
- Aggregate real output during the first half of the twentieth century was less than two per cent.
- Growth in per capita output per year is half per cent.

AGRICULTURAL SECTOR

- India's economy under the British colonial rule remained fundamentally agrarian.
- 85 per cent of the country's population depended on agriculture.
- Agricultural sector experience stagnation and deterioration.
- Agricultural productivity became low mainly because of the various systems of land settlement.
- Low levels of technology, lack of irrigation facilities and negligible use of fertilizers contributed to the dismal level of agricultural productivity.
- Investment made in agricultural sector was very low.

INDUSTRIAL SECTOR

- India could not develop a sound industrial base under the colonial rule.
- De-industrialization or decline of handicraft industries.
- Lack of capital goods industry
- Limited operation by public sector.
- The establishment of a few manufacturing units was no substitute to displacement of the country's traditional handicraft industries.
- The growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small.

FOREIGN TRADE

- India has been an important trading nation since ancient times.
- Restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade.
- India became an exporter of primary products an importer of finished consumer goods.
- Britain maintained a monopoly control over India's exports and imports.
- The opening of the Suez Canal further intensified British control over India's foreign trade.
- India's foreign trade generated a large export surplus, which was used to make payments for the expenses incurred by an office set up by the colonial government in Britain, expenses on war, and the import of invisible items.

DEMOGRAPHIC CONDITION

- In India, the first official census was conducted in 1881.
- The second stage of demographic transition began after 1921.
- The overall literacy level was less than 16 per cent.
- Female literacy level was at a negligible low of about 7 percent.
- The overall mortality rate was very high (about 218/1000) and in that the infant mortality rate was quite alarming about (40/1000)
- Life expectancy was also very low—44 years in contrast to the present 68 years.

OCCUPATIONAL STRUCTURE

- The agricultural sector accounted for the largest share of workforce (70-75 percent, followed by service sector (15-20 percent) and manufacturing sector (10 percent).
- Another striking aspect was the growing regional variation.
- Present-day states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka), Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector.

- States such as Orissa, Rajasthan and Punjab showed increase in the share of workforce in agriculture.

INFRASTRUCTURE

- Basic infrastructure such as railways, ports, water transport, posts and telegraphs developed during British regime to sub serve various colonial interests.
- The British introduced the railways in India in 1850.
- The introduction of the expensive system of electric telegraph in India, similarly, served the purpose of maintaining law and order.

CONCLUSION

The impact of the two-century long British colonial rule can be summarized as follows.

- The agricultural sector was already saddled with surplus labour and extremely low productivity.
- The industrial sector lacked modernization, diversification, capacity building and needed levels of public investment.
- Foreign trade was oriented to feed the Industrial Revolution in Britain.
- Infrastructure facilities needed upgradation, expansion and public orientation.
- Prevalence of rampant poverty and unemployment.

MULTIPLE CHOICE QUESTIONS

1. The first census in India was conducted in
 - a) 1881
 - b) 1882
 - c) 1883
 - d) 1884
2. _____ was the first to discuss the concept of poverty line in pre-independent India
 - a) Dadabhai Naoroji
 - b) VKRV Rao
 - c) R C Desai
 - d) All of them
3. During the British period, Indian Economy was:
 - a) semi-feudal Economy
 - b) Disintegrated Economy
 - c) Colonial Economy
 - d) All the above
4. Find out the correctly matched pair from the following.

COLUMN I

- a) Introduction of Railways
- b) Introduction of Post & Telegraph
- c) Setting up of TISCO
- d) Second stage of Demographic transition

COLUMN II

- i) 1837
- ii) 1921
- iii) 1907
- iv) 1853

- a) a-1
- b) b-ii
- c) c-iii
- d) d-iv

5. During colonial period, India had a _____ balance of trade

- a) Surplus
- b) Deficit
- c) Balanced
- d) Zero

6. Which of the following is not a reason for India's agricultural stagnation during the colonial period?

- a) Introduction of Land Revenue system
- b) Lack of Investment
- c) Lack of manpower resources
- d) No technological upgradation

7. Find out the incorrect statement from the following

- a) During the second half of the nineteenth century, modern industry began to take root in India
- b) Under the colonial regime, there was no development in basic infrastructure.
- c) that Indian economy grew at even less than two percent during 1900-50
- d) The commercialisation of Indian agriculture led to shortage of food grains in India)

8. There had been an increase in the share of workforce in agriculture in _____ whereas it showed a decline in _____

- a) Punjab & Rajasthan
- b) Kerala and Karnataka
- c) Orissa & Tamil Nādu
- d) None of the above

9. What was the motive behind the de-industrialization by the colonial Govt. in India?

- a) To get raw material from India at cheap rate
- b) To sell British manufactured goods in Indian market at high-rate prices
- c) Both of above
- d) None of above

10. Which of the following industries is capable of further promoting industrialization in an economy?

- a) Consumer goods industry
- b) Chemical industry

- c) Agro-based industries
- d) Capital goods industry

11. During colonial period India's demographic profile showed:

- a) High birth rate
- b) Low infant mortality rate
- c) Low death rate
- d) High literacy rate

12. On the eve of independence, the growth rate of per capita income was less than _____ and that of real output was less than _____.

- a) 2% & 0.5%
- b) 0.5% & 1%
- c) 0.5% & 2%
- d) 1% & 0.5%

13. The higher yield of cash crops in certain areas of the country during the British Rule was due to _____

- a) Commercialisation of agriculture
- b) Use of modern technology in production
- c) Fertile soil and favourable climatic condition
- d) All the above

14. _____ began to take root in India during the second half of the nineteenth century, but its progress remained very slow.

- a) Colonial rule
- b) Deindustrialization
- c) Modern industry
- d) Green Revolution

15. A significant drawback of the new industrial sector in British India was the negligible presence of _____.

- a) Modernisation
- b) Consumer goods industry
- c) Public sector
- d) Private sector

16. In British India _____ was confined to railways, ports, power generation and communications.

- a) Production
- b) Industrialisation
- c) Public sector

d) Tariffs

17. _____ pursued by colonial Government adversely affected the structure, composition and volume of India's foreign trade.

- a) Restrictive trade policy
- b) De-industrialization
- c) Policy of tariffs
- d) Both a & c

18. Identify the incorrect statement from the following

- a) Indian economy under the British colonial rule remained fundamentally agrarian.
- b) A small section of the farmers in India during the British Rule changed their crop pattern from food crops to commercial crops.
- c) Opening of the Suez Canal reduced the British control over India's foreign trade.
- d) The export surplus generated by Colonial India did not result in any flow of gold or silver into India.

19. According to the 1881 census, the overall literacy level was _____ percent and female illiteracy was _____ percent.

- a) 16 & 7
- b) 10 & 2
- c) 15 & 3
- d) None of the above

20. India became a/an _____ economy to the British.

- a) agrarian
- b) Independent
- c) Feeder
- d) Market

21. Which of the following was not a feature of foreign trade in India under the colonial rule.

- a) India's foreign trade generated a large export surplus.
- b) India became a major exporter of primary products like raw silk, cotton, wool and indigo.
- c) The export surplus resulted in the flow of gold and silver into India.
- d) More than half of India's foreign trade was restricted to Britain.

22. Which of the following is incorrect with respect to industrial sector in India under the colonial rule.

- a) India could not develop a sound industrial base under the colonial rule.

- b) During the second half of the nineteenth century, modern industry began to take root in India.
- c) There was hardly any capital goods industry to help promote further industrialisation.
- d) New industrial sector and its contribution to the Gross Domestic Product (GDP) showed a significant increase during colonial rule.

23. Which of the following was not a feature of agriculture sector in India under the colonial rule.

- a) There was a relatively higher yield of cash crops in certain areas of the country due to commercialisation of agriculture.
- b) India's economy under the British colonial rule remained fundamentally agrarian.
- c) British government provided incentives in the form of higher prices for cash crops to undertake commercialisation of agriculture.
- d) Neither the Zamindars nor the colonial government did anything to improve the condition of agriculture.

24. Which of the following is incorrect with respect to foreign trade in India under the colonial rule.

- a) Britain maintained a monopoly control over India's exports and imports.
- b) Britain was the only trading partner of India.
- c) India imported capital good like light machinery produced in the factories of Britain.
- d) India became an exporter of primary products.

25 Prior to the establishment of British rule in India which of the following was/were true for the Indian economy

- a) India had an independent economy and flourishing markets
- b) the livelihood of Indian people was mainly based on agriculture
- c) Indian handicrafts textile industries and metallic work enjoyed a worldwide market
- d) all of the above.

26. The year 1853 was an important year in the history of India. This was due to which of the following reasons?

- a) The introduction of Road transport
- b) The introduction of Railways
- c) The introduction of Inland water transport
- d) The introduction of Post & Telegraph

27. Which of the following books was written by Dadabhai Naoroji?

- a) Poverty and British rule in India
- b) Poverty and the Un-British rule in India
- c) Drain of wealth and poverty in India
- d) None of the above

28. Identify the industry which was under the public sector during British rule

- a) Cotton textiles
- b) Jute
- c) Power generation
- d) Iron & Steel

29. Which of the following statement(s) is/are true regarding infrastructural development during British rule in India

- a) The British government constructed all-weather roads to reach out the rural areas.
- b) The roads that were built primarily served the purposes of mobilising the army.
- c) The introduction of the railways in India by the British is considered as one of the most important contributions.
- d) Both b & c are correct

30. Find out the correctly matched pair from the following

COLUMN I

COLUMN II

- | | |
|-----------|-----------------|
| a) Cotton | i) Telangana |
| b) Muslin | ii) Bengal |
| c) Jute | iii) Jamshedpur |
| d) TISCO | iv) Gujarat |

- a) a – i
- b) b- ii
- c) c- iii
- d) d-iv

31. Occupational structure refers to _____

- a) size of labour force in a country
- b) number of people living in a country
- c) distribution of workforce among different sectors of an economy
- d) nature of different occupations

32. Who among the following made significant contribution in estimating National Income during the colonial period?

- a) Dadabhai Naoroji
- b) William Digby
- c) V. K. R. V. Rao
- d) R. C. Desai

33. The economic policies followed by the colonial government in India transformed India as a supplier of _____

- a) Finished goods
- b) Raw materials
- c) Capital good
- d) Both a & c

34. Suez Canal was opened for transport in the year____

- a) 1805
- b) 1853
- c) 1850
- d) 1869

35. What was the life expectancy at birth in India on the eve of Independence?

- a) 44 years
- b) 50 years
- c) 60 years
- d) None of these

ANSWER:

- | | | | | | |
|--------------|--------------|--------------|--------------|--------------|--------------|
| 1. a) | 2. a) | 3. d) | 4. c) | 5. a) | 6. c) |
| 7. b) | 8. c) | 9. c) | 10. d) | 11. a) | 12. c) |
| 13. a) | 14. c) | 15. c) | 16. c) | 17.d) | 18. c) |
| 19. a) | 20.c) | 21.c) | 22.d) | 23.c) | 24.b) |
| 25. d) | 26.b) | 27.b) | 28. c) | 29.d) | 30.b) |
| 31.c) | 32.c) | 33.b) | 34.d) | 35.a) | |

ASSERTION & REASONING QUESTIONS

Read the following statements - Assertion (A) and Reason (R) and choose the correct one from the given alternatives.

Alternatives:

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

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

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

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

1. **ASSERTION (A):** Agricultural productivity became low during British rule in India.
REASON (R): The productivity was low due to various systems of land settlement introduced by the colonial government.

Correct Answer: option (a)

2. **ASSERTION (A):** The British undertook significant infrastructure development in India.
REASON (R): Development of infrastructure served various colonial purposes.

Correct Answer: option (a)

3. **ASSERTION (A):** The colonial government never made any sincere attempt to estimate India's national and per capita income.
REASON (R): growth of aggregate real output during the first half of the twentieth century was less than two per cent.

Correct Answer: option (b)

4. **ASSERTION (A):** A significant drawback of the new industrial sector was the very limited area of operation of the public sector.
REASON (R): There was hardly any capital goods industry to help promote further industrialization in India.

Correct Answer: option (b)

5. **ASSERTION (A):** Britain maintained a monopoly control over India's exports and imports.
REASON (R): India had no other trading partners during British rule.

Correct Answer: option (c)

6. **ASSERTION (A):** The year 1921 is described as the year of Great Divide.
REASON (R): It was in 1921 that India entered first stage of Demographic transition

Correct Answer: option (c)

7. **ASSERTION (A):** The British introduced the railways in India in 1850 and it is considered as one of their important contributions

REASON (R): Commercialisation of Indian agriculture adversely affected the self-sufficiency of the village economies in India.

Correct Answer: option (b)

8. **ASSERTION (A):** The economic conditions of farmers improved a lot during British rule.

REASON (R): A large section of the farmers in India during the British Rule changed the crop pattern from food crops to commercial crops.

Correct Answer: option (d)

9. **ASSERTION (A):** India was an export deficit country during British rule.

REASON(R): More than half of India's foreign trade was restricted to Britain.

Correct Answer: option (d)

10. **ASSERTION (A):** Under British rule, rural areas became inaccessible at times of natural calamities and famines

REASON (R): There always remained an acute shortage of all-weather roads to reach out to the rural areas

Correct Answer: option (a)

11. **ASSERTION (A):** The main purpose of British Rule in India was for the development of British economy

REASON (R): Indian economy was its feeder economy.

Correct Answer: option (a)

12. **ASSERTION (A):** The year 1921 is described as the year of Great Divide.

REASON (R): It was in 1921 that India entered second stage of Demographic transition.

Correct Answer: option (a)

13. **ASSERTION (A):** Export surplus generated by India resulted in inflow of gold & silver

REASON (R): Export surplus came at a huge cost to the country's economy.

Correct Answer: option (d)

14. **ASSERTION (A):** Opening of the Palk Strait strengthened the British stranglehold on India's foreign trade.

REASON (R): The British trade route after 1869 was much shorter and transport cost much lesser which was in favor for the British.

Correct Answer: option (d)

15. **ASSERTION (A):** Water and air-borne diseases were rampant and took a huge toll on life.

REASON (R): Public health facilities were either unavailable or were highly inadequate.

Correct Answer: option (a)

CASE STUDY BASED QUESTIONS

I. Read the below given passage and Answer: the questions that follow

During the colonial period, the occupational structure of India showed little sign of change. The agricultural sector accounted for the largest share of workforce, which usually remained at a high of 70-75 per cent while the manufacturing and the services sectors accounted for only 10 and 15-20 per cent respectively. Another striking aspect was the growing regional variation. Parts of the then Madras Presidency (comprising areas of the present-day states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka), Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the services sectors. However, there had been an increase in the share of workforce in agriculture during the same time in states such as Orissa, Rajasthan and Punjab.

1. What is meant by occupational structure?
 - a) Distribution of working persons across different industries.
 - b) Distribution of working persons across different sectors
 - c) **Both**
 - d) None
2. _____ sector contributes major share of workforce in India during the colonial period
 - a) **Primary**
 - b) Secondary
 - c) Tertiary
 - d) None
3. Which of the following state(s) recorded a/an increased dependence towards agricultural sector?
 - a) **Orissa**
 - b) Kerala
 - c) Bombay & Bengal presidency
 - d) All the above
4. In the state of Tamil Nadu share of workforce in _____ sector declined and that of _____ increased

- a) Industry & Agriculture
- b) Industry & Service
- c) Service & Agriculture
- d) Agriculture & Industry**

II. Read the below given passage and Answer the questions that follow.

There was hardly any capital goods industry to help promote further industrialisation in India. Capital goods industry means: industries which can produce machine tools which are, in turn, used for producing articles for current consumption. The establishment of a few manufacturing units here and there was no substitute to the near wholesale displacement of the country's traditional handicraft industries. Furthermore, the growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small. Another significant drawback of the new industrial sector was the very limited area of operation of the public sector. This sector remained confined only to the railways, power generation, communications, ports and some other departmental undertakings.

1. Which of the following industries is capable of further promoting industrialization in an economy?
 - a) Consumer goods industry
 - b) Chemical industry
 - c) Agro-based industries
 - d) Capital goods industry**
2. Which of the following industries is most affected by the deindustrialization policy of British?
 - a) Capital goods industry
 - b) Traditional handicraft industry**
 - c) Consumer goods industry
 - d) public sector industry
3. Which of the following is incorrect regarding industrial sector during colonial period?
 - a) A few manufacturing units were established
 - b) The contribution of industrial sector to GDP was very small
 - c) Growth rate of the new industrial sector was low
 - d) The operation of public sector was on an extensive scale.**
4. Which of the following was not confined to public sector
 - a) Railways
 - b) Iron & Steel industry**
 - c) Power generation
 - d) Communications & ports

SHORT ANSWER: QUESTIONS

1. **The traditional handicrafts industries were ruined under the British rule.” Do you agree with this view? Give reasons in support of your Answer.**

Answer:

India was well-known for its handcraft industries in the fields of cotton and silk textiles, metal and precious stone works etc. These products enjoyed a worldwide market because of (i) reputation of the fine quality of material used and; (ii) high standards of craftsmanship seen in all imports from India. However, during the British rule, the country's world-famous handicraft industries were ruined, which not only created massive unemployment in India but also a new demand in the Indian consumer market — increasing imports of cheap manufactured goods for Britain

2. **India could not develop a sound industrial base under the British colonial rule. Even as the country's world-famous handicraft industries declined, no corresponding modern industrial base was allowed to come up to take pride of place so long enjoyed by the former."**

In the light of the above statement, critically appraise some of the shortfalls of the industrial policy pursued by the British colonial administration.

Answer: Some shortfalls of the industrial policy pursued by the British colonial administration are as follows: (i) Industrial development remained very slow.

Initially, this development was confined to the setting up of cotton and jute textile mills. Subsequently, the iron and steel industries began coming up in the beginning of the 20th century, e.g. TISCO was incorporated in 1907. A few other industries in the fields of sugar, cement, paper, etc., came up after the second world war.

- ii) There was hardly any capital goods industry to help promote further industrialisation in India. The establishment of a few manufacturing units here and there was no substitute to the wholesale displacement of the country's traditional handicraft industries. (iii) Low growth rate — The growth rate of the new industrial sector and its contribution to GDP remained very small. (iv) Very limited area of operation of the public sector — Public sector remained confined only to the railways, power generation, communications, ports and some other departmental undertakings

3. **"The most important characteristic of India's foreign trade throughout the colonial period was the generation of a large export surplus. But this surplus came at a huge cost to the country's economy." Do you agree with the above statement? Give valid reasons in support of your Answer.**

Answer: The given statement is correct to its character. India's foreign trade during the British colonial rule generated a large export surplus but at a huge cost to the country's economy because: (i) Several essential commodities — food grains, clothes, kerosene, etc. were scarcely available in the domestic market. (ii) The export surplus did not result in any flow of gold or silver into India. Rather, this was used to make payments for the expenses incurred by an office set up by the colonial government in Britain, expenses on war fought for the British government, and the import of invisible items. All these led to the "drain of India wealth"

4. **"The introduction of the railways in India was considered as one of the most important contributions of the British. However, the social benefits, which the Indian people**

gained owing to the introduction of the railways, were outweighed by the country's huge economic loss.”

Do you agree with the above statement? Give valid reasons.

Answer: The given statement is correct. No doubt, the introduction of the railways by the British was one of their most important contributions as it enabled people to undertake long distance travel and thereby break geographical and cultural barriers. However, the negative aspect of the introduction of the railways was that it fostered commercialisation of Indian agriculture which adversely affected the self-sufficiency of the village economies in India. Moreover, the benefits of the expanded volume of India's exports rarely accrued to the Indian people. Rather, the export surplus was used to make payments for the expenses incurred by an office set up by the colonial government in Britain, expenses on war fought by the British government and the import of invisible items. All of these led to the drain of Indian wealth. Thus, the social benefits, which the Indian people gained owing to the introduction of the railways, were out weighted by the country's huge economic loss.

5. Highlight the salient features of India's pre-independence occupational structure.

Answer: Salient features of India's pre-independence occupational structure are:

(i) During the British colonial rule, the occupational structure of India showed a little sign of change. The agricultural sector accounted for the largest share of workforce (70-75%) while the manufacturing sector accounted for only 10% and the services sector only 15-20%.

(ii) Another striking aspect was the growing regional variation. Parts of the then Madras Presidency (Tamil Nadu, Andhra Pradesh, Kerala and Karnataka), Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the service sectors. However, there had been an increase in the share of workforce in agriculture in Orissa, Rajasthan and Punjab

6. Give a quantitative appraisal of India's demographic profile during the colonial period

India's demographic profile during the British colonial rule.

Answer:

(i) Various details about the population of British India were first collected through a census in 1881. It revealed the unevenness in India's population growth.

(ii) Second stage of demographic transition began after 1921. However, neither the total population of Indian or the rate of population growth at this stage was very high.

(iii) The various social development indicators were also not quite encouraging.

Overall literacy level was less than 16%. Out of this, female literacy level was only about 7%.

Due to absence or lack of adequate public health facilities, water and air-borne diseases were rampant. Over all the infant mortality rate was about 218 per thousand (present infant mortality rate is 40 per thousand).

Life expectancy was also very low — 44 years (in contrast to the present 68 years). (iv) Extensive poverty prevailed in India during the British colonial period which contributed to the worsening profile of India's population of the time

7. Do you agree with the view that zamindari system brought stability to cultivation during the British rule in India? Give reason for your Answer:

Answer:

The zamindari system during the British rule did not bring stability. Instead, it brought instability to Indian cultivation due to the following reasons:

- i) This system led to frequent ejection of the tillers of the soil. They lost their permanent right of cultivation, and accordingly, lost permanent interest in cultivation.
- ii) Under zamindari system, the tillers of the soil lacked ownership rights. As a result, they had no interest in making permanent improvements on land.

8. Explain three causes of the backwardness of Indian economy at the time of independence.

Answer:

The causes of the backwardness of Indian economy at the time of independence are:

- i) Low production and low productivity in agriculture
- ii) Decay of Indian handicrafts owing to discriminatory tariff policy of the British government.
- iii) Colonial exploitation of the Indian economy

9. Discuss in brief the causes of the backwardness of Indian agriculture at the time of independence.

Answer: Backwardness of Indian agriculture at the time of independence can be explained in terms of the following factors

- i) Low production and productivity mainly caused by various systems of land settlement
- ii) Low levels of technology, lack of irrigation facilities and negligible use of fertilisers contributed to the dismal level of agricultural productivity.
- iii) Small and fragmented holdings
- iv) No incentive to invest in terracing, flood-control, drainage and desalinisation of soil.

10. What objectives did the British intend to achieve through their policies of infrastructure development in India?

Answer:

i) The roads that were built primarily served the purposes of mobilising the army within India and drawing out raw materials from the country side to the nearest railway station or the port to send these to England or other foreign destinations.

- ii) The introduction of railways by the British in 1850 fostered commercialisation of Indian agriculture, which adversely affected the self-sufficiency of the village

economies in India. The benefits of exports surplus rarely accrued to the Indian people.

- (i) The inland waterways, at times, proved uneconomical as in the case of the coast canal on the Orissa coast, which had to be ultimately abandoned.
- (ii) The introduction of the expensive system of electric telegraph in India served the purpose of maintaining law and order by the British colonial government.
- (iii) The postal services, despite serving a useful public purpose, remained all through inadequate.

LONG ANSWER: TYPE

1. What was the focus of the economic policies pursued by the colonial government in India? What were the impacts of these policies?

Answer: The economic policies developed by the British government in India was aimed at creating India as a supplier of Britain's growing industries. The policies were targeted towards the development of Britain and boosting its economic status. India and its growth were completely ignored. Due to such policies, India became a supplier of raw materials and a market for finished goods from Britain. The impact of such a policy in India are as follows:

1. Indian economy witnessed very low economic growth. Studies reveal that the economy was growing at a speed of two per cent during the periods 1900-1950. The British government was more interested in maintaining and developing the economy of Britain. British rule ruined the agriculture sector and handicrafts and transformed India into a supplier of raw materials.
 2. Indian agriculture system was not developed before independence, it was following old techniques and it was majorly affected by the colonial rule when the farmers were instructed to grow commercial crops instead of food grains. These commercial crops like cotton and indigo were used in industries in Britain for manufacturing textile. The peasants did not get any monetary benefit from growing these crops and hence no economic development happened.
 3. The British have programmed systematic deindustrialization by leading to the downfall of the handicraft industry and with the lack of investment, other industries also failed to develop. Imposing heavy export tariffs on Indian made goods led to a decrease in demand in the international market that ultimately led to the collapse of the handicraft industry
 4. The money that Indian goods earned from foreign trade was not invested in the Indian economy, it was used for managing the British army and expanding their colonial reach across Asia.
- 2. "The social and economic challenges before India at the time of independence were enormous."**

Do you agree with the statement? Give reasons. (6 marks)

Answer: The given statement is correct. By the time India won its independence, the impact of the two-century long British colonial rule was already showing on all aspects of the Indian economy. Some of the most crucial social and economic challenges before the country were:

(i) Low level of economic growth and development — The country's growth of aggregate real output was less than 2% per annum coupled with about 0.5% p.a. growth in per capital output.

(ii) The agricultural sector was already saddled with surplus labour and extremely low productivity. About 75% of the country's population derived livelihood directly or indirectly from agriculture. Agricultural productivity was extremely low due to low levels of technology, lack of irrigation facilities, negligible use of fertilisers, etc.

(iii) The industrial sector was crying for modernisation, diversification, capacity building and increased public investment.

- There were only a few industries in the fields of cotton and jute textile, iron and steel, sugar, cement, paper, etc.

- There was hardly any capital goods industry to help promote industrialisation in India.
- The industrial growth rate was very low.
- The public sector remained confined only to the railways, power generation, communication, ports and some other departmental undertakings.

(vi) foreign trade was oriented to feed the industrial revolution in Britain. British maintained a monopoly control over India's exports and imports. A large export surplus generated from India's foreign trade was used to make payments for the expenses incurred by an office set up by the colonial government in Britain, import of invisible items, etc.; all of which led to the drain of Indian wealth.

(v) Infrastructure facilities such as railway network, roads, water transport, posts and telegraphs, etc. needed upgradation expansion and public-orientation.

(vi) Prevalence of rampant poverty and unemployment required welfare orientation of public economic policy.

CHAPTER 2

INDIAN ECONOMIC DEVELOPMENT 1950-1990

IMPORTANT POINTS: -

- Economic Planning: -It is a process under which a central authority defines a set of targets to be achieved within a specified period of time.
- Plan: a plan lays down how the limited resources of an economy should be put to use to achieve precise objectives within a specified period of time.
- In 1950, the Planning Commission was set up with the Prime Minister as its Chairperson.
- Economy: - a system which provides means to work and livelihood is called economy.

Types of economy

- Capitalist Economy: It is an economic system in which major economic decisions are taken through market forces.
- Socialist economy is an economy in which all the decision is taken by the government.
- Mixed economy is an economic system in which all the decision is taken by government and as well as private sector.

Goals of Five-Year Plans

A plan should have some clearly specified goals.

The goals of five-year plans are

1. Economic growth: Economic growth implies a consistent increase in GDP or a consistent increase in the level of output or a consistent increase in the flow of goods and services in the economy over a long period of time.

2. Modernisation: Modernisation refers to increase the production of goods and services to producers with the adoption of new technology.

3. Self-reliance: it means avoiding imports of those goods which could be produced in India itself. This policy was considered a necessity to reduce our dependence on foreign countries, especially for food.

4. Equity: It implies equitable distribution of income so that the benefits of growth are shared by all sections of the society.

➤ **Importance of Agriculture in the Indian Economy**

- Contribution to GDP
- Supply of wage goods
- Employment
- Industrial raw material
- Contribution to international trade
- Contribution to domestic trade
- Wealth of the nation

➤ **Problems of Indian Agriculture**

- Lack of permanent means of irrigation
- Deficiency of finance
- Conventional outlook
- Small and scattered holding
- Lack of organized marketing system

➤ **Reforms in Indian Agriculture**

Technical Reforms: It refers to a spurt in farm output during mid 60's. Measures introduced as part of green revolution are: -

- Use of HYV seeds
- Use of chemical fertilizers
- Scientific farm management practices
- Mechanized means of cultivation

Land Reforms

- Abolition of intermediaries
- Regulation of rent
- Consolidation of land holding
- Ceiling on land holding
- Co-operative farming

Green Revolution

This refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice along with the use of fertilizer and pesticide in the correct quantities as well as regular supply of water.

Gains of Green Revolution

- Spurt in crop productivity
- Substantial rise in acreage (area under cultivation)
- Shift from subsistence farming to commercial farming
- Change in farmer's outlook
- Self-Sufficiency in food grain production and buffer stocks.

limitations of Green Revolution

- increase in income disparities
- increase in regional disparities
- effective only on wheat and rice
- over utilization of chemical in agriculture

Marketable Surplus: -It refers to surplus of farmer's output over and above his own farm consumption.

Importance of Industrial Sector

- Structural transformation
- Source of employment
- Source of mechanized means of farming
- Imparts dynamism to growth process
- Growth of civilization
- Infrastructural growth

Features of Industrial policy Resolution of 1956

It was an official declaration on the leading role of the government in the process of industrialization. Private sector was assigned only a secondary role in the process of industrialization. Industries in the private sector could be established only through a license from the government.

New classification of Industries: Industries were classified into three schedule depending upon role of state.

- (a) Schedule-A- 17 industries listed in schedule-A whose future development would be the responsibility of state.
- (b) Schedule-B- 12 industries were included in Schedule-B, Private sector could supplement the efforts of the Public Sector, with the state taking sole responsibility for starting new units.
- (c) Schedule-C - other residual industries were left open to private sector.

SMALL SCALE INDUSTRY (SSI): -A small-scale industry is presently defined as the one whose investment does not exceed Rs. 5 crores.

➤ **CHARACTERISTICS OF SSI OR ROLE OF SMALL-SCALE INDUSTRIES**

- Labour intensive-employment oriented
- Self-employment.
- Less capital intensive
- Export promotion
- Seed beds for large scale industries
- Shows locational flexibility.

➤ **PROBLEMS OF SMALL-SCALE INDUSTRIES**

- Difficulty of finance
- Shortage of raw material
- Difficulty of marketing
- Outdated machines & equipment
- Competition from large scale industries.

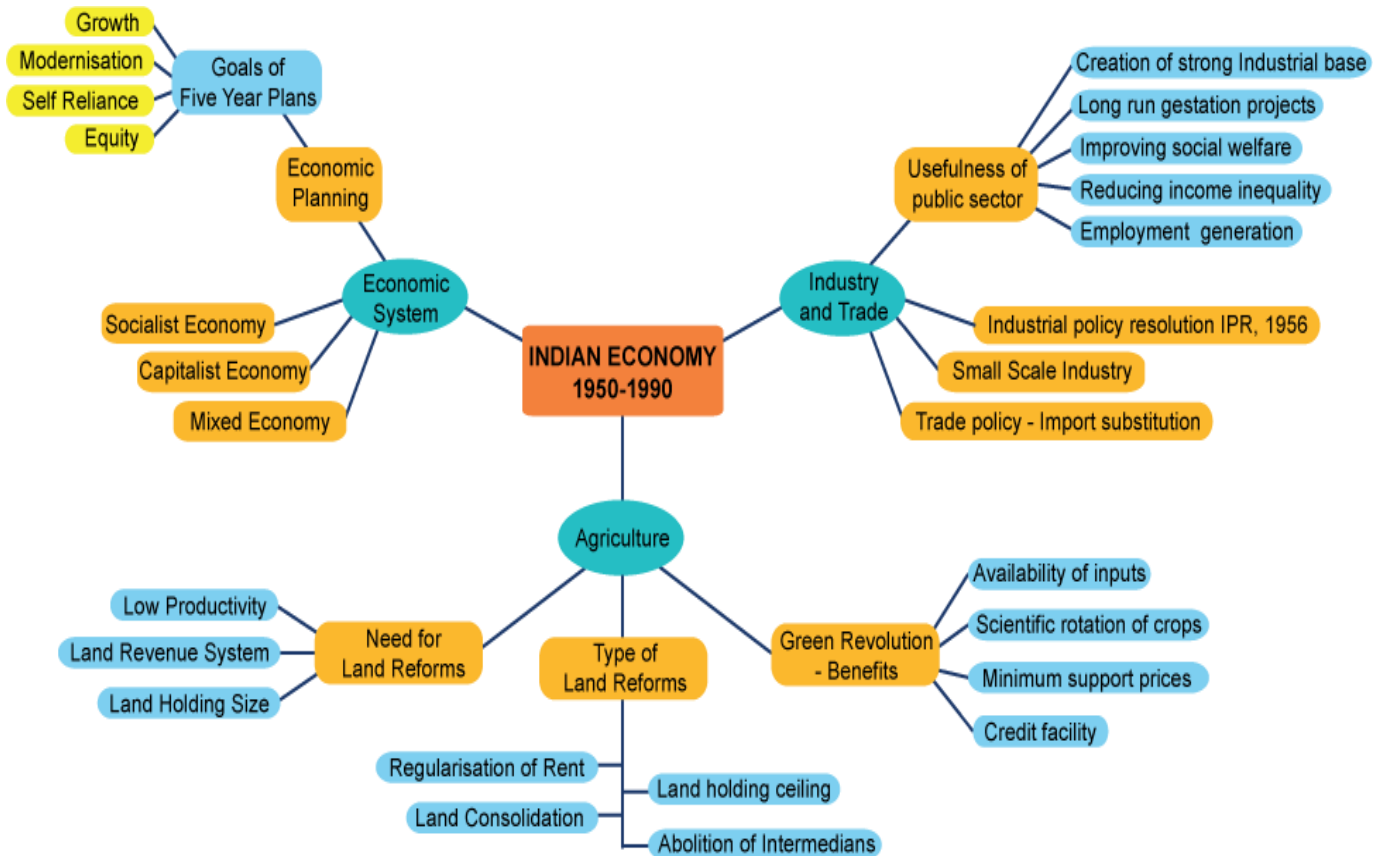
Inward looking Trade Policy: - It refers to the policy of “import substitution “and protection to the domestic’s industry through import restrictions and important duties. Contrary to it, outward looking trade strategy refers to the policy of “Export promotion” through competitive production environment in the domestic economy.

- Criticism of import substituting strategy
 - It did not lead to growth.
 - Lack of competition implied lack of Modernisation.
 - Growth of inefficient public monopolies.
 - It did not lead to efficiency.

Salient Features of the Reforms during 1950-1990

- Public sector was to play a central role in the process of industrialization.
- Private sector was to play a secondary role.
- Policy of import substitution
- Domestic industry was to be protected from foreign competition.
- SSI was to developed to promote the objectives of employment and equity

MIND MAP



CASE – BASED QUESTIONS

1. Read the following Case Study carefully and Answer the questions

Subsidies are a created, administered device intended for use only until such a time the basic set-up of the programme of activity can take up its own protection through its required competitiveness. If it fails to happen there is no reason to protect it. The trend that the beneficiaries of subsidies expect them for every new programme and hope continuance of subsidies is noteworthy. Economists advocate that subsidies should be

selective, limited and specially targeted for weaker sections only. Subsidies alter relative prices and budget constraints and thereby affect decisions concerning production, consumption and allocation of resources. Like many other countries, subsidies in Indian economy are pervasive. These are explicit or hidden and include the areas such as education, health, environment and variety of economic activities including agriculture and transport.

-Study Agro-economic Research Centre, MP, JUNE 2004

1. Agricultural subsidy is important because new technology is seen as..... (risky/favorable) by the farmers.
2. Which of the following is the limitation of subsidy?
 - a) It provides financial cushion to the farmers.
 - b) It leads to burden on government finances.
 - c) It increases the gulf between rich and poor farmers.
 - d) Both (a) and (c)
3. Green revolution was a success due to agricultural subsidies provided to farmers True or False
4. The benefits of subsidy is mostly reaped by.....farmers (prosperous/marginal)

Answer:

1-Risky

2 (b)

3- True

4 -prosperous

2. Read the following Case Study carefully and Answer: the questions

The green revolution for the third agricultural revolution is the set of research technology e-transfer initiatives earring between GNE E and the late 1960 that increased agricultural production worldwide beginning most markedly in the late 1960 the initiative resulted in the adoption of new technologies including high yield varieties of CSR rules of cells especially does wheat and rice it was associated with chemical fertilizers agrochemicals and controlled water supply and newer methods of cultivation including machine isolation National bank for agriculture and rural development is and apex development finance institution fully owned by government of India the bank has been entrusted with Martyrs concerning policy planning and operations in the field of credit for agriculture and other economic activities in rural areas in India.

1. Who among the following is known as the father of green revolution
 - (a) Dr. M S Swaminathan

- (b) Dadabhai Naoroji
 - (c) Vikram Sarabhai
 - (d) all of these
2. Green revolution is also known as
- (a) Golden revolution
 - (b) milk revolution
 - (c) Wheat revolution
 - (d) None of this
3. Which of the following institutions were setup as the apex body in rural areas to support the small farmers in the adoption of modern farming methods?
- (a) RRB
 - (b) SIDBI
 - (c) RBI
 - (d) NABARD
4. Green revolution was the set of agricultural reforms brought in India
- (a) First
 - (b) Second
 - (c) Third
 - (d) fourth

1 (a)

2 (c)

3 (d)

4(c)

CASE STUDY BASED QUESTIONS

An important lesson that the COVID-19 pandemic has taught the policymakers in India is to provide greater impetus to sectors that make better allocation of resources and reduce income inequalities. COVID-19 has also taught a lesson that in crisis the population returns to rely on the farm sector. India has a large arable land, but the farm sector has its own structural problems. However, directly or indirectly, 50 percent of the households still depend on the farm sector. Greater support to MSMEs, higher public expenditure on health and education and making the labour force a formal employee in the economy are some of the milestones that the nation has to achieve. One of the imminent reforms to be done in the country is labour reforms. Labour laws are outmoded in India, and some of these date back to the last century.

India's complex labour laws have been blamed for keeping manufacturing businesses small and hindering job creation. Industry hires labour informally because of complex laws and that is responsible for low wages.

1. Which types of structural problems are faced by the agricultural sector?
2. "It is necessary to create employment in the formal sector rather than in the informal sector." Defend or refute the given statement with valid argument.
3. Hired labour comes in (Informal organization / formal organization)
4. What do you mean by MSMEs?

ASSERTION and REASONING

1. ASSERTION (A):

This new Green Revolution is leading to foreign ownership over most of India's farmland, undermining farmers' interests.

REASONING (R):

New Green Revolution is driven by private (and foreign) interest—notably MNCs like Monsanto.

Alternatives:

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

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

2. ASSERTION and REASONING

ASSERTION (A):

Growth and social justice is the central objective of Indian planning.

REASONING (R):

India opted for planning to utilize available resources efficiently and to establish social justice.

Alternatives:

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

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

3. ASSERTION and REASONING

ASSERTION (A):

Subsidies were, needed to encourage farmers.

REASONING (R):

Any new technology is looked upon as being risky by farmers

Alternatives:

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

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

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

4. ASSERTION and REASONING

ASSERTION (A):

The industries became diversified compared to the situation at independence.

REASONING (R):

Excessive government regulation prevented their growth.

Alternatives:

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

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

5. ASSERTION and REASONING

ASSERTION (A):

The excessive regulation of what came to be called the permit license raj prevented certain firms from becoming more efficient.

REASONING (R):

More time was spent by industrialists in trying to obtain a license or lobby with the concerned ministries rather than on thinking about how to improve their products.

Alternatives:

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

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

Choose the correct alternative.

1. In which year was India's First Five Year Plan launched?

- (a) 1951
- (b) 1947

(c) 1940

(d) 1955

2. Which of the following bodies/institutions was engaged in the formulation of Five Year Plan in India?

(a) Planning commission

(b) National Development Council

(c) Finance Ministry

(d) Home Ministry

3. Which of the following is the main objective of carrying out various economic activities?

(a) Profit

(b) Public welfare

(c) Competition

(d) Equality

4. What is needed to provide protection against natural calamities like floods, drought, locusts, thunderstorms, etc.?

(a) Multiple cropping

(b) Green revolution

(c) Crop insurance

(d) HYV

5. Which of the following steps promoted the growth of the economy as a whole by stimulating the development of industrial and tertiary sectors?

(a) Independence

(b) Planning

(c) Colonial rule

(d) Green revolution

6. How many industries have been reserved for the public sector under Industrial Policy Resolution, 1956?

(a) 17

(b) 21

(c) 15

(d) 2

7. In which of the following type of economy are resources owned privately and the main objective behind economic activities is profit-making?

(a) Capitalist

(b) Socialist

(c) Mixed

(d) Global

8. When was NITI Ayog established?

(a) 1991

(b) 2001

(c) 2011

(d) 2015

9. Who was the Chairperson of the Planning Commission of India?

(a) President of India

(b) Finance Minister of India

(c) Prime minister of India

(d) Governor of RBI

10. In which year, Industrial Policy Resolution was adopted?

(a) 1956

(b) 1950

(c) 1965

(d) 1953

11. Self –reliance means avoiding:

(a) Exports

(b) imports

(c) Both (a) and (b)

(d) None of the above.

12. Which factor led to the breaking up of the stagnation of agriculture?

(a) Land reforms

(b) Green Revolution

(c) Buffer stocks

(d) Land ceiling.

1 (a) 2(a) 3(b) 4(c) 5(b) 6(a) 7(a) 8(d) 9(a) 10(a)

11(b) 12(b)

SHORT ANSWER: QUESTIONS (3 marks)

1. Define the land ceiling.

Answer: Land ceiling refers to the size (dimension) of the land that an individual or family can possess. In India, this act was passed during the year 1961-62 and it was controlled by all the state governments. However, the ceiling limits vary from state to state.

2. Define small scale industries.

Answer: Small scale industries are those which have fixed investment in plant and machinery, whether hold on ownership basis or lease basis or hire purchase basis not more than ₹ 1 crore.

3. What were the achievements of five-year plan?

Answer: Post Indian independence in the year 1947, India had to reconstruct its economy from scratch. The leaders in those days had to select the type of the economy that India would be and also outline the economic planning.

The primary achievements witnessed through five-year plans are as follows:

A great increase in the National Income and Per Capita Income

Significant development in agriculture

Industrial development

Price and power parity

Increased capital formation

4. Define a socialist economy.

Answer: Socialism primarily focuses on the manufacturing sector to satisfy human needs. This is unlike capitalism means: direct regulation and management of the social workers and industries by the workers through a government.

5. Define a plan.

Answer: A plan is a proposed list of goals that an economy wants to achieve within a specific period of time. It suggests the optimum ways to utilize the scarce available resources to achieve the enlisted goals. In India, planning is done for a period of five years, which is called five-year plan.

6. What is marketable surplus?

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

Marketable surplus = Total farm output produced by farmer - Own consumption of farm output

SHORT ANSWER: QUESTIONS (4 marks)

1. Explain the need and type of land reforms implemented in the agriculture sector.

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

1. Land Tenure System: There were three types of land tenure systems namely, the Zamindari System, the Mahalwari System and the Ryotwari System prevalent in the Indian agricultural sector at the time of independence. The common feature of these three systems was that the land was mostly cultivated by the tenants and the land revenues were paid by them to their landlords. This led to the exploitation of tenants in the form of exorbitant rents.

2. Size of Land Holdings: The size of land holdings owned by the farmers was very small. In addition, the land holdings were fragmented. This obstructed the use of modern techniques.

3. Lack of Initiative: As most of the land was owned by the landlords, so the farmers lacked initiative and neither had enough means to undertake mechanized methods of cultivation.

4. Traditional Approach and Low Productivity: Indian farmers used to rely on the conventional and the traditional inputs and methods and climatic conditions that hampered the productivity of agricultural sector.

5. Absence of Marketing System: Due to the absence of well-developed marketing system, the farmers used to rely on the intermediaries to sell their product in the market. These intermediaries used to purchase the farm products at a very low price and sell them at higher price at market.

6. Nature of Farming: The basic motive for farming was for subsistence. That is, farming was done basically to earn survival and not for sale and to earn profit.

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

1. Abolishing Intermediaries: The prime focus of land reforms was to abolish intermediaries like Zamindars, Jagirdars, etc. There were many steps undertaken to make the tillers, the owners of the land.

2. Regulation of Rent: The cultivators were exploited in the form of exorbitant rents. In the first five-year plan, the maximum rent fixed was one-fourth or one-fifth of the total farm produce (except in Punjab and Haryana,). The regulations of rent not only reduced the burden from the tenants but also enabled them with greater portion of finance to invest on farm.

3. Consolidation of Holdings: As the land holdings were small and also fragmented, so it was very necessary to consolidate the land holdings for the use of modern and advanced technology. The farmers were given consolidated holdings equal to the total of the land in their various fragmented plots. This enabled them the benefits associated with the large scale production.

4. Land Ceilings: It means to limit the fixed amount of land that an individual may hold. The basic motive behind this step was to promote equality of ownership of land holdings. This eradicated the concentration of land holdings in few hands. Government used to confiscate the excess land over the fixed amount of land and distribute it among the landless farmers.

5. Co-operative Farming: This step was taken to counter the problems due to sub-division of holdings. Small scale farming by an individual land holder is neither profitable nor productive, so, these steps encouraged different farmers to pool their farms and perform farming jointly. This enhanced the productivity and greater profits were shared by the individual farmers.

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

Answer:

Due to low productivity, frequent occurrence of famines and low levels of agricultural products in the latter half of second five-year plan, a team was formed to suggest various ways to counter these problems. As per the recommendations of the team, government introduced the use of HYV seeds, modern techniques and inputs like fertilizers, irrigation facilities and subsidized credit. These steps collectively are known as Intensive Area Development Programme (IADP). Consequently, in the year 1967-68, food grains production increased nearly by 25%. Due to this substantial increase of food grains production, this outcome is known as 'Green Revolution'.

The needs of Green Revolution are as follows.

1. Low Irrigation Facility: The well irrigated and permanent irrigated area was only 17% in 1951. The major part of area was dependent on rainfall and, consequently, agriculture suffered from low level of production.

2. Conventional and Traditional Approach: The use of conventional inputs and absence of modern techniques further hampered the agricultural productivity.

3. Frequent Occurrence of Famines: Famines in India were very frequent during the period 1940s to 1970s. Further, due to higher growth rate of populations, agriculture failed to grow at the same speed.

4. Lack of Finance (credit): Small and marginal farmers found it very difficult to get finance and credit at cheap rate from the government and banks, hence, fell an easy prey to the money lenders.

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

It was thought that with the increased production due to Green Revolution, government can maintain buffer stock and India can achieve self-sufficiency and self-reliable.

6. Marketing Agriculture: Agriculture was basically for subsistence and, therefore, less amount of agricultural product was offered for sale in the market. Hence, the need was felt to encourage the farmers to increase their production and offer a greater portion of their products for sale in the market.

3. Why was public sector given a leading role in industrial development during the planning period?

Answer:

At the time of independence, Indian economic conditions were very poor and weak. There was neither sufficient foreign reserve nor did India have international investment credibility. In the face of such poor economic condition it was only the public sectors that need to take the initiative. The following are the reason that explains the driving role of the public sector in the industrial development:

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

2. Low Level of Demand: At the time of independence, the majority of population was poor and had low level of income. Consequently, there was low level of demand and so there was no impetus for any private sector to undertake investment in order to fulfill these demands. Thus, India was trapped into a vicious circle of low demand. The only way to encourage demand was by public sector investments.

4. Explain the statement that green revolution enabled the government to procure sufficient food grains to build its stocks that could be used during times of shortage.

Answer:

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

LONG ANSWER: QUESTIONS (6 marks)

1. While subsidies encourage farmers to use new technology, they are a huge burden on government finances. Discuss the usefulness of subsidies in the light of this fact.

Answer:

Subsidy means availing some important inputs to farmers at a concessional rate that is much lower than its market rate. During 1960s, in order to adopt new technology HYV seeds and use of modern fertilizers and insecticides, farmers were provided inputs at a subsidized rate. Thus, the

public sector role was needed to invest heavily, so as to raise the income of people that will in turn raise the demand and so on.

The following arguments are given in favor of subsidy:

- 1) Subsidy is very important for marginal land holders and poor farmers who cannot avail the essential farm inputs at the ongoing market rate.
- 2) Subsidy in 1960s was basically an incentive for the farmers to adopt modern techniques and vital inputs like fertilizers, HYV seeds, etc. The subsidy was mainly of convincing and lucrative nature so that the farmers do not hesitate to use these modern techniques.
- 3) Subsidy is generally provided to the poor farmers with the motive of reducing inequality of income between rich and poor farmers and to promote an egalitarian distribution of income.
- 4) It is argued that the adoption of new technology and techniques are not risk free and only daring farmers are only willing to adopt them.

The following arguments are given against subsidy.

1) It is generally argued that subsidy favours and benefits fertilizer industries than the farmers. Subsidies provide a protective shield against the market conditions and, consequently, these industries need not to bother about their market share and competition.

2) Subsidies are also enjoyed by the potential farmers who do not need them. This often leads to the misallocation and wastage of the scarce resources.

3) Subsidies, if provided at a much lower rate than the market rate may lead to the wastage of resources. For example, subsidized electricity leads to the wastage of energy.

4) There is a general consensus that in order to assess the benefit and feasibility of a particular technique, subsidy should be provided but once the performance has been

2. Why, despite the implementation of green revolution, 65 per cent of our population continued to be engaged in the agriculture sector till 1990?

Answer:

Although Indian agricultural production increased substantially that enabled India to attain the status of self-sufficiency in food grains but this increase is substantial only in comparison to food grain production in the past. Further, India failed to achieve structural transformation associated with the agricultural revolution and development. That is, in other words, industrial and service sector failed to generate significant employment opportunities in order to attract and absorb excess agricultural labour. The agricultural contribution to GDP has fallen from 51% in 1960-61 to 44% in 1970-71, on the other hand, the share of industry and service sector in India's GDP increased merely from 19% to 23% and from 30% to 33% during the same period. Meantime, the percentage of population dependent on agriculture decreased merely from 67.50% (in 1950) to 64.9% (in 1990). Hence, the industrial and service sector growth was not very significant and, hence, failed to employ and attract surplus labour from agricultural sector. This may be because of the flaws in the economic policies that became the bottleneck for the growth of secondary and tertiary sector.

3. Though public sector is very essential for industries, many public sector undertakings incur huge losses and are a drain on the economy's resources. Discuss the usefulness of public sector undertakings in the light of this fact.

Answer:

Although, the mismanagement and wrong planning in PSUs may lead to misallocation and, consequently, to wastage of the scarce resources and finance but PSUs do have some positive and useful advantages.

1. Enhancing Nation's Welfare: The main motive of the PSU was to provide goods and services that add to the welfare of the country as a whole. For example, schools, hospitals, electricity, etc. These services not only enhance welfare of country's population but also enhance the future prospects of economic growth and development.

2. Long Gestation Projects: It was not feasible and economically viable for the private sectors to invest in the big and wide projects like basic industries and electricity, railways, roads, etc. This is because these projects need a very huge initial investment and have long gestation period. Hence, PSU is the most appropriate to invest in these projects.

3. Basic Framework: An important ideology that was inherited in the initial five-year plan was that the public sector should lay down the basic framework for industrialization that would encourage the private sector at the latter stage of industrialization.

4. Socialist Track: In the initial years after independence, Indian planners and thinkers were more inclined towards socialist pattern. It was justified on the rational ground that if the government controls the productive resources and production, then it won't mislead the country's economic growth. This was the basic rationale to set up PSUs. These PSUs produce goods not according to the price signals but according to the social needs and economic welfare growth of the country.

5. Reduce Inequality of Income and Generate Employment Opportunities: It was assumed that in order to reduce inequalities of income, eradicate poverty and to raise the standard of living, government sector should invest in the economy via PSUs.

CHAPTER 3

ECONOMIC REFORMS SINCE 1991

IMPORTANT POINTS: -

Meaning: Economic reforms refer to a set of economic policies directed to accelerate the pace of 'growth and development' OF Indian Economy

Economic reforms or structural adjustment is a long term multi-dimensional package of various policies (Liberalization, privatization, and globalization) and programme for the speedy growth, efficiency in production and make a competitive environment. Economic reforms are adopted by Indian Govt. in 1991.

Factors responsible for Economic reforms.

- Fall in foreign exchange reserve.
- Adverse balance of payments
- Mounting fiscal deficit.
- Rise in prices
- Failure of public enterprises.
- Gulf crisis.

Stabilization measures: These are short run measures introduced by Govt. to control price rise, adverse balance of payment and fall in foreign exchange reserve.

Structural reform measures: These are long-run policies, the goal is to abolish controls, eliminate bureaucratic hurdles. and red-tapism and make the decision-making process efficient and transparent. In the new economic policy 1991, Structural reforms can be seen with respect to:

1. Liberalization. 2. Privatization 3. Globalization.

Liberalization: Liberalization means removing all unnecessary control and restriction like permits, licenses, quotas etc.

Liberalization measures:

- Industrial sector reforms
- Financial sector reforms.
- Fiscal reforms.
- Foreign exchange reforms
- Trade and Investment policy reforms

Privatization: Privatization is the general process of involving the private sector in the ownership or operation of state-owned enterprises.

Policies adopted for privatization:

- Contraction of public sector.
- Abolish the ownership of Govt. in the management of public enterprises.
- Sale of shares of public enterprises. (disinvestment)

Globalization: Globalization may be defined as a process associated with increasing openness growing economic interdependence and deepening economic integration in the world economy.

Policy promoting globalization:

- Increase in equity limit of foreign investment.
- Partial convertibility.
- Long term trade policy.
- Reduction in tariff.

An Appraisal of LPG Policies: -

Positive Impact:

- Increase in foreign investment
- Increase in foreign exchange reserves
- A check of inflation.
- Increase in domestic product.
- Increase in exports.
- Consumer sovereignty.

Negative Impact.

- Neglect of agriculture
- Increase in competition for domestic industry.
- Increase in urbanization.
- Disaffect of disinvestment policy.
- Spread of consumerism.

Foreign Direct Investment (FDI): Refers to investment by the foreigners by way of their business establishments in India. It implies ownership and control of business. Examples: Coke, Pepsi, Domino's, McDonald.

Foreign Institutional Investment (FII): Refers to investment in Indian companies (by way of purchasing their equity or shares) by the foreign banking and non-banking institutions. It does not involve any kind of direct control on the management of the Indian companies where investment is made. FII, unlike

FDI, is simply an investment in the stock market in India by the foreign banking and non-banking institutions.

Tariff barriers mainly refer to barriers on imports through high import duty.

Non-tariff barriers generally refer to quota-barriers, implying quantitative restrictions on imports (or restrictions on the quantum of imports).

Bilateral trade agreements refer to trade agreements of one country with the other. Or, these are trade agreements between any two countries of the world.

Multilateral trade agreements refer to trade agreements of one country with many countries of the world. Or, these are trade agreements among many countries of the world.

Devaluation: - Devaluation implies lowering the value of our currency in relation to other currencies of the world.

Disinvestment: - Disinvestment is a policy instrument to promote privatization. It occurs when the government sells off its share capital of PSUs (public sector Undertakings) to the private investors.

GST (Goods and Services Tax) has been introduced in India with a view to providing a uniform tax structure across all parts of the country. It is a one tax in place of all taxes on goods and services, and it is a uniform tax across all states of the country. Thus, GST carries the slogan of 'one tax, one nation, one market'.

DEMONETISATION: -Demonetization, introduced in 2016, is closely related to financial sector reforms. Let us understand its concept and consequences in the context of the Indian economy. Concept Demonetization is a policy action of the government that withdraws the status of 'legal tender' from the existing currency. Once the status of 'legal tender' is withdrawn, the existing currency (or the currency notes) are reduced merely to pieces of paper. The demonetized notes were replaced by new currency notes of Rs.500 and Rs. 2,000. Basic purpose of demonetization is to curb illegal transactions and anti-social activities (funded through illegal transactions).

5. Selling off part of the equity of PSU's is called _____.
- A. Globalization
 - B. Privatization
 - C. Disinvestment
 - D. None of these

Answer: C

6. _____ and _____ Currency notes of old Mahatma Gandhi series were banned as legal tender money on 8th Nov. 2016.
- A. Rs.50/ and Rs. 100/
 - B. Rs.500/ and Rs. 1000/
 - C. Rs.500/ and Rs. 2000/
 - D. Rs.500/ and Rs. 200/

Answer: B

7. Demonetization does not target:
- A. Tax administration
 - B. Cash less Economy
 - C. Credit creation
 - D. Encouragement to black money

Answer: D

8. Objectives of privatization policy are:
- A. To improve the government's financial position
 - B. To improve the performance of an enterprise
 - C. To reduce the burden on public administration.
 - D. All the above.

Answer: D

9. Arrange the following tax structures adopted in India in the correct chronological order; (choose the correct arrangements)
- i. Goods and Services Tax
 - ii. Sales Tax
 - iii. Value Added Tax
 - iv. Mod. Value Added Tax

Alternatives:

- A. I, ii, iii, iv
- B. ii, iii, iv, i
- C. iii, iv, ii, i
- D. iv, iii, ii, I,

Answer: B

10. Liberalization of the economy under the New Economic Policy changed the role of RBI in the economy: (choose the correct alternative)
- A. From a 'regulator' to 'facilitator' of the financial sector
 - B. From a 'controller' to 'manager' of the government debt
 - C. Both (a) and (b)
 - D. None of these

Answer: C

- 11. Read the following statements carefully and choose the correct alternative from the following:**

Statement 1: Globalization is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and Integration.

Statement2: Globalization has benefitted the agriculture sector by increasing food grain production

Alternatives:

- A. Both the statements are true.
- B. Both the statements are false.
- C. Statement 1 is true and Statement 2 is false
- D. Statement 2 is true and Statement 1 is false

Answer: C

12. Which of the following committee recommended the introduction of GST in India?

- A. Kelkar Task Force
- B. C.Rangrajan Committee
- C. Both
- D. None of them

Answer: A

13. was the Indian Finance Minister in 1991, acknowledged for his capabilities to steer away the economic crisis looming large on the erstwhile Indian Economy. (Fill up the blanks with correct alternative)

- A. Dr. Subramanian Swamy
- B. Pranab Mukherjee.
- C. Dr. Manmohan Singh.
- D. Dr. Urjit Patel

Answer: C

14. In the context of Indian experience, controls were imposed by the government with a view to:

- A. Checking the growth of private monopolies
- B. Minimizing the hold of large industrial houses on the financial resources of the country
- C. Both (a) and (b)
- D. None of these

Answer: C

15. The parameters of economic reforms undertaken in an economy are:

- A. Macroeconomic stabilization
- B. Macroeconomic structural adjustments
- C. Both (a) and (b)
- D. None of these

Answer: C

16. The programme of economic reforms in India was started on

- A. 26th July 1990
- B. 23th July 1992
- C. 21th July 1991
- D. 24th July 1991

Answer: D

17. General Agreement on Trade and Tariff (GATT) was the forum for International trade agreement between:

- A. 1980-1990
- B. 1943-1953
- C. 1947-1994
- D. 1948-1990

Answer: C

18. Which of the following refers to removing unnecessary controls and restrictions imposed by the Government?
- A. Liberalization
 - B. Privatization
 - C. Globalization
 - D. Modernisation

Answer: A

19. From the set of statements given in column I and Column II, choose the correct pair of statements:

Column I	Column II
(a) Financial sector reforms	(i) Rationalization of Direct taxes
(b) Foreign Exchange reforms	(ii) Devaluation of Rupee
(c) Industrial sector reforms	(iii) Change in Role of RBI
(d) Tax Reforms	(iv) Removal of export duty

Answer: (b)

ASSERTION AND REASON BASED QUESTIONS

1. Read the following statements – Assertion (A) and Reason (R).

Choose one of the correct alternatives given below:

Assertion (A): India has become a best destination for global outsourcing in the post reform period.

Reason(R): Favorable Government policies such as various efforts like tax holidays, tax concessions, availability of cheap labour etc. helped MNCs

Alternatives:

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

Answer: A

2. Assertion (A): In 1991, India met with an economic crisis relating to its internal debt.
Reason (R): The origin of the financial crisis can be traced from the inefficient management of the Indian economy in the 1980s
- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 - B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
 - C. Assertion (A) is true but Reason (R) is false.

D. Assertion (A) is false but Reason (R) is true

Answer: D

3. **Assertion (A):** The reform policies introduced in and after 1991 removed many industrial and licensing restrictions

Reason(R): Rules and laws which were aimed at regulating the economic activities became major hindrances in growth and development.

Alternatives:

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

Answer: A

4. **Assertion (A):** Devaluation as a foreign exchange reform set the tone to free the determination of rupee value in the foreign exchange market from government control.

Reason(R): Devaluation caused an increase in the outflow of foreign exchange

Alternatives:

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

Answer: C

5. **Assertion (A):** Globalization is a outcome of the set of various policies that are aimed at trans forming the world towards greater independence and integration. It involves creation of network and activities transcending economic, social and geographical boundaries.

Reason (R): Globalization is a strategy of the developed countries to expand their market in other countries.

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

Answer: B

6. **Assertion (A):** The government borrows only from banks to finance the deficit caused.
Reason (R): Deficit is caused when expenditure is more than income

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

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

Answer: d.

7. **Assertion (A):** Liberalization of trade and investment regime was initiated to increase International competitiveness of industrial production.
Reason(R): The aim was to promote the efficiency of the local industries and the adoption of modern technologies.

Alternatives:

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

Answer: A

CASE STUDY BASED QUESTIONS

- I. Read the following article and Answer the question given below:**

We now look at some trends in the post-reform period. Data from Sri Lanka which started on a programme of economic reform in 1977 indicates that an increasing awareness on health issues is coupled with the growing incidence of diseases associated with stress, particularly those of the cardio-respiratory kind (Gunawardena 1995). A similar pattern is emerging in India with the advent of tropical diseases like falciparum malaria and Japanese B encephalitis, stress- and environment related cardiovascular complaints, respiratory and endemic intestinal problems as well as nervous disorders (Ghosh 1996). It is likely that with continued rural-urban migration, the mushrooming of unhealthy towns and cities and the degradation of the natural environment combined with jobs which increasingly concentrate workers in industries, Export Promotion Zones (EPZ) and sweat shops, the range of diseases and illnesses will increase. Women and their health will be adversely affected as they form the basis of the pool of cheap labour, essential for the growth of EPZs.

1. **Sri Lanka which started on a programme of economic reform in.....**

(Choose the correct option)

- A. 1978
- B. 1977
- C. 1990
- D. 1992

Answer: B

2. **A similar pattern is emerging in India with the growing incidence of diseases with stress, particularly those of the kind. (Choose the correct option) (cardio respiratory/ heart diseases)**

Answer: cardio-respiratory

3. **State whether the given statement is true or false**

It is likely that with continued rural-urban migration, the mushrooming of unhealthy towns and cities and the degradation of the natural environment combined with jobs which increasingly concentrate workers in industries. (Choose the correct option)

True / False

Answer: True

4. Read the following statements: Assertion (A) and Reason (R)

Assertion (A) Women and their health will be adversely affected

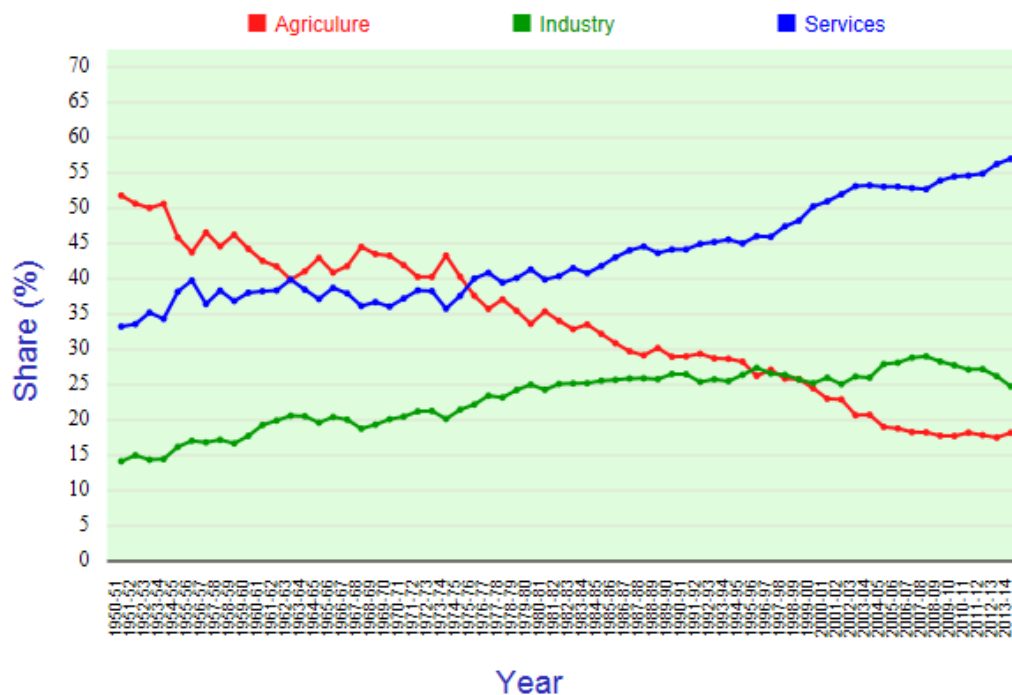
Reason (R): As they form the basis of the pool of cheap labour, essential for the growth of Export Promotion Zones.

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

Answer: A

II. Read the following graph and Answer: the question given below:

Sectorwise contribution of GDP of India (1950-2014)



1. What do you observe from the above graph?

- A. Contribution of agriculture constantly decreased, service sector increased whereas industrial sector initially increased and later decreased
- B. Industrial sector constantly increased, services remain the same and tertiary increased
- C. No change in agriculture, industry and service sector increased
- D. Agriculture decreased, service remains the same and industrial increased.

Answer: A

2. What can be the probable reason of decline of agriculture sector?
- A. Migration of work force from agriculture to Industrial and service sector
 - B. Migration of work force from service sector to Industrial and agriculture sector
 - C. Both (a) and (b)
 - D. None of these

Answer: A

3. What was the reason behind the instant development of service sector after 1991?
- A. globalization
 - B. Privatization
 - C. Liberalization
 - D. All of the above

Answer: D

4. what was the share of three sectors in 2013-14?
- A. Agriculture 18%, industry 24% and service 52%
 - B. Agriculture 24%, industry 18% and service 52%
 - C. Agriculture 52%, industry 24% and service 18%
 - D. Agriculture 24%, industry 52% and service 18%

Answer: A

III. Read the following passage and Answer the questions given below:

New Economic Policy of India was launched in the year 1991 under the leadership of P. V. Narasimha Rao. This policy opened the door of the India Economy for the global exposure for the first time. In this New Economic Policy P. V. Narasimha Rao government reduced the import duties, opened reserved sector for the private players, devalued the Indian currency to increase the export. This is also known as the LPG Model of growth. New Economic Policy refers to economic liberalization or relaxation in the import tariffs, deregulation of markets or opening the markets for private and foreign players, and reduction of taxes to expand the economic wings of the country. Former Prime Minister Manmohan Singh is considered to be the father of New Economic Policy (NEP) of India. Manmohan Singh introduced the NEP on July 24, 1991.

Main Objectives of New Economic Policy – 1991, July 24 The main objectives behind the launching of the New Economic policy (NEP) in 1991 by the union Finance Minister Dr. Manmohan Singh are stated as follows:

The main objective was to plunge Indian Economy in to the arena of ‘Globalization and to give it a new thrust on market orientation.

The NEP intended to bring down the rate of inflation

1. **New Economic Policy of India was launched in the year 1991 under the leadership of (choose the correct alternative)**
- A. P. V. Narasimha Rao
 - B. Atal Bihari Bajpayi
 - C. Sharad Pawar
 - D. None of these

Answer: A

2. is also known as the LPG Model of growth. ((choose the correct alternative)) (New Economic Policy / New Education Policy)

Answer: New Economic Policy

3. State whether the given statement is true or false:

Former Prime Minister Manmohan Singh is considered to be the father of New Economic Policy (NEP) of India. ((choose the correct alternative))

True / False

Answer: True

4. Read the following statements

Assertion (A). New Economic Policy is to expand the economic wings of the country.

Reason (R): Due to economic liberalization or relaxation in the import tariffs, deregulation of markets or opening the markets for private and foreign players, and reduction of taxes

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

Answer: A

IV. Read the following passage and answer the questions given below:

The growth rate of agriculture production which was only 3% in 1990-91, rose to 9.3% in 1996-97, during the eight plan the agriculture production increased by 7.5%. No doubt there has been ups and downs. The reforms have not been able to benefit agriculture, where growth rate has been decelerating. Despite mounting stock of food grains there are more than 250 million people below poverty line. There has been appreciable rise in the price of food grains due to curtailing food grain subsidy and increasing the prices at which food grains were supplied to ration shops. Purchasing power. There are poor transportation facilities. Investment in agriculture research and irrigation has been reduced. Shift to the production of cash crops for export has further worsened the position.

Questions:

1. What was the growth rate of as agriculture production in 1990-91?
 - A. 1%
 - B. 2%
 - C. 3%
 - D. 5%

Answer: C

2. During the _____ plan period the agriculture production increased by 7.5 %. (fill in the blanks)
 - A. Seventh
 - B. Eight
 - C. Ninth
 - D. Tenth

Answer: B

3. Which of the following statement is not correct with regard to the given passage?

- A. The economic reforms have not been able to benefit agriculture
- B. There are more than 250 million people below the poverty line
- C. Shift to the production of cash crops for exports further improved the position.
- D. None of these

Answer: C

4. What is the reason for the price rise of food grains in India?
- A. Curtailing food grain subsidy
 - B. Increasing the prices at which food grains were supplied to shops.
 - C. Both a and b
 - D. None of the above

Answer: c

3/4 MARKS QUESTIONS

1. Do you think outsourcing is good for India? Why are developing countries opposing it?

Answer: Yes, outsourcing is good for India. The following points justify this:

- (i) Employment: It provides employment to a large number of unemployed Indians.
 - (ii) Exchange of technical know-how: Outsourcing enables the exchange of ideas and technical know-how of sophisticated and advanced technology.
 - (iii) International worthiness: Outsourcing also enhances India's international worthiness credibility.
 - (iv) Better standard of living and eradication of poverty: By creating more and higher paying jobs, outsourcing improves the standard and quality of living of the people.
- However, developed countries oppose outsourcing to India because of the following reasons.

- (i) Outsourcing leads to outflow of funds from the developed countries to India, which reduces the income disparities between two countries.
- (ii) Outsourcing reduces the employment generation and creates job insecurity in the developed countries.

2. What are the major factors responsible for high growth of the service sector during reform period?

Answer: The service sector has shown a high growth rate due the following reasons:

- (i) Economic Reforms; Liberalization and various economic reforms initiated in 1991 reduced the various restrictions on the movement of international finance. This led to huge inflow of foreign capital, Foreign Direct Investment and outsourcing to India.
- (ii) Better performance of some service sectors: There were rapid growth in select areas of the service sector, such as telecommunication, Information Technology, Finance, Entertainment, travel and hospitality services, real estate and trade.
- (iii) Cheap and skilled manpower: Due to the availability of cheap and skilled manpower, India has become favourite desalination for outsourcing by the developed economies.

3. Why did RBI have to change its role form controller to facilitator of financial sector of India?

Answer: Prior to liberalization, RBI used to regulate and control the financial institutions like commercial banks, investment banks, stock exchange operations and foreign exchange market. After the financial sector reforms, RBI shifted its role from a controller to facilitator of financial sector. This means that greater autonomy granted to the financial sector in taking decisions on various matters without consulting the RBI. The main objective behind this was to encourage private sector participation, increase competition and allowing market forces to operate in the financial sector. Banks were given freedom to setup new branches without the approval of RBI.

4. What do you understand by GST? How good is a system of GST as compared to the old tax system? State its categories.

Answer: GST is the “single comprehensive indirect tax” on supply of goods and services right from manufacturer or service provider to the consumer. The system of GST as compared to the old tax system.

1. It has simplified the multiplicity of taxes on goods and services.
2. The laws, procedures and rates of taxes across the country are also now standardized.
3. It has also facilitated the freedom of movement of goods and services.
4. It has created a common market in the country. The two categories of GST are CGST and SGST

5. What are the objectives of WTO?

Answer: Objectives of World Trade Organization(WTO) are:

- (a) Reduction of trade barriers to liberalize world trade.
- (b) Serves as a platform for countries to raise their concerns regarding the trade policies of their trading partners.
- (c) To enlarge production and trade of services.
- (d) To ensure optimum utilization of world resources.
- (e) To protect the environment.
- (f) To provide greater market access to all member countries

6 marks questions

1. Why were reforms introduced in India?

Answer: The various reasons for introduction of reforms in India are:

- (i) Poor performance of Public sector: in the last four decades, the overall performance of public sector was very poor as huge losses were incurred by number of public sector enterprises.
- (ii) Deficit in Balance of Payments(BOP): Even after imposing heavy tariffs and fixing quotas, there was a sharp rise in imports. On the other hand, there was slow growth of exports due to low quality and high prices of Indian goods in the international market. It led to deficit in BOP
- (iii) Inflationary pressure: there was a consistent rise in general price level in the economy due to increase in money supply and shortage of essential goods.
- (iv) Fall in foreign exchange reserves: In 1991, foreign exchange reserves fell to the lowest level. Foreign exchange reserves declined to a level that was not adequate to finance imports for more than two weeks and to pay interest that needs to be paid international lenders.

(v) Huge burden of Debts: the expenditure of Government was much higher than revenue. As a result, the Government had to borrow money from banks, public and from international financial institutions.

(vi) Inefficient Management: The government was not able to generate sufficient revenue and expenditure began to exceed its revenue by large margin.

2. Discuss economic reforms in India in the light of social justice and welfare?

Answer: The economic reforms have been criticized in the light of social justice and welfare due to the following reasons:

(i) Growing unemployment: though the GDP growth rate has increased in the reform period, but such growth failed to generate sufficient employment opportunities in the country.

(ii) Removal of subsidy: Removal of fertilizers subsidy increased the cost of production which adversely affected small and larger farmers.

(iii) Rise in prices of food grains: Due to export oriented policy strategies in agriculture, the production shifted from food grains to cash crops for the export market. It led to rise in prices of food grains.

(iv) Cheaper imported goods: due to globalization, there was a greater flow goods and capital from developed countries and as a result, domestic industries were exposed to imported goods.

(v) Spread of consumerism: the new policy has been encouraging a dangerous trend of consumerism by encouraging the production of luxuries and items of superior consumption.

(vi) Unbalanced Growth: Growth has been concentrated only some select areas in the service sector, such as tele communication, information technology, finance entertainment, travel and hospitality services, real estate and trade rather than vital sectors such as agriculture and industry.

3. What measures have been taken to give more priority to private sector in the development process of Indian economy?

Answer: The private sector was encouraged to participate in operation and ownership of production units by way of:

(i) Reduction in number of reserved public sector units

(ii) Disinvestment in public sector undertaking(PSU) by selling the shares of PSU's into private hands.

(iii) Increase in the share of private sector in total investment.

(iv) Corporatization of public department with some operational and managerial autonomy.

(v) Licensing policy, which was distinctive for the private sector to start anew unit or to expand existing unit, was abolished for all industries except four.

(vi) Tax reforms, free flow of capital and technology from foreign countries also made production process profitable for the private sector.

PREVIOUS YEARS QUESTIONS.

1. India is often called as ‘Outsourcing Destination’ of the world. Discuss the prime reason for this name given to India

Answer: India has become a favourable destination of outsourcing most of the MNC’s because of the following reason:

- (i) Easy availability of cheap labour: the wage rate in India is comparatively lower than that in the developed countries. As a result, outsource their business in India.
- (ii) Availability of skilled manpower: India has vast skilled manpower, which enhances the faith of MNC’s
- (iii) Favourable Government Policies: NC’s get various types of lucrative offers from Indian Government like tax holidays, low tax rate etc.

2. “Agriculture sector appears to be adversely affected by the economic reform process. “Explain the given statement.

ANSWER:

Agriculture was adversely affected by the reform processes in the following manner:

- (i) Reduction of public Investment: Public Investment in agriculture sector, especially in infrastructure, which includes irrigation power road, market linkage and research and extension has been reduced in the reform period.
- (ii) Removal of subsidy: Removal of fertilizer subsidy increased the cost of production, which adversely affected the small and marginal farmers.
- (iii) Reduction in import duties: After the commencement of WTO a number of policy changes were made, reduction in import duties on agriculture products, removal of minimum support price, lifting of quantitative restriction on agriculture products etc. Affected Indian farmers as they have to face increased international competition.

3. Distinguish between (a) Tariff and Non- Tariff barriers (b) Bilateral and Multilateral trade.

ANSWER:

(a) The barriers which are imposed on imports of goods and services to make them relatively costlier and to protect the domestic producers from the international competition are known as tariff barriers. e.g. Import duties.

Non- Tariff barriers are those barriers which are imposed on quantity of import and export of goods and services. E.g.; quota and import licensing.

(b) The trade between two countries is known as bilateral trade, whereas the multi-lateral trade is the trade between more than two countries.

4. ” The opening up of the Indian economy has led to a rapid increase in Foreign Direct Investment(FDI) and Foreign Exchange Reserves of the country “defend or refute the given statement.

ANSWER: The statement is true, the foreign investment, both FDI and Foreign Institutional Investment(FII), have increased from about US \$100 million in 1990-91 to US \$ 30 billion in 2017-18. This has changed the status of India from a “begging bowl” in 1990’s to a “self-dependent” economy at present. Similarly, India has become one of the largest foreign exchange reserve holders in the world. It has increased form US \$ 6 billion in 1990-91 to about US \$ 443 billion in 2017-18.

5. " Recently the Government of India has decided to merge MTNL and BSNL on account of rising losses". justify the steps taken by the Government of India.

ANSWER: the decision taken by the Government of India to merge MTNL and BSNL is quite appropriate. The Government has merged the two loss incurring businesses, with a motive to:

- (i) Achieve higher economical and functional efficiency.
- (ii) Minimize possible losses.

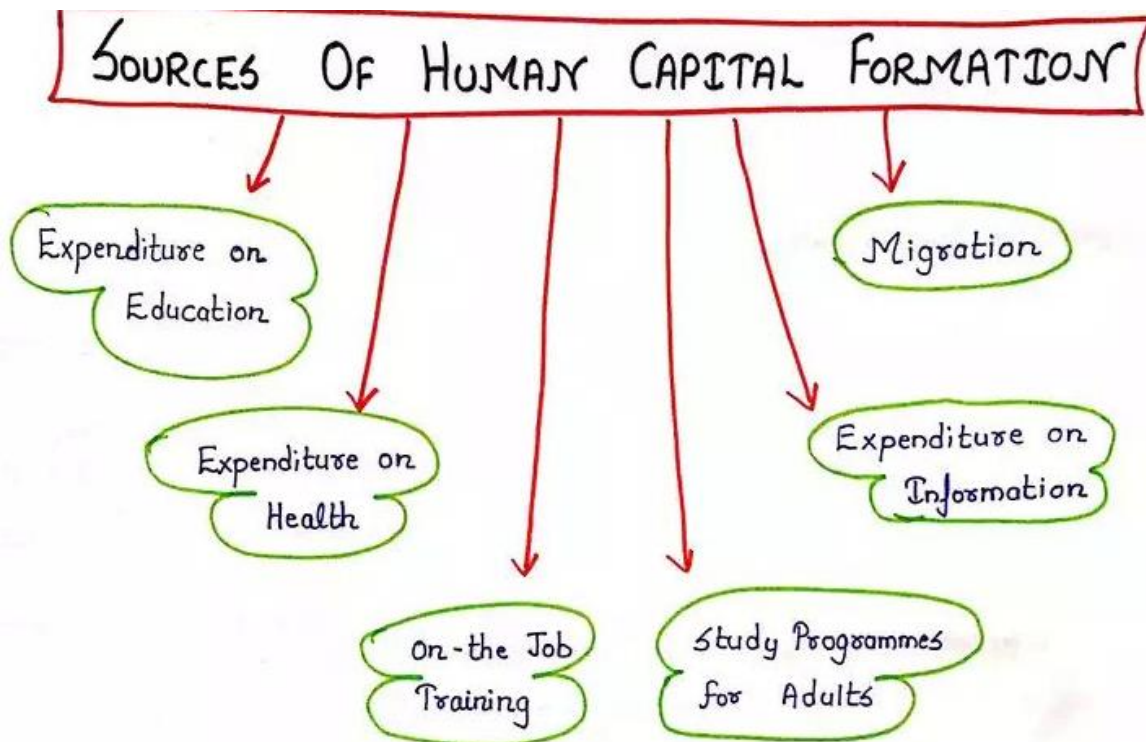
UNIT 2: CURRENT CHALLENGES FACING INDIAN ECONOMY
CHAPTER 4.
HUMAN CAPITAL FORMATION IN INDIA

Concept (Key points with explanation)

• Human capital - refers to the stock of skill, ability, expertise, education and knowledge embodied in the people.

Sources of human capital:

Observe the chart for better understanding



- Physical capital - refers to assets which themselves have been manufactured and are used for production of other goods and services.
- Human capital formation – refers to the process of addition made to the stock of skilled and capable people in the country over a period of time.

Role of human capital formation in economic growth:

- (i) Labour skill increases and more production.

- (ii) Change in emotional and physical environment of growth.
 - (iii) Improves quality of life.
 - (iv) Increase income generating capacity
 - (v) Innovative skills.
 - (vi) Raises social justice and equality.
- Problems in human capital formation:
 - (i) Rising population
 - (ii) High regional and gender inequality.
 - (iii) Brain drain
 - (iv) Insufficient man power planning.
 - (v) Insufficient on the job training in agriculture
 - (vi) High poverty levels
 - (vii) Low academic standards
 - (viii) Lack of proper manpower planning

Check the difference between physical capital and human capital:

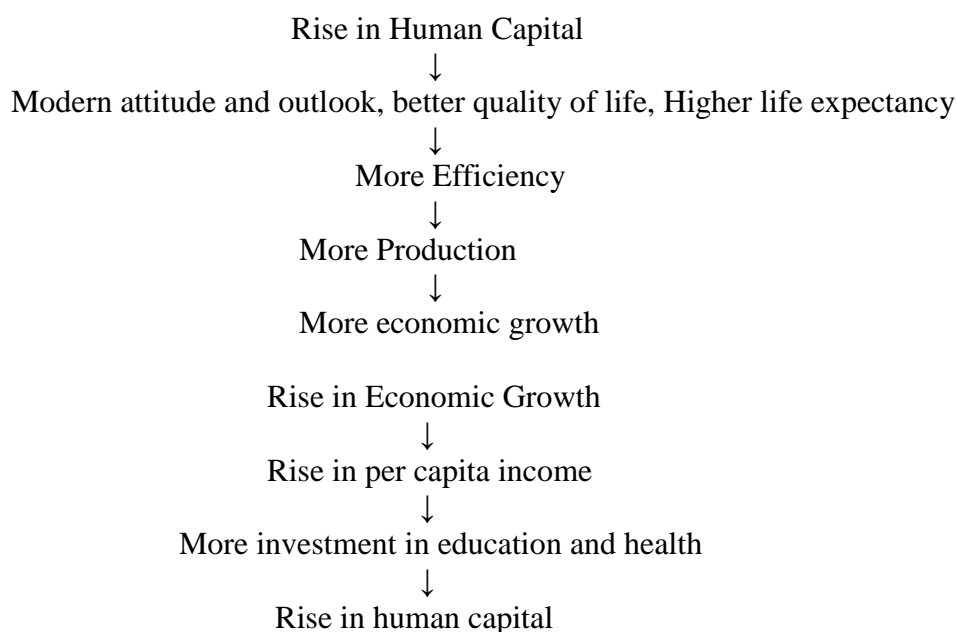
<i>Physical Capital</i>	Human Capital
➤ <i>It is tangible</i>	➤ It is intangible.
➤ <i>It is separable from its owners.</i>	➤ It cannot be separated from its owners.
➤ <i>It is perfectly mobile between the countries.</i>	➤ Its mobility is restricted by nationality and culture.
<ul style="list-style-type: none"> ➤ <i>It depreciates over time due to constant use</i> ➤ <i>or due to change in technology.</i> ➤ <i>Economic and technical process</i> 	<ul style="list-style-type: none"> ➤ It though depreciates with ageing but can be made up ➤ Through continuous investment in education and health. ➤ Partly a social process
➤ <i>It creates only private benefit.</i>	➤ It creates private benefit as well as social benefit.

Human Capital and Human Development

• Human Capital	• Human Development
<ul style="list-style-type: none"> • Human capital is comparatively a narrow concept 	<ul style="list-style-type: none"> • Human development is comparatively a broader concept
<ul style="list-style-type: none"> • It considers that health and education are the best measures to improve the productivity of the labour force. • Human beings as a measure to an end, end being the increase in productivity 	<ul style="list-style-type: none"> • It considers that health and education help in the overall development of the individual, as a healthy individual with proper education can take decisions that will help them lead a happy and healthy life. • Human beings are ends in themselves
<ul style="list-style-type: none"> • In case of human capital, health and education are not useful as long as they do not result in improved productivity. 	<ul style="list-style-type: none"> • Human development considers that human welfare is increased by having good health and proper education even if they do not result in any improvements in productivity.

- **Interrelationship between human capital formation and economic growth**

Human capital formation raises the process of Economic Growth
 Economic growth raises the process of human capital formation.



India as a knowledge economy:

India and the Knowledge Economy assesses India's progress in becoming a knowledge economy and suggests actions to strengthen the economic and institutional regime, develop educated and skilled workers, create an efficient innovation system, and build a dynamic information infrastructure.

Human capital formation in India:

- (i) The seventh five-year plan stressed upon the importance of human capital.
- (ii) In India, ministry of education at the Centre and state level, NCERT (National Council of Educational Research and Training), UGC (University Grant commission), and AICTE (All India Council of Technical Education) regulate the education sector.
- (iii) In India, Ministry of Health at the Union and the State level and ICMR (Indian Council of Medical Research) regulate the health sector.

Education sector in India

Growth in government expenditure on education:

- expenditure by the government in two ways
- percentage of total government expenditure
- percentage of GDP

Particulars		1990 (%)	2000 (%)	2005-10 (%)
Adult Literacy Rate	Male	61.9	68.4	76.7
	Female	37.9	45.4	54.9
Primary Completion Rate	Male	78	85	96
	Female	61	69	95
Youth Literacy Rate	Male	76.6	79.7	88
	Female	54.2	64.8	74

Elementary education takes major share of total expenditure.

Secondary and senior secondary education

Higher education ---- less share

EDUCATION FOR ALL IS STILL A DISTANT DREAM IN OUR COUNTRY

BUT-----

- Gender equity-----better than before
- Higher education --- a few takers

PLEASE NOTE

- o Government should increase allocation for higher education
 - o Improve the standard of higher education institutions
 - o India has a rich stock of scientific and technical manpower in the world
 - o Ensure economic growth and equity
- Focus on spread of education and health services across different sectors of society

(1 MARKS QUESTIONS AND ANSWERS)

I. MULTIPLE CHOICE QUESTIONS

1. Individuals invest in education for (choose the correct alternative)

- a. Increasing their future income
- b. Having a healthy life
- c. Improving their social status
- d. Future generation to have a better life

Answer: Increasing their future income

2. Expenditure on on-the job training is a source of capital formation because

- a. Money is spent on it
- b. It cannot be avoided
- c. It is part of CSR
- d. Labour productivity increases

Answer: Labour productivity increases

3. The cost of migration for a person includes (choose the correct alternative)

- a. Cost of transfers: port
- b. Higher cost of living in the migrated place
- c. Pain of having to live in a new place
- d. All of the above

Answer: All of the above

4. Expenditures on health and education are to be carried on by

- a. Central government
- b. State government
- c. Local government
- d. All of the above

Answer: All of the above

5. The Government expenditure on education is expressed as (choose the correct alternative)

- a. As a % of total Government expenditure
- b. As a % of GDP
- c. As a proportion of human development
- d. a & b

Answer: a & b

6. Generally education achievements in a country are indicated in terms of

- a. Adult literacy level
- b. Youth literacy level
- c. Primary education completion rate
- d. All of the above

Answer: All of the above

7. When was Right to Education Act enacted? (Choose the correct alternative)

- a. 2008
- b. 2009
- c. 2010
- d. 2012

Answer: 2009

8. Which of the following is not the role of on-the-job training?

- a. Eradicates inequality
- b. Encourages innovation
- c. Promotes modern methods
- d. Enhances productivity

Answer: Eradicates inequality

9. How much educational cess has been imposed by the government on all Union taxes?

- a. 1 %
- b. 2%
- c. 4%
- d. 5%

Answer: 2%

10. Which of the following institutes comes under the health sector? (Choose the correct alternative)

- a. NCERT
- b. UGC
- c. AICTE
- d. ICMR

Answer: ICMR

11. Which one of the following is a major source of human capital formation in the country?

- a. Expenditure on education
- b. Expenditure on infrastructure
- c. Expenditure on defense
- d. Expenditure on energy

Answer: Expenditure on education

12. The objective of midday meal scheme is (choose the correct alternative)

- a. To boost universalization of primary education
- b. to boost the nutritional status of children in schools
- c. to increase enrolment attendance and retention, and also improving the nutritional status of children in school
- d. to boost universalization of upper primary level of education

Answer: to increase enrolment attendance and retention, and also improving the nutritional

Status of Children in school

13. What percent of GDP was invested in education in the year 1952? (Choose the correct alternative)

- A. 7.92 percent
- b. 11.7 percent
- c. 0.64 percent
- d. 3.31 percent

Answer: 0.64 percent

14. Which of the following is not an example of physical capital? (Choose the correct Alternative)

- a. Machinery
- b. Raw material
- c. Building
- d. education and knowledge in people

Answer: Education and knowledge in people

15. To make a favorable impact on fertility rate (choose the correct alternative)

- a. Marriage age of girls must be raised
- b. Women education must be promoted
- c. Maternal mortality must be improved
- d. All of the above

Answer: Women education must be promoted

II. Fill in the blanks with the correct Answer: (1 mark each)

16. Human capital formation is a _____ process.

Answer: social

17. Individuals invest in education with the objective of increasing their future _____

Answer: income

18. _____ is the reason for the rural-urban migration in India.

Answer: Unemployment

19. _____ capital is completely mobile between countries.

Answer: Physical

20. India has the potential to become a leading _____ economy.

Answer: knowledge-based

21. _____ is the prime funding authority for university education.

Answer: UGC

III. State whether the following statements are true or false.

22. Education and health are the two major sources of human capital in a country.

Answer: True

23. Physical capital is inseparable from its owner.

Answer: False

24. Human capital treats humans as ends in themselves.

Answer: False

25. Higher-income leads to the development of the high level of human capital and vice-versa.

Answer: True

26. Improper planning for human capital formation has resulted in a shortage of manpower in the health and education sectors.

Answer: True

27. Elementary education takes a major share of total education expenditure in India.

Answer: True

28. The level of unemployment among educated youth is the highest.

Answer: True

Objective type question (1 mark each)

29. Which level of education takes a major share of total education expenditure in India?

Answer: Elementary

30. What was the share of education in total government expenditure in 2014?

Answer: 15.7 percent

31. What is the full form of ICMR?

Answer: Indian Council for Medical Research

32. Physical capital refers to _

Answer: Stock of tangible input of production

33. The stock of 'skill and expertise of a nation at a point of time is known as:

Answer: Human capital

34. Who is responsible for the implementation of rules and regulations for technical education in the country?

Answer: All India Council of Technical Education

35. People as a resource means _____

Answer: Country's human capital in terms of their existing productive skill

36. People of _____ age group are treated as a productive labour force.

Answer: 15 – 60

37. World Bank in its report 'India and the Knowledge Economy leveraging strengths and opportunities advised India to make a transition to _____

Answer: Knowledge economy

38. Define the term human capital formation

Answer: development of abilities and skills among the population of the country

39. What is the full form of NCERT?

Answer: national council of educational research and training

40. in which year the campaign " Beti Bachao, Beti Padhao" was launched by the government?

Answer: 2015

41. Why do we need to invest in human capital?

Answer: to increase the productive capacity of the country

42. What do the differences in male and female literacy rate indicate?

Answer: education in India is gender biased.

43. Why do individuals invest in education?

Answer: for increasing their future income.

IV. Assertion and reason based questions.

1. Read the following Statements-Assertion (A) and Reason (R). choose one of the correct alternative given below

Assertion: A Nation's true wealth is neither in its land and water, nor in forests or mines, nor in dollars

Reason: Human resources and its development is the most important for nation building and strong economic development

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option a)

2. Read the following Statements-Assertion (A) and Reason (R). choose one of the correct alternative given below

Assertion: Mobility of human capital does not impact the brain power available in an economy

Reason: Brain drain of one economy is brain gain for another

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option d)

3. Read the following Statements-Assertion (A) and Reason (R). choose one of the correct alternative given below

Assertion: Human capital also undergoes depreciation

Reason: Like physical capital, human capital also depreciates because of technological obsolescence

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c) (human capital depreciation is because of wear and tear due to ageing; it can be checked through investment in health, in-service training)

4. Read the following Statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: Human capital like physical capital benefits the owner

Reason: A professional can have a better standard of living without the society benefitting

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c) (human capital benefits the society as much as the individual, when the individual is healthy, whether the person wishes or not, it makes the society healthy by default)

5. Read the following statements-Assertion (A) and Reason (R).choose one of the correct alternative given below

Assertion: Social medicine is a source of human capital

Reason: Easy availability of medicine makes cure easy

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c) (Social medicine is investing in spread of health literacy)

6. Read the following statements-Assertion (A) and Reason (R).choose one of the correct alternative given below

Assertion: Human capital formation and human development are one and the same

Reason: When there is human capital formation there will be human development

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option d)

7. Read the following statements-Assertion (A) and Reason (R).choose one of the correct alternative given below

Assertion: Human beings need not be literate if they are not going to be human capital

Reason: Human welfare must be increased through investments in education and health even if it does not contribute to human capital

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option d)

8. Read the following statements-Assertion (A) and Reason (R).choose one of the correct alternative given below

Assertion: There is need for Government intervention in health and education

Reason: Investment in health and education are easily reversible

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c) (Once made, investment in health and education are not reversible easily, they have an immediate and long term impact)

9. Read the following statements-Assertion (A) and Reason (R).choose one of the correct alternative given below

Assertion: The rise in average education levels reduces the inequalities of income worldwide

Reason: The higher income earning capacity raises the standard and quality of living

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option a)

10. Read the following statements-Assertion (A) and Reason (R).choose one of the correct alternative given below

Assertion: The education pyramid of India is one of a steep pyramid

Reason: Our tertiary education is too well developed whereas the primary education is lagging

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c)

11. Read the following Statements-Assertion (A) and Reason (R). choose one of the correct alternative given below

Assertion: components of human capital and human developments are complementary to Each other

Reason: expenditure on components of human capital leads to human development.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option a)

12. Read the following Statements-Assertion (A) and Reason (R). choose one of the correct alternative given below

Assertion: Human Capital formation gives birth to innovation, invention and technological improvements.

Reason: Investment in education creates the ability to adopt new technologies, facilitate invention and innovations since an educated work force generally adopts to modern technologies and innovations.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option a)

13. Read the following Statements-Assertion (A) and Reason (R). choose one of the correct alternative given below

Assertion: expenditure on education and health are key determinants of human capital formation.

Reason: Human capital formation is ongoing and a continuous process.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option b)

14. Read the following Statements-Assertion (A) and Reason (R). choose one of the correct alternative given below

Assertion: On the job training is a source of human capital formation.

Reason: After on the job training of employees, firm insist that workers should work for a specific period of time.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option b)

15. Read the following Statements-Assertion (A) and Reason (R). choose one of the correct alternative given below

Assertion: Education contributes to economic growth.

Reason: Education confers higher earning capacity on people.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option a)

16. Read the following Statements-Assertion (A) and Reason (R). choose one of the correct alternative given below

Assertion: The spread of education is necessary to control the population growth rate.

Reason: Human Capital formation decreases the quality of life.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c)

17. Read the following Statements-Assertion (A) and Reason (R). choose one of the correct alternative given below

Assertion: The facilities for the formation of human capital have remained adequate.

Reason: The resources allocated to human capital formation have been much less than the resources required.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option d)

CASE STUDY QUESTIONS

Read the given text and Answer the following questions

Both forms of capital formation are the outcomes of conscious investment decisions. The decision regarding investment in physical capital is taken on the basis of one's knowledge in this regard. The ownership of physical capital is the outcome of the conscious decision of the owner the physical capital formation is mainly an economic and technical process.

Human capital formation takes place in one's life when she/he is unable to decide whether it would maximize her/his earnings. Children are given different types of school education and health care facilities by their parents and society. Moreover, the human capital formation at this stage is dependent upon the already formed human capital at the school level. Human capital formation is partly a social process and partly a conscious decision of the possessor of the human capital.

1. Which of the following does not correctly differentiate between the physical and human capital?

- a) Human capital is intangible whereas physical capital is tangible.
- b) Human capital can cope up with the changing technology whereas physical cannot.
- c) Human capital generates both personal and societal benefits whereas physical capital generates only personal benefit.
- d) Human capital gets obsolete with time whereas physical capital does not.

Answer: – d) Human capital gets obsolete with time whereas physical capital does not.

2. In the context of the paragraph, it can be argued that human capital depreciates faster than the physical capital. The given statement is:

- a) True
- b) false
- c) Partially true
- d) can't comment due to lack of proper estimation mechanism

Answer: b) false

3. Machines and industrial tools are examples of _

- a) Physical capital
- b) Human capital
- c) Both physical and human capital
- d) Natural capital

Answer: a) Physical capital

4. Investment in education by parents is the same as _____

- a) Investment in intermediate goods by companies
- b) Investment in CSR activity by companies
- c) Investment in capital goods by companies
- d) None of the above

Answer: – c) Investment in capital goods by companies

Read the following text carefully and Answer the questions that follow:

People spend to acquire information relating to the labour market and other markets like education and health. This information is necessary to make decisions with reference to investment in human capital and its efficient utilization. Thus, expenditure incurred for acquiring information relating to the labour market and other markets is also a source of human capital formation.

1. Which of the following is the source of human capital formation in India?

- a) Health
- b) Migration
- c) Acquiring information
- d) All of these

Answer: – d) All of these

2. Education provides-----

- a) Private benefit
- b) Social benefit
- c) Both a) and b)
- d) None of these

Answer: – c) Both a) and b)

3. ___ persons contribute more to the growth of an economy.

- a) Educated
- b) Healthy
- c) Both a) and b)

d) None of these

Answer: – c) Both a) and b)

4. Training given by a company to its employees is generally_____

- a) Investment
- b) Social wastage
- c) Both a) and b)
- d) None of these

Answer: – a) Investment

Read the following case study carefully and Answer the questions that follow.

Human capital, intangible collective resources possessed by individuals and groups within a given population. These resources include all the knowledge, talents, skills, abilities, experience, intelligence, training, judgment, and wisdom possessed individually and collectively, the cumulative total of which represents a form of wealth available to nations and organizations to accomplish their goals. The concept of human capital stems from the economic model of human resource capitalism, which emphasizes the relationship between improved productivity or performance and the need for continuous and long-term investments in the development of human resources. Investments in human capital are viewed as affecting national and global economic performance or, more narrowly, where investments in people are viewed as crucial to organization performance. For an organization, this model suggests that high productivity and performance depend on developing learning systems that reflect the commitment of an organization to its human resources. As a result, ongoing investments in training, skill development, and job enrichment engender a reciprocal commitment among members to organizational goals and objectives.

1. The stock of skill and expertise of a nation at a point of time is called _____ Capital.

- a) Real
- b) Physical
- c) Human
- d) None of these

Answer: – c) Human

2. Which of the following is not a source of Human Capital Formation?

- a) Education
- b) Saving
- c) Health
- d) Information

Answer: – b) Saving

3. _ is based on the idea that education and health are integral to human well-being.

- a) Economic Development
- b) Human Development
- c) Social Growth
- d) None of these

Answer: – b) Human Development

4 _____ is/are the reason for rural-urban migration in India.

- a) Unemployment
- b) Health facilities
- c) Money
- d) All of these

Answer: – a) Unemployment

Read the following case study carefully and Answer: the questions that follow.

In a knowledge economy, human intellectual is the key engine of economic enhancement. It is an economy where members acquire, create, disseminate and apply knowledge for facilitating

economic and social development The World Bank has spoken of knowledge economies by associating it to a four - pillar framework that analyses the rationales of a human capital based economies:

- An educated and skilled labour force: The establishment of a strong knowledge-based economy required workers to have the ability to continuously learn and apply their skills to build and practice knowledge efficiently.
- A dense and modern information infrastructure: is of the easy access to the information and communication technology (ICT) resources in order to overcome the barrier of high transaction cost, and to facilitate the effectiveness in interacting, disseminating and processing the information and knowledge resources.
- An effective innovation system: a great level of innovation within firms, industries, and countries to keep up with the latest global technology and human intelligence so as to utilize it for the domestic economy

Institutional regime that supports incentives for entrepreneurship and the use of knowledge: An economy system should offer incentives to allow for better efficiency in mobilizing and allocating resources, together with encouraging entrepreneurship.

1. What do you understand by knowledge economy?

Answer: An economy which apply knowledge (ICT) for facilitating economic and social development of a nation

2. In its report the World Bank state that India should make a transition to the knowledge economy. Why?

Answer: India has a large number of skilled workers, and diversified science and technology infrastructure

3. What are the two independent reports on Indian economy that have identified that India would grow faster due to its strength in human capital formation

Answer: Report by Deutsche bank and (global growth center's) and report by World Bank (India and the knowledge economy)

(3/4 MARKS QUESTIONS AND ANSWERS)

1. Why do we observe regional differences in educational attainment in India?
Regional differences in educational attainment in India are due to:
Regional Inequality in income
Differences in Expenditure by the government on development of education facilities.
2. What factors contribute to human capital formation?
Or
What are the Sources of Human Capital Formation?
 - Expenditure on Education
 - Expenditure on job Training
 - Expenditure on Health
 - Expenditure on Migration
 - Expenditure on Information
3. How is human development a broader term as compared to human capital?
Human capital is a narrow concept which treats human beings as a means to achieve an end which is higher productivity, failing which the investment is not considered to be productive.

Human development is a broader concept which considers human beings as ends in themselves. Human welfare can be achieved through investments in education and health. It considers welfare—a right of every individual irrespective of their contribution to labour productivity. Every individual has right to be literate and lead a healthy life.

4. Education is considered an important input for the development of a nation. How?

Or

Examine the role of education in the economic development of a nation.

Expenditure on education is an important source of capital formation. Education is an important source of human capital formation, because:

It generates technical skills and creates a manpower which is suited for improving labour productivity. It, thus, results in sustained economic development.

It tends to bring down birth rate which, in turn, brings decline in population growth rate. It makes more resources available per person.

It results in social benefits since it spreads to others who may not be skilled. Thus, investment in education leads to higher returns in future.

5. Establish the need for acquiring information relating to health and education expenditure for the effective utilization of human resources.

People need to have information on the cost and benefit of investment in health and education. When people know the benefits of their investment in these two areas, they make more expenditure. The result is more human capital formation.

6. How does investment in human capital contribute to growth?

Role of Human Capital Formation in Economic Growth:

- Raises Production.
- Raises Efficiency and Productivity
- Brings Positive Changes in Outlook and Attitudes
- Improves Quality of Life
- Raises Life Expectancy
- Raises Social Justice

7. ‘There is a downward trend in inequality world-wide with a rise in the average education levels. Comment.

This is true, because education makes everyone equal and they earn similar salaries.

It reduces inequalities of income worldwide.

8. Explain how investment in education stimulates economic growth.

(Or)

Explain the role of education in the development of a country.

Education is an important source of human capital formation. Investment in education stimulates economic development in the following ways:

- Raises production. Knowledgeable and skilled workers can make better use of resources at their disposal. It will increase production in the economy. An educated and trained person can apply his knowledge and skill at farm, factory and office to increase production.
- Raises efficiency and productivity. Investment in education increases efficiency and productivity, and hence yields higher income to the people.
- Brings positive changes in outlook and attitudes. Knowledgeable and skilled people have modern
- Improves quality of life. Education improves quality of life as it provides better job, high income and improves health. It results in better standard of living.

9. Bring out the need for on-the-job-training for a person.

Technical training adds to the capacity of the people to produce more.

Firms give on-the-job- training to enhance the productive skills of the workers so as to enable them to absorb new technologies and modern ideas. It can be given in two forms: The workers may be trained in the firm itself under the assistance of a senior and experienced worker.

The workers may be sent off the firm campus for the training.

10. Discuss the need for promoting women's education in India.
Women Education Council has been set up to provide technical education to the women. It has set up many women polytechnics. It is essential to promote women's education in India to:
 - Improve women's economic independence and their social status.
 - Make a favorable impact on fertility rate and health care of women and children.
11. Argue in favor of the need for different forms of government intervention in education and health sectors.
Government intervention in education and health sectors is necessary because of the following reasons:
 - Education and health care services create both private as well as social benefits. Both private and public institutions are needed to provide these services and government must keep its control on them.
 - Expenditure on education and health institutes are important for the growth of a nation. The private providers of education and health services need to be regulated by the government
 - Ensure that private providers of these services adhere to the standard stipulated by the government and charge the correct price
12. In your view, is it essential for the government to regulate the fee structure in education and health care institutions? If so, why?
Yes, government intervention is necessary in regulating the fee structure in education and health care institutions: because:
 - to maintain uniformity
 - to have accountability
 - To help poorer people.
13. List the benefits of education.
Following are the benefits of education:
 - (i) It gives a better social status and pride.
 - (ii) It enables wise decision-making.
 - (iii) It enhances social outlook and develops understanding to accept the changes taking place in society.
 - (iv) It stimulates innovations and facilitates adaptation of new technologies.
14. Discuss the need for human capital.
The population of the nation takes charge of all economic activities such as production, distribution and consumption. Human capital, therefore, may be recognized as one of the production factors, which can generate additional values. An economy needs sufficient human capital in the form of educated, trained and competent people to function and accomplish its goals. As we move deeper into a knowledge-based economy that depends on information, knowledge and high-level skills, human capital becomes increasingly important.
15. What are the different forms of health expenditure?
The different forms of health expenditure include expenditure on:
 - Preventive medicine – vaccination eg: Covid Vaccine

- Curative medicine – health care practices that are used to treat patients with the intent of curing them, not just reducing their pain
 - Social medicine – medical practices concerned with the role of social factors in the occurrence, prevention and treatment of disease
 - Provision of clean drinking water
 - Good sanitation
16. Discuss the need for expenditure on information as a source of human capital.
People need to incur expenditure in order to acquire information related to equity markets, labour markets, education, health and other related markets. For instance, expenditure is incurred while collecting information related to education such form fees, transportation cost, consultancy fee, etc. Information plays an important role in making decisions regarding investments in human capital.
Moreover, expense is incurred for efficient utilization of the acquired stock of human capital. The money spent on obtaining information related to any kind of markets is a source of human capital formation.
17. Higher income leads to high level of human capital.” Comment
Higher income leads to development of high level of human capital and vice versa. In other words, high level of human capital leads to growth of income. It is believed that even a large population, which is trained and educated, can become an asset in accelerating economic growth and ensuring social change in desired directions.
However, it is difficult to establish a relation of cause and effect from the growth of human capital to economic growth as the rate of growth of human capital in developing countries has been faster than the rate of growth of per capita real income.
18. Discuss India’s potential as a knowledge economy.
India has the potential to become a leading knowledge-based economy. With its youth population and growing information and communication technology (ICT) industry, India can become a major global knowledge-based economy. However, there is a need for measures such as:
- Supportive laws
 - Improved infrastructure
 - Removal of barriers to trade and investment
 - Up-skilling of labour force
 - Higher spending in research and development
 - Innovative financing for small businesses and enterprises
- A shift to knowledge-based growth would help developing country like India. The Indian software industry has been showing an impressive record over the past decade
19. Give an account of government’s expenditure on education.
During 1952-2012, education expenditure as percentage of total government expenditure increased from 7.92 to 11.7. As percentage of GDP, expenditure on education increased from 0.64% to 3.31% over the same period. However, the increase in education expenditure has not been uniform. The share of elementary education is the highest in the total education expenditure while that of higher/ tertiary education is the least.
20. What initiatives have been taken by the government to provide equal access of education to all?
The following initiatives have been taken by the government to provide equal access of education. The Government of India enacted the ‘Right to Education Act’ in 2009 to make free education a fundamental right of all children in the age group of 6-14 years.

Government of India has started levying a 2 per cent 'education cess on all Union taxes. The revenue earned from education has been earmarked for spending on elementary education. In addition, the government sanctions a large outlay for the promotion of higher education. New scheme for students' loan for pursue higher education.

21. 'School dropouts are giving way to child labour.' Discuss how this is a loss of human capital.

It is a reality that most families in our society is not able to provide standard education to their children due to many reasons such as poverty, unemployment etc. Poverty forces many children into work. Child labour includes work that deprives children of their childhood and is harmful to their mental and physical Development. School dropouts prevent children from getting equipped with literacy skills and give way to child labour. These children generally work at dhabas, houses and construction sites. Being illiterate further propels the poverty cycle and hence, the process of human capital formation remains.

(6 MARKS QUESTIONS AND ANSWER)

1. Bring out the differences between human capital and human development.
Difference between Human Capital and Human Development

Human Capital

Human capital considers education and health as a means to increase labour productivity.

Human capital is a narrow concept which treats human beings as a means to achieve an end which is higher productivity, failing which the investment is not considered to be productive.

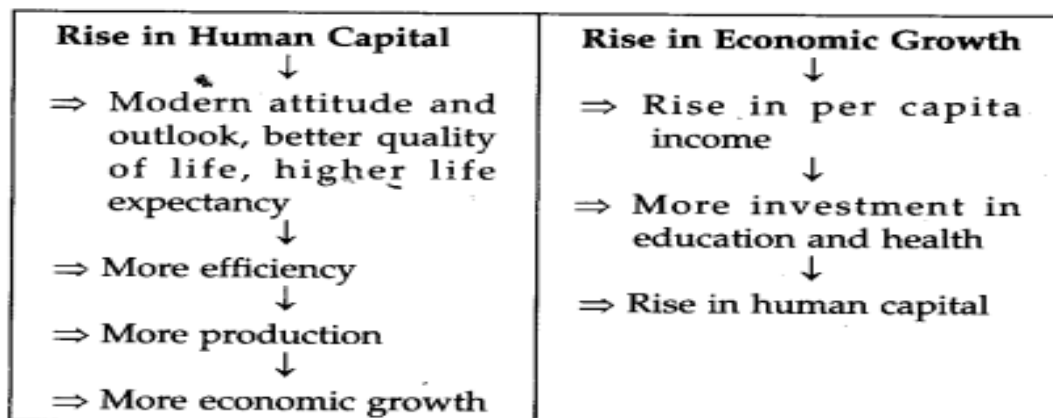
Human Development

Human development is based on the idea that education and health are integral to human well-being since only when people have the ability to read and apply their knowledge to derive maximum benefit they will be able to lead a long and healthy life. Human development is a broader concept which considers human beings as ends in themselves. Human welfare can be achieved through investments in education and health. It considers welfare — a right of every individual irrespective of their contribution to labour productivity. Every individual has right to be literate and lead a healthy life

2. Discuss the following 'sources of human capital formation'
(a) Health infrastructure
(b) Expenditure on migration.

- **Health Infrastructure.** Health is an important source of human capital formation. Preventive medicine (vaccination), curative medicine (medical intervention during illness), social medicine (spread of health literacy) and provision of clean drinking water and good sanitation are the various forms of health expenditure. Health expenditure directly increases the supply of healthy labour force and the productive capacity of a healthy person will be more than an unhealthy person. thus expenditure on health is a source of human capital
- **Migration.** People sometimes migrate from one place to the other in search of better job. It includes migration of people from rural areas to urban areas in India and migration of technical personnel from India to other countries of the world. Migration in both these cases involves cost of transport, higher cost of living in the migrated places and psychic costs of living in a strange socio-cultural set-up. The enhanced earnings in the new place outweigh the costs of migration. Expenditure on migration is also a source of capital formation.

3. Trace the relationship between human capital and economic growth.
Human capital formation raises the process of economic growth and economic growth raises the process of human capital formation. There is a cause and effect relationship between human capital and economic growth. It is shown in the figure.



4. What are the main problems of human capital formation in India?
Main problems of human capital formation in India are:
- **Rising Population.** Rapidly rising population adversely affects the quality of human capital formation in developing countries. It reduces per capita availability of existing facilities. A large population requires huge investment in education and health. This diverts the scarce money to production of human capital at the cost of physical capital.
 - **Long Term Process.** The process of human development is a long term policy because skill formation takes time. The process which produces skilled manpower is thus slow.
 - **High Regional and Gender Inequality.** Regional and gender inequality lowers the human development levels.
 - **Brain Drain.** Migration of highly skilled labour termed as “Brain Drain” adversely affects the economic development.
 - **Insufficient on-the-job-training in agriculture.** Agriculture sector is neglected where the workers are not given on-the-job training to absorb emerging new technologies.
 - **High Poverty Levels.** A large proportion of the population lives below poverty line and do not have access to basic health and educational facilities. A large section of society cannot afford to get higher education or expensive medical treatment for major disease.
5. What are the advantages of human capital formation?
The following are the advantages of human capital formation:
- It increases efficiency and income generating capacity of labour
 - It improves technical knowledge.
 - It enlarges the size of business.
 - It increases the level of production.
 - It changes social outlooks.
 - It decreases cost of production.
6. Differentiate between human capital and physical capital.
Following are the points of difference between human capital and physical capital:

Physical Capital

1. Physical capital formation is an economic and technical process.
2. Physical capital is separable from its owner.
3. The owner of a physical capital need not be present at the place where it is being used.
4. Physical capital is tangible and can be easily sold in the market.
5. Physical capital is completely mobile between countries except in case of some artificial trade restrictions.
6. Continuous use of machines leads to wear and tear and depreciation.
7. Benefits of physical capital flow only to those who pay the price for the product and services produced by it. That is, physical capital creates only private benefit.

Human Capital

- Human capital formation is partly a social process and partly a conscious decision of the possessor of the human capital.
- Human capital is inseparable from its owner.
- The owner of human capital needs to be present at the place of use.
- Human capital is intangible. It is built in the body and mind of the owner.
- Human capital is not perfectly mobile between countries as movement is restricted by nationality and culture.
- Depreciation also takes place in case of human capital in the form of ageing. However, it can be reduced through continuous investment in health and education.
- Human capital creates external benefit. That is, it benefits not only the owner but also the society in general.

7. Explain the various sources of human capital.
Following are the sources of human capital:
(i) Education: Investment in education is considered as one of the source of human capital. Without education, human beings have only brutal manpower, in the form of physical labour. Investment in education gives human beings additional skills to do the same job.
It converts human beings into human capital, which enhances the labour productivity. This investment in education will ultimately increase the income of human beings in future.
(ii) Health: Health is another significant source of human capital. The health of a person affects human capital. A sick person, without access to medical facilities, is compelled to abstain from work and there is a loss of productivity. Expenditure on health directly increases the supply of healthy labour force and hence, a source of human capital formation. The various forms of health expenditure are:
 - Preventive medicine such as vaccination
 - Curative medicine such as interventions during illness

- Social medicine such as spread of health literacy
- Provision of clean drinking water
- Good sanitation

(iii) On-the-job Training: Firms incur expenditure on providing on-the-job training to their workers. Training imparts technical skills and know-how among the workers while working at the actual work site. On-the-job training helps in enhancing the productivity of the workers and facilitates better utilization of raw materials. It enables workers to absorb values and standards of an organization. The workers may be trained by either of the following two methods:

- Training within the firm under the supervision of a skilled worker
- Off-campus training

(iv) Migration: People migrate in search of jobs that fetch them higher salaries than what they may get in their native places. For instance, engineers and doctors migrate to other countries for higher salaries that they may get in such countries.

Migration involves transportation cost, higher cost of living in the migrated place and psychic cost of living in an unknown socio-culture setup. However, the increased earnings at the new place outweigh the cost of migration. Hence, expenditure on migration is also a source of human capital formation.

(v) Labour Market Information: People need to incur expenditure in order to acquire information related to equity markets, labour markets, education, health and other related markets. For instance, expenditure is incurred while collecting information related to education such form fees, transportation cost, consultancy fee, etc.

Information plays an important role in making decisions regarding investments in human capital. Moreover, expense is incurred for efficient utilization of the acquired stock of human capital. The money spent on obtaining information related to any kind of markets is a source of human capital formation.

8. Explain the role of human capital formation in economic development.

The role of human capital formation in economic development is discussed below:

(i) Increase in the Efficiency of Labour: Investment in human capital through education, health, training, etc. increases the efficiency of labour. This, in turn, helps in achieving the path of economic development.

(ii) Enlarged Size of Business: The size of business can be enlarged by efficient entrepreneurs and innovators. An entrepreneur becomes efficient by investment in human capital and this efficiency ultimately leads to economic development.

(iii) Increase in Production: Increase in the total output produced by a country leads to economic development. Human capital formation produces able and efficient persons who use their knowledge, skills and efficiency to increase the production.

(iv) Change in Social Outlook: Spread of education and health facilities enhances social outlook and develops understanding to accept the changes taking place in society. These positive changes also contribute significantly towards economic development.

(v) Reduced Production Cost: Reduction in the production cost is essential for the economic development. Human capital formation helps to decrease the production cost.

9. Briefly describe the two reports that point out the fact that further human capital formation in India will move its economy to a higher growth level.

In recent times, two independent reports on the Indian economy have identified that India would grow faster due to its strength in human capital formation.

(i) A report – ‘Global Growth Centers’- published by Deutsche Bank, A German bank identified that India will emerge as one among four major growth centers in the world by the year 2020.

The report states the view that increase in human capital are crucial to achieving increases in GDP and hence, it states that between 2005 and 2020 we expect a 40 per cent rise in the average years of education in India.

(ii) World Bank's in its recent report, 'India and the Knowledge Economy Leveraging Strengths and Opportunities', states that India should make a transition to the knowledge economy.

According to the report, Indian economy has all the main ingredients required for making this transition such as, a critical mass of skilled workers, a well-functioning democracy and a diversified science and technology infrastructure. Moreover, it is expected that the per capita income of India will increase from approximately US \$ 1000 in 2002 to US \$ 3000 in 2020 if it uses its knowledge as much as Ireland does.

10. What are the objectives and functions of NCERT, UGC, AICTE and ICMR?

The objectives and functions of different organizations are as below:

(i) National Council of Educational Research and Training (NCERT): NCERT is an autonomous organization set up in 1961 by the Government of India to assist and advise the Central and State Governments on policies and programmes for qualitative improvement in school education.

(ii) University Grants Commission (UGC): The UGC, set up in 1953, has the unique distinction of 'being the only grant-giving agency in the country, which has been vested with two responsibilities:

providing funds and coordinating, determining and maintaining standards in institutions of higher education.

(iii) All India Council for Technical Education (AICTE): AICTE was set-up in November 1945 as a national level apex advisory body to conduct survey on the facilities on technical education and to promote development in the country in a coordinated and integrated manner.

(iv) Indian Council of Medical Research (ICMR): The Indian Research Fund Association (IRFA), re-designated as ICMR in 1949 in New Delhi, is the apex body in India for the formulation, coordination and promotion of biomedical research. It is one of the oldest medical research bodies in the world.

11. Suggest measures to reduce problems of human capital formation.

The following measures may be adopted to reduce the problems of human capital formation in India:

(i) **More Emphasis on Technical Education:** Technical education makes a person income earner soon. On the other hand, college or university education is increasing the number of unemployed; therefore, more emphasis may be given on technical education to reduce the problem of human capital formation.

(ii) **Need for Government-run Programmes in Education and Health Sector:** For the removal of different problems of human capital formation, there is a need for the different forms of. Government intervention in the education and health sector. In this regard, government has started many programmes in education sector such as Sarva Shiksha Abhiyan (SSA), Mid Meal Scheme, Kasturba Gandhi Balika Vidyalaya (KGBV), Parambhik Shiksha Kosh (PSK), etc. The main objective of these programmes is to make universal access education to all. In the health sector government has also started many disease control programmes.

(iii) **Regulation of Fees Structure in Education and Health Care Institutions:** it is very essential for the government to regulate the fees structure in education and health care institutions.

(iv) **Change in Educational System:** For the success of human capital formation, basic changes and improvements in educational system are essential. Technical and secondary education should be compulsory and more focus on higher education.

(v) **Compulsory Secondary Education:** For the success of human capital formation, secondary education should be compulsory to all, which will definitely help in increasing the productivity and efficiency of the people

(vi) **Proper Motivation.** For the success of human capital formation programmes, proper motivation is required. This will help the people to adopt modern techniques of production.

To conclude, for the development of any country, human capital formation is very important. Government of India is also investing a lot in the field of education and health for human capital formation.

QUESTIONS FOR PRACTICE

- 1." Human capital formation gives birth to innovation, invention and technological improvements". Support your Answer with valid points
2. Discuss the educational achievements in India
3. How does human capital create both private and social benefits?
4. Explain the various education scheme initiated by the government to achieve its dream of "Education for all"
5. Explain the concept of physical capital
6. What role can the government play in human capital formation in India?
7. Enlist the various sources that provide information regarding education, health, labour

CHAPTER 5 RURAL DEVELOPMENT

Rural development means a plan of action for the development of rural areas which are lagging behind in socio economic development

The key issues in Rural Development

- Development of human resource including literacy more specifically female literacy, education and skill development
- Land reforms
- Development of the productive resources of each locality
- Infrastructural development
- Special measures for alleviation of poverty

Importance of credit in rural development

- Growth of rural economy depends primarily on infusion of capital, from time to time, to realize higher productivity in agriculture and non-agriculture sectors
- As the time gestation between crop sowing and realization of income after production is quite long, farmers borrow from various sources to meet their initial investment on seeds, fertilizers, implements, and other family expenses of marriage, death religious ceremonies etc.

Sources of rural credit

Sources of rural or agricultural credit are broadly classified as

- i. Non- institutional

ii. Institutional

Non-institutional sources- This includes (i) land lords (ii)village traders and (iii) money lenders are three important source of non-institutional rural credit in India. Traditionally, most credit needs of the farmers were met through these sources. They charge high rate of interest

Institutional sources- The institutional sources include (i) government (ii) cooperatives, (iii) commercial banks and (iv) the regional rural banks. Presently the 66% of rural credits are met by institutional sources

Brief description of some important institutional agencies offering rural credit in India

1. **Cooperative credit societies** - The cooperative credit societies provide adequate credit to the farmers at reasonable rate of interest. These societies also provide guidance in diverse agricultural operations with a view to raising productivity. Currently cooperatives account for 16-17% of rural credit flow
2. **Commercial banks-** The commercial banks like SBI is also focus on rural credit. After the nationalization of commercial banks in 1969, they were directed to offer credit directly
3. **Regional rural banks and land development banks-** Regional **Rural** Banks and **Land** development banks were set up to promote credit supplies, particularly in the remote areas and backward districts. These banks operate at the district level and are under obligation to focus on credit needs of weaker sections of the rural population
4. **National Bank for Agricultural and Rural Development (NABARD)-** NABARD is an apex institution handling policy, planning and operations in the field of rural credit and related economic activities. It was set up in 1982. Its main functions are
 - To serve as an apex funding agency for the institutions providing rural credit
 - To take appropriate measures to improve credit delivery system
 - To coordinate the rural financing activities of all credit institutions and maintain liaison with Government of India, RBI, and other national level institutions concerned with policy formulation

Rural banking or credit system – a critical evaluation

Positive effects-

- Rapid expansion of the rural banking system had a positive effect on rural farm and non-farm output, income and employment, especially after green revolution-it helped farmers to avail services and credit facilities and variety of loans for meeting their production needs
- We have now achieved food security which is reflected in the abundant buffer stocks of grains

Limitations/Drawbacks

- Except commercial banks, other formal institutions have failed to develop a culture of deposit mobilization- lending to worthwhile borrowers and effective loan recovery
- Agriculture loan default rates have been chronically high. It is alleged that farmers are deliberately refusing to pay back loans.

Suggestions to improve rural credit system

- Banks need to change their approach from just being lenders to building up relationship banking with the borrowers
- Inculcating the habit of thrift and efficient utilization of financial resources needs to be enhanced among the farmers too.

Role of Self-Help Groups (micro credit) in meeting credit requirements of poor

- Self-help groups is a small group of 15-20 people formed to mutually help each other. Self-Help groups help in promoting self-employment, credit awareness and saving. Banks in India support SHGs by means of bank linkage programme
 - The SHGs promote thrift in small proportions by a minimum contribution from each member
 - From the pooled money credit is given to the needy members to be repayable in small installments at reasonable interest rates
 - SHGs have helped in the empowerment of women
- Limitation-** It is alleged that the borrowings are mainly confined to consumption purposes rather than productive investment.

Kudumbashree is a women oriented community based poverty reduction programme being implemented in Kerala. In 1995, a thrift and credit society was started as a small saving bank for poor women with the objective to encourage savings. The thrift and credit societies mobilized Rs.1 crore as thrift saving. These societies have been acclaimed as the largest informal banks in Asia in terms of participation and savings mobilized

Agricultural marketing.

Agricultural marketing is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.

Some obstacles that hinder the mechanism of agricultural marketing

- Prior to independence, farmers while selling their produce to traders, suffered from faulty weighing and manipulation of accounts.
- Farmers who did not have the required information on prices prevailing in the markets were often forced to sell at lower prices.
- They also did not have proper storage facilities to keep back their produce for selling later at a better price.

Measures taken by the government to improve agricultural marketing

- 1. Regulation of markets-** The first step was to create orderly and transparent marketing conditions. By and large this policy benefited farmers as well as consumers.
- 2. Provision of physical infrastructure-** Second component is provision of physical infrastructure facilities like roads, railways, warehouses, godowns, cold storage and processing units.
- 3. Cooperative marketing-** Cooperative marketing, in realizing fair prices for farmer's product is the third aspect of government initiatives. The success of milk cooperatives in Gujarat is the testimony to the role of cooperatives.
- 4. Policy instruments-** The fourth element is the policy instruments like:
 - a. Assurance of minimum support prices for agricultural products

- b. Maintenance of buffer stocks of wheat and rice by Food Corporation of India
- c. Distribution of food grains and sugar through Public Distribution System

Drawbacks of measures taken to improve agricultural marketing

- There is still need to develop about 27000 rural periodic markets as regulated market places to realize the full potential of rural markets
- The current infrastructure facilities are quite inadequate to meet the growing demand and need to be improved
- Despite government intervention, private trade dominates agricultural markets

Alternate marketing channels for agriculture marketing

It has been realized that if farmers directly sell their produce to consumers, it increases their income. Some examples are

- Apni Mandi (Punjab, Haryana, Rajasthan)
- Hadaspar Mandi (Pune)
- Rythu Bazars (Andhra Pradesh and Telangana)
- Uzhavar Sandies (Tamil Nadu)

Agricultural Diversification- Agricultural diversification refers to the re- allocation of some of farm productive resources into new activities or crops reducing market risk

Agricultural diversification includes two aspects

- Change in cropping pattern
- Shift of workforce from agriculture to other allied activities

Need of agricultural diversification- It is essential for sustainable livelihoods

- The need for diversification arises from the fact that there is greater risk in depending exclusively on farming for livelihood
- It is necessary to reduce risk from agriculture sector and also to provide productive sustainable livelihood options to rural people
- As many agricultural employment activities are concentrated in Kharif season only, expansion into other sectors is essential to provide supplementary gainful employment and in realizing higher levels of income for rural people to overcome poverty

Role of non-farm employment in providing rural diversification

Non-farm sectors have the following subsectors:

1.The dynamic sub-sectors that permit healthy growth: The dynamic subsectors include agro processing industries, food processing industries, leather industry, tourism, etc.

2.Other sectors are in subsistence, low productivity propositions: Those sectors which have potential but seriously lack infrastructure and other support include traditional home based industries like pottery, crafts, handlooms etc.

Diversification of productive activities- Finding options of sustainable livelihood (other than crop farming an important emerging challenge of rural development in India. Some possible options are discussed below:

1. Animal husbandry

- a) Livestock production provides increased stability in income, food security, transport, fuel and nutrition for the family without disrupting other food producing activities.

- b) Today livestock sector alone provides alternate livelihood options to over 70 million small and marginal farmers including landless labour.
- c) A significant number of women also find employment in the livestock sector.
- d) Poultry accounts for the largest share with 58 percent of livestock in India.
- e) Though in terms of numbers our livestock population is quite impressive but its productivity is quite low as compared to other countries.

Measures to increase livestock productivity

- a) It requires improved technology and promotion of good breeds of animals to enhance productivity
- b) Improved veterinary care and credit facilities to small and marginal farmers and landless labour would enhance sustainable livelihood options through livestock production

Performance of the Indian Dairy sector

- Milk production in the country has increased by more than 8 times between 1951-2014. This can be attributed mainly due to successful implementation of **Operation Flood or white revolution ((The revolution associated with sharp increase in milk production in the country)**
- **Operation Flood** is a system whereby all the farmers can pool their milk produced according to different grading and the same is processed and marketed to urban centers through cooperatives
- In this system the farmers are assured of a fair price and income from the supply of milk to urban markets

2.Fisheries

- Presently fish production from inland sources contribute about 64 % to the total value of fish production and the balance 36% comes from the marine sector
- Even though women are not involved in active fishing, about 60 % workforce in export marketing and 40 % in internal marketing are women
- Total fish production accounts for 0.8 per cent of GDP
- In India West Bengal, Andhra Pradesh, Kerala, Gujarat, and Tamil Nadu are major fish producing states

Problems faced by fishery sector

- A large share of fish worker families are poor.
- Rampant underemployment, low per capita earnings, absence of mobility of labour to other sectors and a high rate of illiteracy and indebtedness are some of the major problems fishing communities face today

Suggestions to improve Fishery sector

- There is need to increase credit facilities through cooperatives and SHGs for fisherwomen to meet the working capital requirements for marketing
- Problems related to over-fishing and pollution need to be regulated and controlled.

3. Horticulture

- Blessed with a varying climate and soil conditions, India has adopted growing of diverse horticultural crops such as fruits vegetables, tuber crops, flowers, medicinal and aromatic plants, spices and plantation crops.

- These crops play a vital role in providing food and nutrition, besides addressing employment concern.
- Horticulture has emerged as a successful sustainable livelihood option. It contributes nearly one –third of the value of agriculture output and 6 per cent of GDP of India.
- India has emerged as a world leader in producing variety of fruits like mangoes, bananas, coconuts cashew nuts and a number of spices and is the second largest producer of fruits and vegetables.

Requirements for enhancing the role of horticulture

- Investment in infrastructure like machinery
- Cold storage system
- Marketing linkages
- Small- scale processing units
- Technology improvement and dissemination

TANWA-Tamil Nadu Women in Agriculture is a project launched in Tamil Nadu with a view to training women in diverse techniques of learning. This is expected to raise employment of women as well as their income through higher levels of productivity. Having required specialized skills through training, women are forming farm women's group. These group function like SHGs and promote cottage and household production activity using their own pool of funds.

Role of Information Technology (IT) achieving sustainable development and food security

- Predicting areas of food security-** Government can predict areas of food insecurity and vulnerability using appropriate information and software tools so that action can be taken to prevent or reduce likelihood of an emergency
- Disseminate information-** IT can disseminate information regarding emerging technologies and applications, prices, weather and soil conditions for growing different crops
- Releasing the creative potential and knowledge-** IT can act as a tool for releasing the creative potential and knowledge embedded in the society
- Employment generation-** IT also has potential of employment generation in rural areas

Organic Farming- Organic farming is an ecofriendly technique of growing crops which promotes sustainable development. In other words, organic agriculture is a whole system of farming that restores, maintains, and enhances the ecological balance

Benefits of organic farming

- Helps sustainable development of agriculture-** Since organic Farming is pesticide free and produced in an environmentally sustainable way it promotes sustainable agriculture
- Offers a means to substitute costlier agricultural inputs-** Locally produced organic input that are cheaper substitute costlier inputs and thereby generate good return on investment
- Generates income through exports-** Organic agriculture generates income through exports as the demand for organically grown crops is on rise

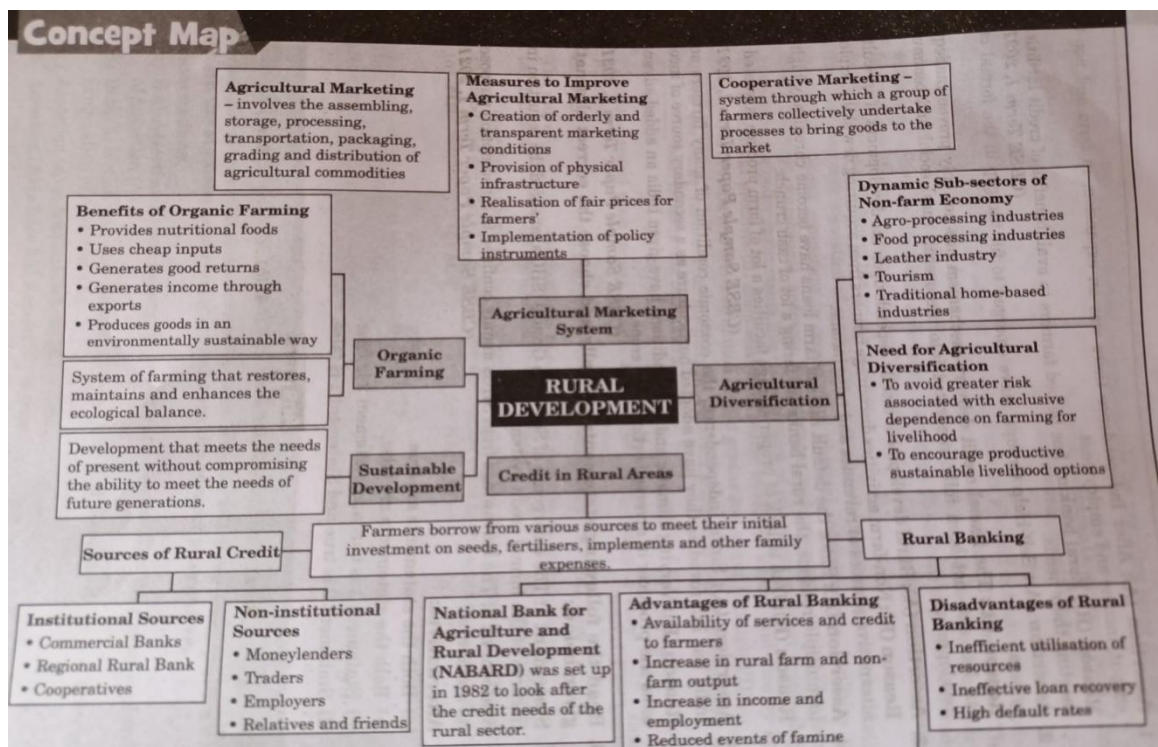
- (iv) **More nutritional value-** Organically grown food has more nutritional value than chemical farming thus providing us with healthy foods
- (v) **Generates more employment-** Since organic farming requires more labour input than conventional farming, India will find organic farming an attractive proposition

Problems /Limitations of organic farming

- (i) The yield from organic farming are less than modern agricultural farming in the initial years
- (ii) Organic produce may also have more blemishes and a shorter shelf life than sprayed produce
- (iii) Choice in production of off-season crops is quite limited in organic farming
- (iv) Marketing of organically produced good is another problem

Suggestions to promote organic farming

- (i) Creating awareness and willingness on the part of farmers to adapt to new technology
- (ii) Provision of adequate infrastructure
- (iii) Problems of marketing the products need to be addressed
- (iv) Appropriate agricultural policy



Objective Type questions

1. Which one of the following is not a non-institutional source of credit?
 (a) money lenders (b) Relatives (c) Traders (d) Land Development Bank
2. A process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country is known as

- (a) Agricultural diversification (b) Agricultural Banking
(c) Agricultural management (d) Agricultural marketing
3. Identify which of the following statement is not correct with Self Help Groups?
(a) Group members can borrow funds at nominal rate of interest
(b) Borrowing in micro credit system are mainly taken for consumption purpose
(c) Micro credit system has helped men in rural areas to become self-dependent
(d) Formal credit system has failed to provide credit to the needy people in the rural areas
4. Identify the incorrect statement from the following.
(a) Diversification into other sector is essential to enable rural people to overcome poverty
(b) Diversification is an essential component because there is greater risk in depending exclusively on farming for livelihood
(c) Diversification provides supplementary gainful employment
(d) Diversification activities are not beneficial
5. ----- is the portion of agricultural produce which is sold in the market by the farmers, after meeting their self-consumption requirements
(a) Trade surplus (b) Marketable surplus (c) producer surplus (d) Consumer surplus
6. National Bank for Agriculture and Rural Development(NABARD) was set up in 1982 as a/the ----- body to coordinate the activities of all institutions involved in the rural financing system (a) Cooperative (b) apex (c) micro credit (d) private
7. The scheme of micro finance is extended through -----
(a) Self-help Groups (b) Land Development Banks (c) NABARD (d) Regional Rural Banks
8. Name the which is held as a success story in efficient implementation of milk cooperative (a) Maharashtra (b) Karnataka (c) Gujarat (d) Andhra Pradesh
9. What is the name for the vegetable and fruit market in Andhra Pradesh
(a) Apni Mandi (b) Hadaspar Mandi (c) Rythu Bazars (d) Uzhavar Bazars
10. 'If India has to make real progress she has to develop its rural areas' which of the following is the incorrect reason for the above mentioned statement?
(a) Approximately one-third population of rural India still lives in abject poverty
(b) More than 50 percent India's population depends on agriculture for their livelihood
(c) Growth rate in the Indian Agriculture sector has been quite lower than of other sector
(d) Majority of rural people have access to the basic necessities of life
11. The need for organic farming arises due to which of the following reasons
(a) It is environment friendly (b) It sustains soil fertility
(c) Both (a) and (b) (d) None of these

12. Which of the following is not related to agriculture marketing?

- (a) Storage (b) Preservation (c) processing (d) Use of chemical fertilizers .

In the following questions, Assertion (A) and reason (R) have been put forward. Read both the statements carefully and choose the correct alternative

Alternatives

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

13. **Assertion (A)** After independence there was an expansion in farm and non-farm output, income and employment

Reason (R) Rural banking has helped farmers to avail benefits of credit facilities for meeting their needs

14. **Assertion (A)** Self Help Groups have emerged to fill the gap in the formal credit system

Reason (R) The formal credit delivery mechanism has not only proven inadequate but has also not been fully integrated into the overall rural social and community development

15. **Assertion (A)** Cooperative marketing is a significant progressive step in the context of agricultural market system

Reason (R) Effective coordination between marketing cooperatives and processing cooperatives is the key characteristic of Indian system of cooperative marketing.

16. **Assertion (A)** Since independence, the economic condition of many farmers across India has improved as they have adopted horticulture as a secondary source of income

Reason (R) Varying climatic and soil conditions have given India an added advantage to be the producer of diverse horticultural crops.

Read the following statement carefully and choose the correct alternative given below:

17. Statement 1: The emergence of SHGs ensured the reduction in the fissures of the formal credit system Statement 2: The borrowing from SHGs mainly

confined to consumption purposes by its members (a) Both the statements are true

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

18. The -----was a harbinger of major changes in the credit system

19. NABARD was established in the year -----

20. KUDUMBASREE is a micro finance programme being implemented in the state -----

Answer:

1	2	3	4	5	6	7	8	9	10
d	d	c	d	b	b	a	c	c	d
11	12	13	14	15	16	17	18	19	20
c	d	a	a	c	a	a	Green revolution	1982	Kerala

Short Answer questions

21. Discuss the importance of credit in rural development.

Growth of rural economy depends primarily on infusion of capital, from time to time, to realize higher productivity in agriculture and non-agriculture sectors

As the time gestation between crop sowing and realization of income after production is quite long, farmers borrow from various sources to meet their initial investment on seeds, fertilizers, implements, and other family expenses of marriage, death religious ceremonies etc.

22. 'The prime minister urged to increase the rural income by increasing non-farm activities'. Explain how non-farm activities can lead to rise in income of people in rural sector?

It is important to increase employment and income in non-farm sector because agriculture is already overcrowded and cannot offer additional employment. These opportunities will enable the farmers to earn from alternative non-farm occupation such as food processing industries, leather industries, tourism pottery, crafts and handlooms. Promotion of non-farm activities help farmers in acquiring new skills, explore alternative sources of revenue and raise income. Moreover, since non-farm activities provide employment opportunity for the whole year, it will help in eradicating seasonal poverty from rural area

23. Horticulture is an important sector for potential diversification and value addition in agriculture' Comment.

Horticulture is an important sector for potential diversification and value addition in agriculture due to the following reasons

- India has emerged as a world leader in producing variety of fruits, vegetables and number of spices
- Horticulture has improved economic condition of many farmers and has become a means of improving livelihood for many unprivileged classes.
- Flower harvesting, nursery maintenance, etc. are highly remunerative employment option for women in rural areas.

24. Differentiate between institutional credit and non-institutional credit

Institutional credit

- a Institutional credit is provided by banks and cooperatives
- b It is mainly provided for productive purposes
- c Since it is regulated by RBI, the rate of interest remains low

Non-institutional credit

- Non –institutional credit is provided by money lenders and traders
- It is provided both for productive and non-productive purposes
- Non- institutional credit is generally very expensive because it is not regulated by RBI

25. Mention some obstacles that hinder the mechanism of agricultural marketing.

- 1) Prior to independence, farmers while selling their produce to traders, suffered from faulty weighing and manipulation of accounts.
- 2) Farmers who did not have the required information on prices prevailing in the markets were often forced to sell at lower prices.
- 3) They also did not have proper storage facilities to keep back their produce for selling later at a better price.

26. Mention the drawbacks of Rural credit system in India. Suggest some measures to improve rural credit system.

- 1) Except commercial banks, other formal institutions have failed to develop a culture of deposit mobilization- lending to worthwhile borrowers and effective loan recovery
- 2) Agriculture loan default rates have been chronically high. It is alleged that farmers are deliberately refusing to pay back loans.

Suggestions

- 1) Banks need to change their approach from just being lenders to building up relationship banking with the borrowers
- 2) Inculcating the habit of thrift and efficient utilization of financial resources needs to be enhanced among the farmers too.

27. Explain the importance of livestock production

- 1) Livestock production provides increased stability in income, food security, transport, fuel and nutrition for the family without disrupting other food producing activities.
- 2) Today livestock sector alone provides alternate livelihood options to over 70 million small and marginal farmers including landless labourers.
- 3) A significant number of women also find employment in the livestock sector

28. Why is agricultural diversification essential for sustainable livelihoods?

- 1) The need for diversification arises from the fact that there is greater risk in depending exclusively on farming for livelihood
- 2) It is necessary to reduce risk from agriculture sector and also to provide productive sustainable livelihood options to rural people
- 3) As many agricultural employment activities are concentrated in Kharif season only, expansion into other sectors is essential to provide supplementary gainful employment and in realizing higher levels of income for rural people to overcome poverty

29. 'Information technology plays a very important role in achieving sustainable development and food security' Comment
- (i) **Predicting areas of food security-** Government can predict areas of food insecurity and vulnerability using appropriate information and software tools so that action can be taken to prevent or reduce likelihood of an emergency
 - (ii) **Disseminate information-** IT can disseminate information regarding emerging technologies and applications, prices, weather and soil conditions for growing different crops
 - (iii) **Releasing the creative potential and knowledge-** IT can act as a tool for releasing the creative potential and knowledge embedded in the society
 - (iv) **Employment generation-** IT also has potential of employment generation in rural areas
30. Explain the role of micro credit in meeting credit requirements of the poor.
- Micro credit has played very important role in meeting credit requirements of the poor in the following ways
- a) The Self Help Groups promote thrift in small proportions by a minimum contribution from each member. From the pooled money, credit is given to the needy members to be repayable in small instalments at reasonable interest rates
 - b) Poor household do not have collateral required by formal credit institutions for providing credit. Such collateral is not required by micro- credit institutions.
31. The measures taken by government to improve agricultural marketing was not sufficient. Support the statements with valid points
- (i) The current infrastructure facilities are quite inadequate to meet the growing demand and need to be improved.
 - (ii) Despite government intervention private trade (by money lenders, rural political elites, big merchants and rich farmers) predominate agricultural markets.

LONG ANSWER TYPE QUESTIONS

32. Briefly discuss the various measures adopted by the government of India to improve the system of agricultural marketing.
- 1) **Regulation of markets-** The first step was to create orderly and transparent marketing conditions. By and large this policy benefited farmers as well as consumers.
 - 2) **Provision of physical infrastructure-** Second component is provision of physical infrastructure facilities like roads, railways, warehouses, godowns, cold storage and processing units
 - 3) **Cooperative marketing-** Cooperative marketing, in realizing fair prices for farmer's product is the third aspect of government initiatives. The success of milk cooperatives in Gujarat is the testimony to the role of cooperatives
 - 4) **Policy instruments-** The fourth element is the policy instruments like:
 - a. Assurance of minimum support prices for agricultural products
 - b. Maintenance of buffer stocks of wheat and rice by Food Corporation of India
 - c. Distribution of food grains and sugar through Public Distribution System
33. Discuss various benefits and limitations of organic farming.

Benefits of organic farming

- 1) **Helps sustainable development of agriculture-** Since organic Farming is pesticide free and produced in an environmentally sustainable way it promotes sustainable agriculture.
- 2) **Offers a means to substitute costlier agricultural inputs-** Locally produced organic input that are cheaper substitute costlier inputs and thereby generate good return on investment
- 3) **Generates income through exports-** Organic agriculture generates income through exports as the demand for organically grown crops is on rise
- 4) **More nutritional value-** Organically grown food has more nutritional value than chemical farming thus providing us with healthy foods
- 5) **Generates more employment-** Since organic farming requires more labour input than conventional farming, India will find organic farming an attractive proposition

Problems /Limitations of organic farming

- 1) The yield from organic farming are less than modern agricultural farming in the initial years
 - 2) Organic produce may also have more blemishes and a shorter shelf life than sprayed produce
 - 3) Choice in production of off-season crops is quite limited in organic farming
 - 4) Marketing of organically produced good is another problem
34. Discuss the key issues of action plan for rural development in India.

Or

Explain any three challenges facing rural development in India.

The following are the key issues of action plan for rural development in India

- 1) Land reforms- Land reforms are measures to bring about changes in the ownership of land holdings to encourage equity. Land reforms providing a land system conducive for agricultural development should not only be enacted but also be faithfully implemented
- 2) Poverty Alleviation- Action plan for rural development includes high priority to poverty alleviation in the rural areas. For the overall development of each locality and in the rural areas special schemes like MNREGA should be launched
- 3) Human Capital Formation: Human capital formation is still a major task in rural areas of the Indian Economy. India has a huge pool of manpower resources but the available man power lacks basic skill and training. Therefore, in order to make the available resources strong and efficient, the action plan for rural development should consider the challenging issues like literacy health care, education, on the job training, etc.

CASE STUDY QUESTIONS

1. Read the following News report and Answer the following questions on the basis of same

The central government will spend Rs. 9800 crores on livestock development over the next five years in a bid to leverage almost Rs. 55000 crore of outside investment into the Animal Husbandry Sector. It would do this by merging a slew of schemes of the Department of Animal Husbandry and Dairying into three main programmes, focused on indigenous cows and dairy development, livestock health and infrastructure development, an official statement said. The Cabinet Committee on Economic Affairs approved the implementation of the special livestock sector package by revising and realigning the

Rythu Bazars (Andhra Pradesh and Telangana)
Uzhavar Sandies (Tamil Nadu)

CBSE questions

1. Mention any one advantage of organic farming.
2. State whether following statement is true or false
'Self Help Groups are an example of micro credit organization'
3. State the meaning of white revolution.
4. State the meaning of cooperative marketing.
5. State the meaning of agricultural marketing
6. Discuss the importance of credit in rural development
7. State any three challenges facing rural development in India
8. Discuss the role played by horticulture in the direction of rural development in India
9. Distinguish between green revolution and golden revolution
10. Define self Help groups

CHAPTER: 6

EMPLOYMENT: GROWTH, INFORMALISATION AND OTHER ISSUES

Important concepts

- **Work** plays an important role in our lives as an individual and as members of society.
- A **worker** is an individual, who is involved in some productive activity, to earn a living.
- **Labour force:** All persons, who are working (have a job) and those are not working but able to work and willing to work at the existing wage rate constitutes labour force.
- **Labour Force** = Persons working + persons seeking and/or available for work.
- **Work force:** The number of persons, who are actually employed at a particular time are known as workforce. It includes all those persons who are actually engaged in productive activities. This includes person between age group of 15-60 years.
- **Labour supply:** It refers to various amount of labour that workers are willing to work, corresponding to a particular wage rate.
- **Work Force Participation Rate (Ratio):** - It is measured as the ratio between workforce and total population of a country.

$$= \frac{\text{Workforce}}{\text{Total Population}} \times 100$$

Types of workers:

- a) **Self Employed:** - The worker who own and operate an enterprise to earn their livelihood are known as self-employed.
- b) **Hired workers:** - Those people who are hired by others and are paid wages or salaries as a reward for their services are called hired workers.
 1. **Casual Workers:** - Those people, who are not hired by their employers on a regular/permanent basis and do not get social security benefits are said to be casual workers.

2. **Regular Workers (Salaried):** – When a worker is engaged by someone or by an enterprise and paid his or her wages on a regular basis, they are known to as regular salaried employees or regular workers.
 - About two-fifth of the total population in the country is engaged in various economic activities.
 - Men particularly rural men, form the major section of workforce in India.
 - Majority of workers in India are self-employed. Casual wage labourers and regular salaried employees. together account for less than half the proportion of India’s workforce.
 - About three fifth of India’s workforce depends on agriculture and other allied activities as the major source of livelihood.
- **Jobless Growth:** It is defined as a situation where GDP grows faster than the employment opportunities resulting in unemployment.

Casualization and informalisation of employment: Casualization refers to a situation when the percentage of casually hired workers in the total workforce tends to rise over time.

Informalisation: Refers to a situation when people tend to find employment more in informal sector of the economy, and less in formal sector of the economy.

Unemployment: It is a situation where a person is ready and willing to work at the prevailing wage-rate but doesn’t get work.

Unemployment Rate: It is calculated as percentage of labour force who are unemployed, not as percentage of total population

$$\frac{\text{Number of Person Unemployed}}{\text{Size of Labour Force}} \times 100$$

Types of unemployment:

1. Rural unemployment

- a. Seasonal Unemployment
- b. Disguised Unemployment

2. Other types of unemployment

- a. Open
- b. Frictional
- c. Structural
- d. Cyclical

3. Urban Unemployment

- a. Industrial Unemployment
- b. Educated Unemployment
- c. Technological Unemployment

- a) **Frictional unemployment** is defined as the unemployment that occurs because of people moving or changing occupations.
- b) **Structural unemployment** is defined as unemployment arising from technical change such as automation, or from changes in the composition of output due to variations in the types of products people demand. For example, a decline in the demand for typewriters would lead to structurally unemployed workers in the typewriter industry.
- c) **Cyclical unemployment** is defined as workers losing their jobs due to business cycle fluctuations in output, i.e. the normal up and down movements in the economy as it cycles through booms and recessions over time.

- d) **Open Unemployment** refers to that situation wherein the worker is willing to work and has the necessary ability to work yet he does not get work and remains unemployed for full time.
- e) **Seasonal Unemployment:** - It refers to a situation where a number of people that are not able to find a job in a particular season.
- f) **Disguised unemployment** is a kind of unemployment in which some people look like being employed but are actually not employed fully. This situation is also known as Hidden Unemployment. In such a situation more, people are engaged in a work than required. In other words, it refers to a situation of employment with surplus manpower in which some workers have zero marginal productivity. For example, in rural areas, this type of unemployment is generally found in agricultural sector.
- g) **Technological Unemployment:** - A somewhat structural unemployment may take place in an economy as a result of technological improvement. Such unemployment may be described as technological unemployment. Due to the introduction of new machinery, improvement in methods of production, labor-saving devices etc., some workers tend to be replaced by machines. Their unemployment is termed as “technological unemployment.”
- h) **Educated Unemployment:** - Among the educated people, apart from open unemployment, many are underemployed because their qualification does not match the job. Faulty education system, mass output, preference for white collar jobs, lack of employable skills and dwindling formal salaried jobs are mainly responsible for unemployment among educated youths in India. Educated unemployment may be either open or underemployment.

Causes of unemployment:

- a. Slow rate of economic growth
- b. Population explosion
- c. Underdeveloped agriculture
- d. Defective educational system
- e. Slow growth of Industry
- f. Decline of cottage and small industry.
- g. Faulty planning
- h. Inadequate employment planning.
- i. Low capital formation.
- j. Excessive use of Foreign Technology
- k. Lack of financial resources
- l. Increase in labour force

Remedial measures for unemployment:

- a. Accelerating growth rate of GDP
- b. Control of population growth
- c. Development to small scale enterprises.
- d. Encouragement in infrastructure.
- e. Special employment programmes.
- f. Rapid industrialisation.

Special programmes to fight poverty and unemployment:

1. Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)
"Mahatma Gandhi National Rural Employment Guarantee Act" or MGNREGA), is an Indian labour law and social security measure that aims to guarantee the 'right to work'. This act was passed in 23 August 2005 under the UPA government of Prime Minister Dr. Manmohan Singh.

It aims to enhance livelihood security in rural areas by providing at least 100 days of wage employment in a financial year to at least one member of every household whose adult members volunteer to do unskilled manual work. Women were guaranteed one third of the jobs made available under the MGNREGA.

2. **Swarna Jayanti Shahari Rozgar Yojana** (SJSRY) in India is a Centrally Sponsored Scheme which came into effect on 1 December 1997. The scheme strives to provide gainful employment to the urban unemployed and underemployed poor, through encouraging the setting up of self-employment ventures or provision of wage employment. The SJSRY scheme is being implemented on a cost-sharing basis between the Centre and the States in the ratio of 75:25.
3. Deen Dayal Antyodaya Yojana or DAY is one of the Government of India scheme for helping the poor by providing skill training. It replaces Aajeevika. The Government of India has provisioned ₹500 crores (US\$66 million) for the scheme. The objective of the scheme is to train 0.5 million people in urban areas per annum from 2016. In rural areas the objective is to train 1 million people by 2017.
4. The initial scheme Swarnajayanti Gram Swarozgar Yojana (SGSY) was launched in 1999. It was renamed as National Rural Livelihood Mission in 2011. Finally, they were merged into DDU-AY. The SGSY was somewhat intended to provide self-employment to millions of villagers. The programme aims at bringing the assisted poor families above the poverty line by organising them into self-help groups (SHGs) through a mix of bank credit and government subsidy. The main aim of these SHGs was to bring these poor families above the poverty line and concentrate on income generation through combined effort. The Swarna Jayanti Swarozgar Yojna (SGSY) has been renamed as National Rural Livelihood Mission (NRLM). With this the scheme will be made universal, more focussed and time bound for poverty alleviation by 2014.
5. The **Sampoorna Grameen Rozgar Yojana** (English: Universal Rural Employment Programme) was a scheme launched by the Government of India to gain the objective of providing gainful employment for the rural poor. From 21 February 2003, EAS became an allocation-based scheme. The programme was implemented through the Panchayati Raj institutions. The Sampoorna Grameen Rozgar Yojana was launched on 25 September 2001 by merging the provisions of Employment Assurance Scheme (EAS) and Jawahar Gram Samridhi Yojana (JGSY). The programme is self-targeting in nature and aims to provide employment and food to people in rural areas who lived below the poverty line. Sampoorna Grameen Rozgar Yojana is a combination of the provisions under the Employment Assurance Scheme (EAS) and Jawahar Gram Samridhi Yojana (JGSY).
6. The Food for Work Programme was restructured and renamed as **National Rural Employment Programme** in October 1980 by the then Prime Minister Indira Gandhi and it became a regular Programme from April 1981. The Programme was launched during the Sixth Five Year Plan. It aims the implementation of additional employment to under employed persons. Central-state contribution was based on 50:50 ratio. In 1989 NREP was merged with Jawahar Rozgar Yojana.
7. Jawahar Rozgar Yojana (JRY) was launched on April 1, 1989 by merging National Rural Employment Programme and Rural Landless Employment Guarantee Programme by Prime Minister Rajiv Gandhi. The urban version of this program was Nehru Rozgar Yojana.

**QUESTION AND ANSWER: SECTION
OBJECTIVE TYPE QUESTIONS (1mark)**

1. Unemployment is defined as
 - a) The section of the population that is not capable of being employed.

- b) The section of population willing to work but unable to find employment.
- C) The section of population that is waiting to be employed.
- d) The section of population that are without the skills needed by employer

Answer: b) The section of population willing to work but unable to find employment.

2. The difference between labour force and workforce is?

- a) Total employed labour
- b) Disguised unemployed labour
- c) Seasonal unemployed labour
- d) Unemployed labour

Answer: d) Unemployed labour

3. The major cause of unemployment in India can be classified as

- a) Under development
- B) Rapid population growth
- c) Defective planning
- D) All of these

Answer: d) All of these

4. Supply of labour corresponding to different wage rates is referred as:

- a) Labour supply
- b) Labour force
- c) participation rate
- d) Work force

Answer: a) Labour supply

5. A kind of unemployment in which workers seems to be working but its contribution to production is negligible is called

- a) Disguised unemployment
- b) Involuntary unemployment
- c) seasonal unemployment
- d) structural unemployment

Answer: a) Disguised unemployment

6. Which type of unemployment is more in India?

- a) Open Unemployment
- b) Seasonal unemployment
- c) Disguised unemployment
- d) Educated unemployment

Answer: c) Disguised unemployment

7. Those who do not get any pension or gratuity benefits are known as:

- a) Self-employed workers
- b) Casual workers
- c) regular workers
- d) unemployed

Answer: b) Casual workers

8. Most of the disguised unemployed persons in India are found in

- a) Agriculture
- b) Industry
- c) Trade
- d) Transport

Answer: a) Agriculture

9. In which type of unemployment do the marginal productivity of the workers is zero?

- A) Disguised unemployment
- B) Involuntary unemployment
- c) seasonal unemployment
- D) structural unemployment

Answer: a) Disguised unemployment

10. Jobless growth leads to unemployment because:

- a) Labour refuses to migrate
- b) labour is very expensive
- c) GDP growth is slow
- d) Growth is due to technology

Answer: d) Growth is due to technology

11. Even during the time of cultivation, _____ unemployment is common in farms

- a) Disguised unemployment
- b) Seasonal unemployment

19. Find out the correctly matched pair from the following

Column I

- a) REGP
- b) Construction of Dam
- c) SJSRY
- d) PMRY

Column II

- i) Direct generation of employment
- ii) Indirect generation of employment
- iii) Nutritional enrichment program
- iv) Self-employment programme

Answer: d – iv PMRY Self-employment programme

20. Find out the correctly matched pair from the following

Column I

- a) Disguised Unemployment
- b) Industrial Unemployment
- c) Educated unemployment.
- d) Open Unemployment

Column II

- i) Occurs at certain seasons of the year
- ii) Is a type of urban unemployment
- iii) more people are engaged in work than are really needed
- iv) among the educated people.

Answer: b – ii Industrial Unemployment Is a type of urban unemployment

ASSERTION & REASONING

Read the two statements labelled as Assertion (A) and Reason (R) and choose the correct option from the following

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

1. **Assertion (A).** India is experiencing the phenomenon of jobless growth, a situation when the economy is able to produce more goods and services without a corresponding increase in the level of employment.

Reason (R). During the period 1950-2010, GDP of India grew positively and was higher than the employment growth which was not more than 2%, that resulted in a widening gap between the growth of GDP and employment

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

2. **Assertion (A):** The difference in participation rate among male and female workers is very large in urban areas

Reason (R): Earnings of urban male workers are generally higher than rural males and families discourage female members from taking up jobs.

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

3. **Assertion (A):** Economists argue that, over the years, the quality of employment has been deteriorating

Reason (R): More than half of the Indian workforce depends on farming as the major source of livelihood

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

4. **Assertion (A):** A higher worker-population ratio means that the level of unemployment is high in the country

Reason (R): Worker-population ratio is an indicator which is used for analyzing the employment situation in the country.

Answer: (d) Assertion (A) is false but Reason (R) is true

5. **Assertion (A):** The difference in work participation rates among male and female is high in urban areas.

Reason (R): The activities in which rural women are engaged are not recognized as productive work.

Answer: (c) Assertion (A) is true but Reason (R) is false

6. **Assertion (A):** Self-employment is considered as a major source of livelihood for both men and women.

Reason (R): Self-employment accounts for more than 50 percent of workforce for both men and women.

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

7. **Assertion (A):** The distribution of workforce by industrial sectors shows substantial shift from farm to non-farm work

Reason (R): Developmental strategies in India have aimed at reducing the proportion of people depending on agriculture.

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

8. **Assertion (A):** Casualization of workforce makes the workers highly vulnerable.

Reason (R): The process of moving from regular salaried employment to casual wage work is termed as casualization of workforce.

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

9. **Assertion (A):** India's planned development have been aimed at expansion of the economy through increase in GDP and employment.

Reason (R): Both GDP and employment showed a steady growth over the period of 1950-2010 in India.

Answer:(c) Assertion (A) is true but Reason (R) is false

3 &4 marks questions

1. What do you mean by Informal sector Establishment?

AN: All those private enterprises which hire less than 10 workers are called Informal sectors. E.g. Workers who work in farms, owners of Small Enterprises, Agriculture labourers. Here they do not get regular income. No protection or regulation by government can be dismissed at any time. Live in slums, use outdated technology, do not maintain accounts.

2. Why is worker population ratio is higher in males than in females in India?

AN: According to 1981 census, a worker is defined as one who worked in an economic activity over a period of six months or more. Consequently, the worker Population ratio among females reduced considerably.

- In India, women are discouraged to work out of homes.
- Males are having more skills than females. It helps in knowing the proportion of population that is actively contributing to the production of goods and services of a country

3. Work plays an important role in our lives as individuals and as members of society why do people work?

Answer:

- 1) people work for earning a living.
- 2) being employed in work gives us a sense of self-worth and enables us to relate ourselves meaningfully with other
- 3) every working person is actively contributing to national income and hence the development of the country by engaging in various economic activities that is the real meaning of earning a living
- 4) we do work not only for ourselves we also have a sense of accomplishment when we work to meet the requirements of this was dependent on us.

4. What are the benefits of studying about working people

Answer:

- 1) studying about working people gives us insights into the quality and nature of employment in our country.
- 2) It helps in understanding and planning our human resources
- 3) it helps us to analyse the contribution made by different industries and sectors towards national income
- 4) it also helps us to address any social issues such as exploitation of marginalized sections of society, child labour etc.,

5. Compared to urban women, more rural women are found working. Why?

Answer: Compared to urban women, more rural women are found working because of the following reasons:

- 1) it is common to find that where men are able to earn higher incomes, families discourage female members from taking up jobs.
- 2) earnings of urban male workers are generally higher than rural areas and so the urban families don't want females to work
- 3) Apart from this many activities for the household in which urban women are engaged are not recognized as productive work while women working on farms in

the rural areas are considered a part of the work force if they are being paid wages in cash or in the form of food grains.

6. Explain the different categories/status of workers.

Answer: Different categories/status of workers

1. Self-employed: workers who own and operate an enterprise to earn their livelihood are known as self-employed. For example, a cement shop owner a self-employed
2. Casual wage labourers: casual wage labourers are casually engaged in others farms and in return get a remuneration for the work done. For example, the construction workers are casual labourers
3. Regular salaried employees: when a worker is engaged by someone or an enterprise and paid his or her wages on a regular basis they are known as regular salaried

7. Compared to 1970s there has hardly been any change in the distribution of workforce across various industries. Comment

The given statement is not true. Distribution of workforce by industrial sectors shows substantial shift from work to non-farm work. In 1972-73 about 74% of workers was engaged in primary sector and in 2011-12 this proportion has declined to about 50%. Secondary and service sectors are showing promising future for the Indian workforce, as shares of these sectors have increased from 11 to 24% and 15 to 27 % respectively during 1972 to 2012.

8. Analyze the recent trends in sectoral distribution of workforce in India

Answer: All the working persons in India can be clubbed into three major sectors primary sector, secondary sector and tertiary sector

- Primary sector: - it includes agriculture and allied activities. Primary sector is the main source of employment for majority of workers in India. About 49 percentage of workers are engaged in the primary sector.
- Secondary sector: - it includes (i) mining and quarrying (ii) manufacturing (iii) electricity gas and water supply (iv) construction. Secondary sector provides employment to only 24 percentage of workforce in India.
- Tertiary/ service sector: it includes (i) trade (ii) Transport and storage (iii) services. About 27% of workers are in the service sector

9. Do you think that in the last 50 years' employment generated in the country is commensurate with the growth of GDP in India? How?

Answer: No, because during the period of 1950 to 2010, GDP of India grew positively and was higher than the employment growth. During this period employment grew at the rate of not more than 2%. However, there was always a fluctuation in the growth of GDP.

There has been a widening gap between the growth of GDP and employment during this period. This means that in the Indian economy, without generating employment we have been able to produce more goods and services. Scholars refer to this phenomenon 'jobless growth'

10. Since independence the union and State governments have played an important role in generating employment or creating opportunities for employment generation. Their efforts can be broadly categorized into direct and indirect Explain them.

Answer:

- Direct generation of employment opportunities: The Government employs people in various departments for administrative purposes. It also runs industries, hotels and transport companies and hence provides employment directly to workers.
- Indirect generation of employment opportunities: When the output of goods and services from government enterprises increases, then private enterprises which receive raw materials from government enterprises will also raise their output and hence increase the number of employment opportunities in the economy. This is the indirect generation of employment opportunities by the government initiatives in the economy.

6 Mark Questions

1. There has been a change in the structure of workforce and the nature of employment in India. Explain.

Answer:

There has been a change in the structure of work force and the nature employment in India

1) Newly emerging jobs are found mostly in the service sector. The expansion of service sector and advent of technology now frequently permit a highly competitive existence for efficient small scale and often individual enterprises or specialist workers side by side with multinationals.

2) Outsourcing of workers has become a common practice. It means that a big firm find it profitable to close down some of the specialist departments (for example legal or computer programming or customer service sections) and handover a large number of small piecemeal jobs to very small enterprises or specialist individuals sometimes situated even in other countries.

3) The traditional notion of modern factory or office as a result has been altering in such a manner that for many the home is becoming the workplace. All of this change has not gone in favour of the individual worker.

4) The nature of employment has become more informal with only limited availability of social security measures to the workers.

5) In the last two decades there has been a rapid growth in the gross domestic product, but without simultaneous increase in employment opportunities. This has forced the government to take up initiatives in generating employment opportunities, particularly in the rural areas.

2. Table shows the distribution of workforce in India for the 1972-73 analyses it and give reasons for the nature of workforce distribution.

Place of Residence	Workforce (in million)		
	Male	Female	Total
Rural	125	69	195
Urban	32	7	39

From the given table following points can be noticed about the nature of workforce distribution:

1) Majority of the workforce was working in the rural areas in India in the year 1972-73. The total workforce was 234million out of which 195 million workers were from rural areas and 39 million from the urban areas. Thus about 83 % of the total workforce was rural as compared to about 17 % of the urban workforce. The reason for this was that a majority of population was living in rural areas and were engaged in agricultural and allied sectors

2) The rural workforce comprises about 64 % of the male workforce and about 36% of the female workforce.

On the other hand, the urban workforce comprises of about 82 % of male workforce and about 18 % of female workforce.

This shows that participation of males and both rural as well as urban areas is higher than that of the females because of lack of opportunities available to women for acquiring education and also the social structure and family norms which did not encourage women to work

3) Another feature of workforce distribution is the difference between urban female workforce and rural female workforce. Females in the rural areas form 36% of the workforce whereas the females in the urban areas formed only 18 % of the workforce. This may be attributed to the fact that where men are able to earn high incomes, families discourage female members from taking up jobs. Earnings of urban male workers are generally higher than rural males and so the urban families do not want females to work.

3. Discuss the different types of unemployment prevailing in India

Different types of unemployment in India are

- **Open unemployment:** In many cities we find people standing in some selected areas looking for people to employ them for that day's work. Some go to factories and offices to give their bio-data and ask whether there is any vacancy in their factory or office. Many in the rural areas do not go out and ask for a job but stay home when there is no work. Some go to employment exchanges and register themselves for vacancies notified through employment exchanges. This is called open unemployment
- **Disguised unemployment.** Suppose a farmer has four acres of land and he actually needs only two workers and himself to carry out various operations in a year, He employs five workers and his family members such as his wife and children. This situation is known as disguised unemployment.
- **Seasonal unemployment:** Many People migrate to an urban area, pick up a job and stay there for some time, and then come back to their home villages. This is because work in agriculture is seasonal; there are no employment opportunities in the village for all months in the year. When there is no work to do on farms, people go to urban areas and look for jobs. This kind of unemployment is known as seasonal unemployment.

CASE BASED QUESTIONS.

1. Workers in formal and informal sectors.

We classify workers into two categories: workers in formal and informal sectors which are also referred to as organized and unorganized sectors. All the public sector establishments and those private-sector establishments which employ 10 hired workers or more are called formal sector establishments and those who work in such establishments are formal sector worker.

The workers in the formal sector get regular income. They also enjoy social security benefits such as maternity benefit, provident fund, gratuity and pension. They earn more than those in

the informal sector. The government through its labour laws, enable them to protect their rights in various ways. The formal sector workers form trade unions bargaining with employers for better wages and other social security measures.

All those who work in the areas other than formal sector comes under Informal sector Informal sector, which includes millions of farmers and agricultural labourers, owners of small enterprises and people working in those enterprises, the self-employed people who do not have any hired workers, all non from casual wage labourers who work for more than one employer such as construction workers and head load workers.

1. Find out the incorrect statement from the following

- a) The government, through its labour laws, enable the formal sector workers to protect their rights in various ways.
- b) Workers in the formal sector earn more than those in the informal sector.
- c) A person working in the private sector get a lower salary as compared to another person doing the same work in the public sector
- d) Workers in formal sector are prohibited from forming trade unions.

Answer: d) Workers in formal sector are prohibited from forming trade unions

2. Find out who among the following comes under informal sector

- a. Nurse in a government hospital
- b. A clerk in the electricity office.
- c. Computer operator in the state government office working on a temporary basis
- d. The owner of a textile shop which has nine workers

Answer: The owner of a textile shop which has nine workers

3. _____ is the major formal sector employer in the country.

- a) Private schools
- b) Airline companies
- c) Government
- d) Multi-National Companies

Answer's) Government

4. How will you know whether a worker is working in the informal sector?

- a) Works in a private sector establishment which employ more than 10 hired workers
- b) Works in a private sector establishment which employ less than 10 hired workers
- c) Works in a public sector establishment
- d) Earns higher than organized sector workers

Answer: Works in a private sector establishment which employ less than 10 hired workers

2. Read the following News report and Answer: the following questions on the basis of same:

India's unemployment rate shot up to 7.8% for the week ended November 22 compared to 5.5% in the preceding week, signaling weakening of labour market.

Labour participation rate fell to 39.3% resulting in a sharp fall of 114 basis points in employment rate at 36.24%, data from the Centre for Monitoring Indian Economy showed (CMIE).

While this was a sign of weakening labour markets over the last four weeks, it also reflected the inability of the labour markets to absorb adequate proportions of the working age population during the festive season of 2020, the CMIE said

"The sharp rise of the unemployment, rate is against the trend seen since the recovery has been one of falling unemployment rates with an occasional spike which happened during the first fortnight of October 10", it said. As per CMIE, the 36.2% employment

rate in the week of November 22 is the lowest employment rate since the recovery stagnated in late June 2020.

It also marked the fourth consecutive fall in the rate since the week of October 25. It also marked the fourth consecutive fall in the rate since the week of October 25. The employment rate stood at 37.38% in the week ended November 15.

The deterioration of labour metrics in November is a signal again of the early exhaustion of the recovery process that began in late May this year", it said.

The recovery is not complete. The employment rate never reached its pre-lockdown II levels. And before reaching there, it has started to decline again".

According to CMIE, the employment rate is the best measure of the health of the Indian economy as it measures the proportion of the working age population that are employed

1. Rise in unemployment rate for the week ended in the month of November 22, signals weakening of _____ (commodity/labour) market.

Answer: labour market

2. Rise in unemployment rate is an indicator of incomplete _____ (recovery/recession) period since May, 2020.

Answer: recovery

3. Worker participation ratio is calculated by dividing the total number of workers in India by the total _____ (population/labour force) in India and then multiplying by 100.

Answer: population

4. Measure to reduce unemployment in very short period of time
 - (a) Reduction in inequalities in the distribution of income and wealth
 - (b) Increase in investment in private and public sectors
 - (c) Reduction in growth of population
 - (d) None of these

Answer: Increase in investment in private and public sectors

3. Read the following News report and Answer: the following questions on the basis of same:

The pandemic had an impact on employment in the country as the economic activities slowed down due to lockdown restrictions imposed to contain the spread of COVID from March in 2020. The Parliament Standing Committee on Labour has been drawn to a study according to which nearly half of the formal salaried workers moved into informal work either as self-employed (30 per cent), casual wage (10 per cent), informal salaried jobs (9 per cent) between late 2019 and late 2020. Employees' Provident Fund Organization (EPFO) needs to play a more innovative and proactive role in mitigating the emergent needs of not only the members registered with it but Workers in the Unorganized sectors too.

Source: Business-standard.com, Aug. 8, 2021

- 1) Pandemic affected employment _____ (positively/adversely) as the economic activities had slowed down due to lockdown.

Answer: adversely

- 2) There has been movement of formal workers towards _____.

- a) self-employment
- b) casual-wage employment
- c) both (a) and (b)
- d) neither (a) nor (b)

Answer: c) both (a) and (b)

3) _____ (Casual/Regular) workers have weak bargaining power as they cannot form trade unions.

Answer: Casual

4) Employee's Provident Fund Organization makes provision of

- a) wages and salaries to employees
- b) non-monetary benefits to employees
- c) social security benefits to employees
- d) none of these

Answer: social security benefits to employees

CHAPTER: 7

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

- **Environment** is defined as the total planetary inheritance and the totality of all resources.
 - It includes all the biotic and abiotic elements that influence each other.
All living elements-the birds, animals and plants, forests, fisheries etc. are **biotic elements**. **Abiotic elements** of the environment include non-living elements like air, water, land, rocks and sunlight etc.
- **Functions of the Environment**
 - (i) Environment supplies resource (both renewable and non-renewable resources) for production.
 - (ii) Environment assimilates waste.
 - (iii) Environment sustains life by providing genetic and bio diversity.
 - (iv) Environment provides aesthetic services like scenery etc.
- The environment is able to perform these functions without any interruption as long as demand on these functions are within its **carrying capacity**.
- **CARRYING CAPACITY IMPLIES TWO THINGS:**
 - (i) Resource extraction should remain below the rate of resource regeneration.
 - (ii) Generation of wastes should remain within the absorptive capacity of the environment.
- If these two conditions are not fulfilled, then **environmental crisis** occurs.
- **Absorptive capacity** of the environment means the ability of the environment to absorb degradation.

The various reasons for **environmental crisis** are as under:

- (i) Population explosion and advent of industrial revolution.
- (ii) The intensive and extensive extraction of both renewable and non-renewable resources.
- (iii) The affluent consumption and production standards of developed countries.

- **Renewable resources** are those which can be used without the possibility of the resource becoming depleted or exhausted. That is, a continuous supply of resource remains available. For example: birds in a forest
- **Non-renewable resources** are those which get exhausted with extraction and use. For example, fossil fuel.
- **TWO BASIC PROBLEMS RELATED TO ENVIRONMENT ARE**
 - (i) Problem of pollution.
 - (ii) Problem of excessive exploitation of natural resources.

Effects of economic development on environment and resources:

Economic development degrades our environment by using natural resources for production of goods and services. The environmental impact of economic growth includes the increased consumption of non-renewable resources, higher levels of pollution, global warming and the potential loss of environmental habitats. However, not all forms of economic growth cause damage to the environment.

- **Pollution** is contamination of useful things such as air, water, land etc. with undesirable or harmful materials like foul gases, smoke, poisonous chemicals, etc. The major forms of pollution are:
 - (i) Air pollution
 - (ii) Water Pollution
 - (iii) Noise Pollution
- **Global warming** is a gradual increase in the average temperature of the earth's lower atmosphere. Global warming is caused by man-made increase in carbon dioxide (CO₂) and other greenhouse gases through the burning of fossil fuels and deforestation.
- Some of the long term **results of global warming** are as follow:
 - (i) Melting of polar ice with a resulting rise in sea level and coastal flooding.
 - (ii) Extinction of species as ecological niches disappear.
 - (iii) more frequent tropical storms and
 - (iv) An increased incidence of tropical diseases.
- **Ozone depletion** refers to reduction in the amount of Ozone (a protective layer) in the stratosphere. The problem of Ozone depletion is caused by high levels of CFC used as cooling substances in air conditioners and refrigerators or as aerosol or halons in fire extinguishers. As a result of depletion of the ozone layer, more ultra violet (UV) radiation comes to earth causing damage to living organism.
- The threat to India's environment poses a dichotomy-threat of poverty-induced environmental degradation and, at the same time, threat of pollution from affluence and rapidly growing industrial sector.
- Air pollution, water contamination, soil erosion, deforestation and wildlife extinction is some of the most pressing environmental concerns of India.
- The priority issues identified in India are:
 - (i) Land degradation
 - (ii) Biodiversity loss
 - (iii) Air pollution with special reference to vehicular pollution in urban cities.

(iv) Management of fresh water.

(v) Solid waste management.

- **Land degradation** refers to a decline in the overall quality of soil, water or vegetation condition, commonly caused by human activities.

SOME OF THE FACTORS RESPONSIBLE FOR LAND DEGRADATION IS

(i) loss of vegetation occurring due to deforestation.

(ii) Unsustainable fuel wood and fodder extraction.

(iii) Shifting cultivation.

(iv) Encroachment into forest lands.

(v) Forest fires and over grazing.

(vi) Non-adoption of adequate soil conservation measures.

(vii) Improper crop rotation.

(viii) Indiscriminate use of agrochemical such as fertilizers and pesticides.

(ix) Improper planning and management of irrigation systems.

(x) Extraction of ground water in excess of the recharge capacity.

(xi) Open access resources and

(xii) Poverty of the agriculture-dependent people.

- Chipko and Appiko movements are related to protect forests. In order to address two major environmental concerns in India, viz, water and air pollution, the government set up the central pollution control board (CPCB) in 1974. Board investigate, collect and disseminate information relating to water, air and pollution, lay down standards of sewage/trade effluent and emissions.

- **FUNCTIONS OF THE CENTRAL BOARD AT THE NATIONAL LEVEL**

- 1) Advise the Central Government on any matter concerning prevention and control of water and air pollution and improvement of the quality of air.
- 2) Plan and cause to be executed a nation-wide programme for the prevention, control or abatement of water and air pollution;
- 3) Co-ordinate the activities of the State Board and resolve disputes among them;
- 4) Provide technical assistance and guidance to the State Boards, carry out and sponsor investigation and research relating to problems of water and air pollution, and for their prevention, control or abatement;
- 5) Plan and organise training of persons engaged in programme on the prevention, control or abatement of water and air pollution;
- 6) Organise through mass media, a comprehensive mass awareness programme on the prevention, control or abatement of water and air pollution;
- 7) Collect, compile and publish technical and statistical data relating to water and air pollution and the measures devised for their effective prevention, control or abatement;
- 8) Prepare manuals, codes and guidelines relating to treatment and disposal of sewage and trade effluents as well as for stack gas cleaning devices, stacks and ducts;
- 9) Disseminate information in respect of matters relating to water and air pollution and their prevention and control;

- 10) Lay down, modify or annul, in consultation with the State Governments concerned, the standards for stream or well, and lay down standards for the quality of air; and
- 11) Perform such other function as may be prescribed by the Government of India.
- India's rapid economic development has made us aware of two realities:
- (i) Economic development has lifted millions out from poverty.
 - (ii) Economic development has been accompanied by accelerated depletion of natural resources and rapid deterioration in environment quality.
- **Sustainable development** is that process of development which meets the needs of present generation without reducing the ability of future generation to meet their own needs.
- **Main features of sustainable development** are as under:
- (i) Sustained rise in Real per Capita Income and Economic welfare.
 - (ii) Rational use of natural resources.
 - (iii) No reduction in the ability of the future generation to meet their own needs.
 - (iv) Check on pollution.
- **TO ACHIEVE SUSTAINABLE DEVELOPMENT, THE FOLLOWING NEEDS TO BE DONE:**
- (i) Limiting the human population.
 - (ii) Technological progress should be input efficient and not input consuming.
 - (iii) Renewable resources should be extracted on a sustainable basis, that is, the rate of extraction should not exceed rate of regeneration.
 - (iv) For non-renewable resources, rate of depletion should not exceed the rate of creation of renewable substitutes.
 - (v) Inefficiencies arising from pollution should be corrected.
- **STRATEGIES FOR SUSTAINABLE DEVELOPMENT.**
- (i) **Use of non-conventional sources of energy.** India heavily depends on thermal and hydro power plants to meet its power needs. Both of these have adverse environmental impacts. Thermal power plants emit large quantities of carbon dioxide, which is a greenhouse gas. If it is not used properly, it may cause land and water-pollution.
 - (ii) **LPG, Gobar gas in rural areas:** LPG, Gobar Gas in Rural Areas Rural households in India generally use wood, dung cake or other biomass as fuel. This practice has several adverse implications like deforestation, reduction in green cover and air pollution. To rectify the situation, subsidized LPG is being provided. Besides it, gobar gas plants are being encouraged through easy loans and subsidy. LPG is the clean fuel. It does not create any household pollution and also wastage is minimized. For gobar gas plants, cattle dung is fed in the plant to function which produces gas and slurry is used as organic soil fertilizer.
 - (iii) **CNG in Urban areas:** CNG in Urban Areas in Delhi, the use of Compressed Natural Gas (CNG) as fuel in public transport system has significantly lowered air pollution and the air has become cleaner in the last few years.
 - (iv) **Wind power:** Wind Power in areas, where speed of wind is usually high, wind mills can provide electricity without any adverse impact on the environment. The

turbines move with wind and electricity gets generated. Its initial cost' remain high but it can be recovered easily.

(v) Solar power through photovoltaic cell: Solar Power Through Photovoltaic Cells in India, solar energy is used in different forms for agriculture products, daily use products and even to warm ourselves in winters. Through photovoltaic cells, solar energy can be converted into electricity. This technology is extremely useful for remote areas and for places where supply of power lines is either not possible or proves very costly. This technique is also totally free from pollution.

(vi) Mini- hydel plants: Mountainous regions have streams everywhere. Most of such streams are perennial. Mini-hydel plants use the energy of such streams to move small turbines which generate electricity. Such power plants are more or less environment friendly.

(vii) Traditional knowledge and practices: Traditionally, Indian people have been close to their environment. If we look back at our agriculture system, healthcare system, housing, transport, etc. we find that all practices have been environment friendly. But in recent years, we have been moving away from these practices. This has caused large scale damage to our environment.

(viii) Bio composting: In order to increase production, we have started using chemical fertilizers which are adversely affecting the waterbodies, ground water system, etc. But again farmers in large numbers have started using organic fertilizers for production. In some parts, cattle are maintained only because their waste production is very useful in form of fertilizer. Earthworm can convert organic matter into compost faster than the normal composting process.

(ix) Bio-pest Control: Bio-pest Control with the advent of Green Revolution, the country entered into the use of chemical pesticides to produce more which laid the adverse impacts on soil, water bodies, milk, meat and fishes. To meet this challenge, better methods of pest control should be brought. One step is pesticides based on plants like neem. Even many animals also help in controlling pests like snakes, peacocks, etc.

QUESTION ANSWER: SECTION

(1 MARKS QUESTIONS AND ANSWER)

- 1) **What happens when the rate of resource extraction exceeds that of their regeneration?**

When the rate of resource extraction exceeds that of their generation, then environment fails to perform its main function of life sustenance and it lead to the situation of environmental crisis.

- 2) CFC stands for

Chlorofluorocarbons

- 3) What are the major contributors of air pollution in urban areas?

Vehicles

- 4) What does CPCB stands for? When was it set up?

Central pollution control board.1974

- 5) **Mention any one measure to control air pollution.**

Promotion of cleaner fuel, like use of CNG, LPG

6) **Give two examples of overuse of resources.**

i) Excessive exploitation of fossil fuel. ii) Excessive tree felling.

7) **Give two examples of misuse of resources.**

i) Use of wood as a household fuel. ii) Use of rivers to dump industrial effluents.

8) Why have some resources become extinct?

Some resources have become extinct because their extraction has been above their regeneration.

9) The black soil of the Deccan Plateau is particularly suitable for cultivation of

Cotton

10) Give the name of two movements which aimed at protecting forests.

i) Chipko Movement ii) Appiko Movement.

11) What is meant by biodiversity?

Biodiversity is the biological variety and variability of life on earth

12) State different types of environmental pollution.

Air pollution, Water pollution, Noise pollution

13) What is soil erosion and what are its causes?

Soil erosion refers to the removal of upper layer of the soil through excessive rain floods and winds. The main causes are deforestation and intensive farming.

14) Which of the following is an impact of global warming?

- A. Deforestation
- B. Rise in sea level
- C. Waste generation
- D. Rapid increase in population

Answer: B. Rise in sea level

15) Which of the following is a consequence of ozone layer depletion?

- A. Skin cancer in humans
- B. Lower production of phytoplankton
- C. Hampers growth of terrestrial plants
- D. All of the above

Answer: D. All of the above

16) Which of the following statements is correct about achieving sustainable development?

- A. Sustainable development can be achieved by restricting the usage of renewable resources
- B. Sustainable development can be achieved by controlling the growth rate of world's population
- C. Sustainable development can be achieved by controlling the menace of pollution
- D. All of the above

Answer: D. All of the above

17. Which of the following statements is true?

- A. Ozone depletion is one of the main reasons for soil erosion
- B. Deforestation is one of the main reasons for soil erosion
- C. Air pollution is one of the main reasons for soil erosion

D. Global warming is one of the main reasons for soil erosion

Answer: B. Deforestation is one of the main reasons for soil erosion

18. Which of the following statements is true?

A. Economic growth is the modern concept for development

B. Political growth is the modern concept for development

C. Sustainable growth is the modern concept for development

D. Social growth is the modern concept for development

Answer: C. Sustainable growth is the modern concept for development

19. Which of the following statements is correct?

A. The Chipko movement was about banning the use of chlorofluorocarbon, bromine and chlorine compounds

B. The Kyoto protocol was about banning the use of chlorofluorocarbon, bromine and chlorine compounds

C. The Appiko movement was about banning the use of chlorofluorocarbon, bromine and chlorine compounds

D. The Montreal protocol was about banning the use of chlorofluorocarbon, bromine and chlorine compounds

Answer: D. The Montreal protocol was about banning the use of chlorofluorocarbon, bromine and chlorine compounds

20. Which of the following statements gives the correct meaning of absorptive capacity?

A. Absorptive capacity is defined as the ability of our environment to absorb degradation

B. Absorptive capacity is defined as the method of resource generation that is within the assimilating capacity of our environment

C. Absorptive capacity is defined as the average number of organisms that are living within a given environment

D. Absorptive capacity is defined as the minimum population that is currently surviving in the world

Answer: A. Absorptive capacity is defined as the ability of our environment to absorb degradation

21. When the term sustainable development was came in to existence?

A. 1979 B. 1980 C. 1981 D. 1982

Answer: B. 1980

22. Which of the following is not used as a strategy for sustainable development?

A. Use of bio gas B. use of solar power C. use of thermal power D. use of hydel power

Answer: C. use of thermal power

23. Central pollution control board has identified ----- categories of large and medium industries as polluting industries

A. 15 B. 17 C. 19 D. 13

Answer: B. 17

24. What does environment include?

Answer: all the biotic and abiotic elements that influence each other

25. define Bio-composting

Answer: the process of converting organic waste of various types in to natural manure

26. Define sustainable development

Answer: the development process that meets the need of present generation without compromising on the ability of the future generation to meet their needs

27. The “Agenda 21 of Rio summit of 1992 is related to?”

Answer: sustainable development

28. What is meant by environment?

Answer: the total planetary inheritance and the totality of all resources

ASSERTION AND REASON QUESTIONS

Read the following statements – Assertion (A) and reason (R). Choose one of the correct alternatives given below

OPTION A: Both assertion (A) and reason (R) are true and reason is the correct explanation of assertion. OPTION B: Both assertion (A) and reason (R) are true and reason is not the correct explanation of assertion.

OPTION C: Assertion (A) is true but reason (R) is false

OPTION D: Assertion (A) is false but reason (R) is true

1. Assertion (A): Poverty leads to environmental degradation.

Reason (R): Affluence in living standard is causing environmental degradation.

Answer: **OPTION B: Both assertion (A) and reason (R) are true and reason is not the correct explanation of assertion.**

2. Assertion (A): The crude oil reserves are going down for the entire world and countries need to find substitute fuel for crude oil.

Reason (R): A country that is dependent on imports for crude oil will demand more crude oil in the future.

Answer: **OPTION B: Both assertion (A) and reason (R) are true and reason is not the correct explanation of assertion.**

3. Assertion (A): Global warming contributes to increased financial commitments for the govt.

Reason (R): Because of this the opportunity cost of negative environmental impacts are low.

Answer: **OPTION C: Assertion (A) is true but reason (R) is false**

4. Assertion (A): In the past demand for environmental resources and services were much higher than

their supply.

Reason (R): Reversal of supply and demand relationship is responsible for degradation of the quality of environment.

Answer: **OPTION D: Assertion (A) is false but reason (R) is true**

CASE STUDY QUESTIONS

1. Read the following hypothetical text and Answer: the given questions:

Sustainable development is the synonymous in the minds of many with the color green and for good reasons. Twenty years ago, at the First Earth Summit at Rio de Janerio,

in Brazil, world leaders set out what today is conventional wisdom: social and economic human progress - cannot be divorced from environmental protection unless both are advanced together, both will flounder together. Sustainable development is as much about health, education and jobs, as it is about the ecosystems. It is about ever widening inclusion and movement away from decisions that erode democratic space and do not address social inequality, intolerance, and violence. Sustainable development is about changes that transform impoverished people, communities, and countries into informed, educated healthy and productive societies. It is about wealth creation that generates equality and opportunity. Sustainable development is about consumption and production patterns that respect planetary boundaries; it is also about increasing tolerance and respect for human rights at all levels. Building on human development legacy that oriented with economists like Amartya Sen and Mahbub UI Haq and was captured by the first Human Development Report in 1990. United Nations Development Programme (UNDP) has long promoted alternative approaches to measure human progress, along with the Human Development Index (HDI). Today, we are building on this legacy by exploring how to adjust the index to reflect environmental sustainability, so that governments and citizens might better track real progress towards truly sustainable development. This must be our collective objective.

1. Which of the following is not one of the ways to attain the goal of sustainable development? (choose the correct alternative)

- a. Use of cleaner fuels
- b. Use of traditional knowledge and practices
- c. Spreading awareness
- d. Sticking to methods to promote inequalities

Answer: sticking to methods to promote inequalities

2. State whether the given statement is true or false: As per the UNDP Report education and health are the broader issues of human development.

Answer: True

3. Sustainable development and economic growth are _____ (directly/indirectly) related. (choose the correct alternative)

Answer: Directly

4. Read the following statements - Assertion (A) and Reason (R).

Assertion (A): Sustainable development is about changes that transform impoverished people, communities, and countries into informed, educated, healthy and productive societies.

Reason (R): Sustainable development advocates about wealth creation that generates socio-economic equality and opportunity. Select the correct alternative from the following:

- a) Both Assertion (A) and Reason (R) are true.
- b) Both Assertion (A) and Reason (R) are false.

Answer: Both Assertion (A) and Reason (R) are true.

2. Read the following text and Answer: the given questions:

As a visionary and forward-looking development paradigm, SD emphasizes a positive transformation trajectory anchored essentially on social, economic and environmental factors. According to Taylor (2016), the three main issues of sustainable development are economic growth, environmental protection and social equality. Based on this, it can be argued that the concept of SD rests, fundamentally, on three conceptual pillars. These pillars are “economic sustainability”, “social sustainability”, and ‘environmental sustainability

1.The concept of sustainable development is related to----

- a. Rural development
- b. Growth rate of GDP
- c. Human development
- d. environment

Answer:; d. environment

2.The economic development that we have achieved so far has come at a very heavy Price that is environment pollution (true/falls)

Answer: true

3. Read the following text and Answer: the given questions:

The concept of 'sustainability' is gradually gaining acknowledgement throughout the world. This concept involves the demand at present and in the future, sovereignty over countries, equity among nations, natural resources, ecosystem capacity, and the integration of environmental protection and development.

Sustainability originates from ecology. The term, which first appeared in fishery and forestry, refers to a resources management strategy. The strategy allows harvesting a reasonable portion of resources, as long as the availability of the resources would not be threatened and the resources would be replenished enough to compensate for the harvesting. The definition of sustainable development laid down by the World Commission on Environment and Development as:

The paramount concept of sustainable development is promoting the advance and development of the society and simultaneously upholding environmental protection principles. Sustainable development highlights protection and improvement of the ecology when we are promoting production. Sustainable is what resources should be, to the extent that the resources is available for human use for a longer period, or even forever, to avoid their exhaustion, which would surely undermine the life.

1. Resources which get exhausted with extraction and use are known as-----?

Answer: non-renewable resources

2. Identify the two major environmental issues facing the world

Answer: Global warming and ozone depletion

3. The ability of the environment to absorb degradation is known as-----

Answer: absorptive capacity.

Read the following text and Answer: the given questions

In 1980, the International Union for Conservation of Nature published a world conservation strategy that included one of the first references to sustainable

development as a global priority and introduced the term "sustainable development". Two years later, the United Nations World Charter for Nature raised five principles of conservation by which human conduct affecting nature is to be guided and judged. Since the Brundtland Report, the concept of sustainable development has developed beyond the initial intergenerational framework to focus more on the goal of "socially inclusive and environmentally sustainable economic growth".¹ In 1992, the UN Conference on Environment and Development published the Earth Charter, which outlines the building of a just, sustainable, and peaceful global society in the 21st century. The action plan Agenda 21 for sustainable development identified information, integration, and participation as key building blocks to help countries achieve development that recognizes these interdependent pillars. Furthermore, Agenda 21 emphasizes that broad public participation in decision making is a fundamental prerequisite for achieving sustainable development

The Rio Protocol was a huge leap forward: for the first time, the world agreed on sustainability agenda. In fact, a global consensus was facilitated by neglecting concrete goals and operational details. The Sustainable Development Goals (SDGs) now have concrete targets (unlike the results from the Rio Process) but no methods for sanctions.

1. What was the theme of world sustainable development summit 2021?

Answer: redefining our common future- safe and secure environment for all

2. **The United Nations Conference on Sustainable Development (UNCSD) is also known as**

Answer: Rio 2012

(3/4 MARKS QUESTIONS AND ANSWER)

1. Define the term environment? What do you understand by study of environment?

Environment is defined as the total planetary inheritance and the totality of all resources. It includes all the biotic and abiotic factors that influence each other. Biotic elements are all living elements — the birds, animals and plants, etc. Abiotic elements are nonliving elements like air, water, land, rocks, etc.

Study of environment means study of the interrelationship between biotic and abiotic components of the environment.

2. Explain the followings (a) carrying capacity of environment (b) absorptive capacity of environment.

Carrying capacity of the environment implies that the resource extraction is not above the rate of regeneration of the resources and the wastes generated are within the assimilating capacity of environment.

Absorptive capacity of environment refers to Ability of the environment to absorb degradation.

3. Distinguish between renewable resources and non-renewable resources.

Renewable resources are those which can be used without the possibility of the resources becoming depleted that is a continuous supply of the resource remains available such as trees in the forest, fishes in the oceans etc. whereas Nonrenewable

resources refer to those resources which get exhausted with extraction and use such as fossil fuel.

4. What are the two major environmental issues facing the world today. Explain each.

(a) Global warming.

Global warming refers to gradual increase in the average temperature of earth's atmosphere and ocean. It is caused by the emission of Green House Gases, particularly, carbon dioxide. The increase in the level of carbon dioxide raises the temperature of the earth surface, accelerating the melting of polar ice. This leads to the rise in the sea level. Thus, the disturbed ecological balance leads to increasing natural calamities, posing a threat to human survival.

(b) Ozone depletion

Ozone acts as a cover for the earth surface that is very essential for the sustenance of life. It prevents the harmful ultra violet radiations from penetrating the earth surface. But its depletion is becoming a global concern these days. This is due to the excessive use of cooling substances in the air conditioners and the refrigerators. As ozone gets depleted, the possibility of ultra violet radiations penetrating to the earth surface increases posing a threat to the life on earth.

5. What are functions of Central Pollution Control Board?

The government set up central pollution control board (CPCB) in 1974. The main functions are as follows:

- a) The board investigates, collects and disseminates information relating to pollution.
- b) They provide technical assistance to the government in implementing the rules related to pollution control.
- c) They carry out awareness program through mass media.
- d) They prepare code and guidelines related to the control of pollution.
- e) They assess air quality through regulation of industries.

6. What are the four vital functions of the environment?

(a.) Environment Supplies Resources- Resources include both renewable and non-renewable. Renewable resources are those which can be used without the possibility of the resource becoming depleted or exhausted. In other words, a continuous supply of the resource remains available. Examples of renewable resources are trees in the forest and fish in the ocean. Non-renewable resources are those which get exhausted with extraction and use, E.g. fossil fuels.

(b). Environment Sustains Life- Environment includes sun, soil, water and air which are essential elements for the sustenance of human life. The carrying capacity of the environment implies that the resource extraction is not above the rate of regeneration of the resources and the waste generated are within the assimilating capacity of the environment. Carrying capacity of the environment helps to sustain life. Absence of carrying capacity of environments means absence of life.

(c) Environment Assimilates Waste-Production and consumption activities generate waste. This occurs mostly in the form of garbage. Environment absorbs garbage.

(d) Environment Enhances Quality of Life and it provides aesthetic services. Environment includes oceans, mountains, deserts, etc. Man enjoys these surroundings, adding to the quality of life.

7. Give two instances of (a) Overuse of environmental resources (b) Misuse of environmental resources.

(a) Overuse of environmental resources

Drying up of Rivers: The increase in irrigation and construction of flood storage reservoirs are resulting in the drying up of rivers

Deforestation: The continuous increase in demand due to growing population has resulted in large scale deforestation

(b) Misuse of environmental resources.

Use of Rivers to Discharge the Waste: Water is essential for life. The misuse of water as a resource is responsible for its pollution and contamination. The factors responsible for water pollution are the discharge of domestic sewage, industrial waste,

Use of Wood for Cooking Food: Wood is a non-renewable source of energy. Using wood instead of eco-friendly alternative fuels for cooking purposes brings about deforestation.

8. Define sustainable development. Mention the major aims of sustainable development.

Sustainable development is that process of development that will allow all future generation to have a potential average quality of life. The concept of sustainable development was emphasized by UNCED which defined it as development that meets the needs of present generation without reducing the ability of future generation to meet their own needs. Sustainable development is a development without damaging the environment. The present development should not be at the expense of future generation. It is a development which meets the basic needs of all people to satisfy their aspirations for a better life. Major aims are as follows:

- a) Equitable use of resources to meet the need of present and future generation without damaging our environment
- b) Preservation of the regenerative capacity of the ecological system of the world
- c) Avoiding the imposition of added costs or risk on future generation
- d) Prevent the further damage to our life support system.
- e) Conserve and nurture the biodiversity and other resources for long term food security

9. Identify six factors contributing to land degradation in India.

Some of the factors responsible for land degradation are:

- a) Loss of vegetation occurring due to deforestation
- b) Unsustainable fuel wood and fodder extraction.
- c) Shifting cultivation
- d) Encroachment into forest lands
- e) Forest fires and over grazing
- f) Non-adoption of adequate soil conservation measures. (briefly explain each)

10. What is biodiversity loss and what are its causes?

Biodiversity loss means the extinction of life forms or loss of species in a certain habitat. The main causes are increase in population and over exploitation of natural resources. So, there is an immediate need for biodiversity conservation.

11. Keeping in view your locality, describe any four strategies of sustainable development.

- a) Strategies of sustainable development in my locality can be:
- b) Solar energy may be used
- c) People should use less air conditioner.
- d) People should use herbal cosmetics.
- e) People should not use polythene bags, instead they must use bags made of paper.
- f) Use of environment friendly fuel like CNG
- g) Recycling-the household waste should be separated as bio-degradable and non- Biodegradable (briefly explain any four)

12. Mention some of the most pressing environmental concerns of India.

- a) Land degradation
- b) Biodiversity loss
- c) Air pollution
- d) Solid waste management
- e) Management of fresh water (explain each)

13. Explain how the opportunity costs of negative environmental impact are high.

Opportunity cost is the cost of next best alternative sacrificed or given up. The exploitation of both renewable and non-renewable resources has exhausted some of the vital resources and we are compelled to spend huge amounts on technology and research to explore new resources. Environmental crises are an aggregate outcome of excessive exploitation of natural resources and excessive generation of wastes. Moreover, environmental crises lead to greater incidence of respiratory and water borne diseases, necessitating higher health expenditures and investments. The costs involved in searching new alternative resources together with the greater health expenditures constitute the opportunity costs of negative environmental impact. Such opportunity costs are very high and require voluminous financial commitments for the government. The global warming and ozone depletion also contribute to increased financial commitments for the government. Thus it is clear that the opportunity costs of negative environmental impacts are high.

14. "It is our moral obligation to hand over the planet earth in good order to future Generation" do you agree?

If yes, what should be done to achieve sustainable development?

Yes. I agree with the given statement. It is our moral obligation to hand over the planet earth in good order to future generation. According to Herman Daly, a leading environmental economist, to achieve sustainable development, the following needs to be done:

- a. Limiting the human population to a level within the carrying capacity of the environment
- b. Technological progress should be input efficient and not input consuming
- c. renewable resource should be extracted on a sustainable basis
- d. Rate of depletion of non-renewable resource should not exceed the rate of creation of renewable substitutes
- e. Inefficiencies arising from pollution should be corrected.

15. Explain the following in brief:

(a) Appiko movement –

The famous Chipko Andolan (Hug the Trees Movement) of Uttarakhand in the Himalayas inspired the villagers of the Uttara Kannada district of Karnataka Province in southern India to launch a similar movement to save their forests. On 8th September 1983, when the felling of trees was started in Salkani forest in Sirsi district, 160 men, women and children of Salkani "hugged the trees" and forced the wood cutters to leave. They kept vigil in the forest over the next six weeks only after the forest officials assured the volunteers that the trees will be cut scientifically and in accordance with the working plan of the district did they leave the trees. (The local term for "hugging" in Kannada is appiko) Appiko Andolan gave birth to a new awareness all over southern India.

b) Environment Protection Act, 1986 –

In the wake of the Bhopal gas Tragedy, the government enacted the Environment Protection Act of 1986 under Article 253 of the Constitution. Passed in May 1986, it came into force on 19 November 1986. The purpose of the Act is to implement the decisions of the United Nations Conference on the Human Environment. They relate to the protection and improvement of the human environment and the prevention of hazards to human beings, other living creatures, plants and property. The Act is an "umbrella" legislation designed to provide a framework for central government coordination of the activities of various central and state authorities established under previous laws, such as the Water Act and the Air Act.

- c) **Montreal protocol** - The Montreal Protocol on Substances that Deplete the Ozone Layer is the landmark multilateral environmental agreement that regulates the production and consumption of nearly 100 man-made chemicals referred to as ozone depleting substances (ODS). When released to the atmosphere, those chemicals damage the stratospheric ozone layer, Earth's protective shield that protects humans and the environment from harmful levels of ultraviolet radiation from the sun. Adopted on 15 September 1987, the Protocol is to date the only UN treaty ever that has been ratified every country on Earth - all 198 UN Member States. All the signing members agreed to freeze the consumption and production of CFC by 2013.

16. How did Brundtland commission define sustainable development?

Sustainable development was defined in the world commission on environment and development's 1987 Brundtland report (Our Common Future) as development that meets the basic needs of all and extending to all the opportunity to satisfy their aspirations for a better life. Meeting the needs of all requires redistributing resources.

17. How has Edward Barbier defined sustainable development?

Edward Barbier defined sustainable development as one which is directly concerned with increasing the material standard of the poor at the grass root level. This can be measured in terms of increased income, real income, educational services, and health care, water supply etc. sustainable development aims at decreasing the absolute poverty of the poor by providing lasting and secure livelihood that minimizes recourse depletion.

6.MARKS QUESTIONS WITH ANSWER

1. Outline the strategies involved in attaining sustainable development in India.

Steps or Strategies to Achieve Sustainable Development in India:

- Use of Non-Conventional Sources of Energy
- Use of LPG, Gobar Gas in Rural Areas
- Use of CNG in Urban Areas
- Use of Wind Power
- Solar Power through Photovoltaic Cells
- Mini-Hydel Plants
- Traditional Knowledge and Practices
- Bio composting
- Bio-pest Control. (briefly explain each)

2. On December 20, 2021, the following news was printed in Hindustan times and Hindu “Delhi air quality turns hazardous and government has imposed restriction on construction activities”. Under this context define what is air pollution? What possible steps can be taken to control air pollution?

Air pollution is the polluting of natural air by the presence of various pollutants such as toxic gases and chemicals. This form of contamination can be created by burning materials, gases emitted by vehicles, or hazardous fumes emitted as a byproduct of industry.

According to experts, one of the most serious side effects of air pollution is global warming. Because of the high degree of industrialization, air pollution is a major concern throughout the world, particularly in large cities like Delhi. The release of such air pollutants in high quantities, such as smog, particles, solid materials, and so on, is settling over the city, generating air pollution and posing health risks to the population. The following are some methods for reducing air pollution:

- 1) Promotion of public transport instead of private vehicles like use of Delhi metro
- 2) Promotion of cleaner fuels in vehicles like use of CNG instead of petrol and diesel
- 3) Industrial estates should be located away from residential areas.
- 4) Poisonous gases should be removed by running the vapors through a water tower scrubber
- 5) Control construction activities.
- 6) Attempts should be undertaken to produce pollution-free automotive fuels, such as alcohol, hydrogen, and battery power. Automobiles should have exhaust emission controls.
- 7) Growing plants that can metabolize nitrogen oxides and other gaseous pollutants,
- 8) Research and development of non-combustible energy sources, such as nuclear power, geothermal power, solar power, tidal power, wind power, and so on.

- 9) In nations such as India, traditional fuel sources such as wood, coal, and so on should be reconsidered in favor of newly developed smoke-free furnaces. Filtering, settling, dissolving, absorption, and other methods of mitigating air pollution are examples.
- 10) Burning of leaves, plastic, trash etc., and burning of crackers should be avoided as much as possible.
- 11) Practicing recycling and reuse.

3. Is environmental crisis a recent phenomenon? If so, why?

Yes, the environmental crisis is a very recent phenomenon; the sparks of such crisis were never visible in the past. In the early centuries before industrialization, the population growth was very slow. The demand of the environmental resources was much lower than its supply. Environment supported the world's population in the past as the rate of usage of the resources was lesser. Also, the rate of regeneration of resources exceeded the rate with which the resources were exploited.

In other words, the threat of environment crisis was never felt in the past as the exploitation of natural resources was within the carrying capacity of the environment. So, environmental problems did not arise. But, with population explosion and with the advent of rapid industrialization, and urbanization, man has started exploiting nature to its maximum. The result was that the demand for resources for both production and consumption went beyond the rate of regeneration of the resources. Nuclear and industrial wastes being dumped into the water bodies, pollution of land and air has affected the environment. This trend continues even today.

4. Highlight any two serious adverse environmental consequences of development in India. India's environmental problems pose a dichotomy—they are poverty induced and, at the same time, due to affluence in living standards. Is this true? Explain

Answer: Some of the serious adverse environmental issues or consequences of development in India are land degradation, deforestation and air pollution. etc. The developmental activities in India exerted tremendous pressure on the natural resources and also affected human health and wellbeing.

- **Land Degradation:** The gradual but consistent loss of fertility of land is referred to as degradation of land. This is emerging as a serious concern in the context of environmental issues in India. The following are the factors that contribute to land degradation in India: Unsustainable fuel wood and fodder extraction. Shifting cultivation, Encroachment into forest lands, Forest fires and over grazing etc.
- **Air pollution:** in India, air pollution is wide spread in urban areas where vehicles are the main contributors. Air pollution leads to health issues and causes serious damage to the eco system. Air pollution is the polluting of natural air by the presence of various pollutants such as toxic gases and chemicals. This form of contamination can be created by burning materials, gases emitted by vehicles, or hazardous fumes emitted as a byproduct of industry.

The environmental problems point to the paradoxical situation or dichotomy (contrast between two things are called dichotomy) in the country.

- (a) Poverty: is causing environmental degradation through cutting down of trees, over grazing of animals, Deforestation in India is a rapid consequence of population explosion and widespread poverty. The poor people in the rural areas are compelled to fell trees for earning their livelihood
- (b) Affluence: in living standard is causing environmental degradation because with affluence, the demand for goods and service increase like anything. Higher demand necessitates the need for increase in production. For increasing the production, the demand for natural resources increases. The growing demand for natural resources to carry out production activity in the urban areas is also equally responsible for the present environmental degradation.

5. India has abundant natural resources - substantiate the statement.

Answer: India is fortunate enough to have abundant natural resources. It comprises of rich and fertile soil, plenty of rivers and tributaries, green forests, mineral deposits, mountains, etc. The Indo-Gangetic plains are the most fertile, densely populated and cultivated plains in the world. It stretches from the Arabian Sea to the Bay of Bengal. The black soil of the Deccan Plateau is suitable for the cultivation of cotton in the country.

India's lush green forests serve as a natural cover for the majority of the population. India holds more than 20 % of the world's total iron ore reserves. There are mountain ranges that facilitate the operation of the mini hydel plants. It also has vast variety of flora of 15,000 species of plants. The country is also endowed with numerous minerals that are found under the earth's surface like coal, natural gas, copper, diamonds, etc.

6. State any four pressing environmental concerns of India. Correction for environment damages involves opportunity costs. Explain.

Answer: Following are some of the most pressing environmental concerns for India.

- a) Air pollution
- b) Water contamination
- c) Soil erosion
- d) Deforestation
- e) Wild life extinction etc.

It is true that Correction for environmental damages involves opportunity costs. Opportunity cost is the cost that is foregone when we make a choice or a decision. If a piece of land is to be used for wheat production then the production of say, rice, is to be sacrificed. The loss of rice production is the opportunity cost of producing wheat. In the similar way, the opportunity cost of correction for environmental damages refers to the huge amount of expenditure incurred on searching for new efficient alternatives. The heavy intensive and extensive extraction of both renewable and non-renewable resources demands expenditure for exploring new alternative resources in order to avoid an environmental crisis.

The discovery of such resources requires heavy investment by the government. Also, implementation and maintenance of these alternative resources involve very high cost. The best example is the advent of CNG in order to reduce the rising problem of pollution in Delhi. The government has incurred heavy investment to popularize CNG and to make the consumers aware regarding its uses. Therefore, the correction for environmental damages involves opportunity cost that is very high.

7.Explain the supply-demand reversal of environmental resources.

Answer: From the very inception of civilization till the advent of industrialization, the rate of extraction of the natural resources was far behind the rate of their regeneration. That is, in other words, the demand for resources falls short of the supply of the resources. The exploitation of nature by man was within the absorptive capacity of the environment.

But, in today's scenario with population explosion and industrial revolution, the demand for resources for both production and distribution has risen at a much more rapid rate. However, the rate of regeneration of these resources is relatively much lower than the rate of their extraction. In other words, the rate of consumption (demand) of the natural resources exceeds that of their supply. This is beyond the absorptive capacity of the environment and has made environmental crisis more probable. This reversal in the demand and supply relationship is referred to as the supply-demand reversal of the environmental resources.

8.“Recently Indians have drifted away from the traditional knowledge and practices that cause large scale damage to environment.” Explain how, adopting the traditional practices can be helpful in achieving the objectives of sustainable development.

Answer: Yes, recently we have drifted away from the traditional knowledge and practices and cause large scale damage to environment. Our developmental activities have resulted on environmental crisis. We were ignoring our traditional systems and practices in the name of development. the concept of sustainable development aiming at development without damaging the environment. No doubt, by adopting our traditional practices the objectives of sustainable developments can be achieved.

Traditionally Indians have been close to their environment. If we look back at our agriculture system, health care system, housing, transport etc., we find all that practices have been eco-friendly. It is time to go back. In India we have 15000 species of plants which have medicinal properties. About 8000 of these are in regular use in various systems of treatment. With the sudden onslaught of the western system of treatment we were ignoring our traditional health care systems like Ayurveda, Unani. These healthcare systems are in great demand for treating chronic health problems. Nowadays most of the cosmetic products are herbal in composition. These products are ecofriendly and are relatively free from side effect and do not involve large scale industrial and chemical processing.

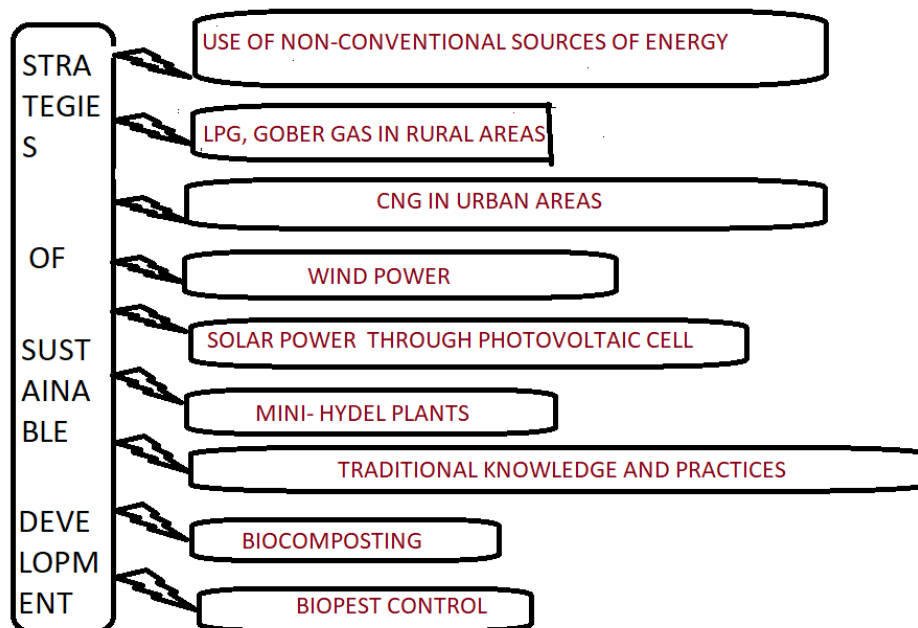
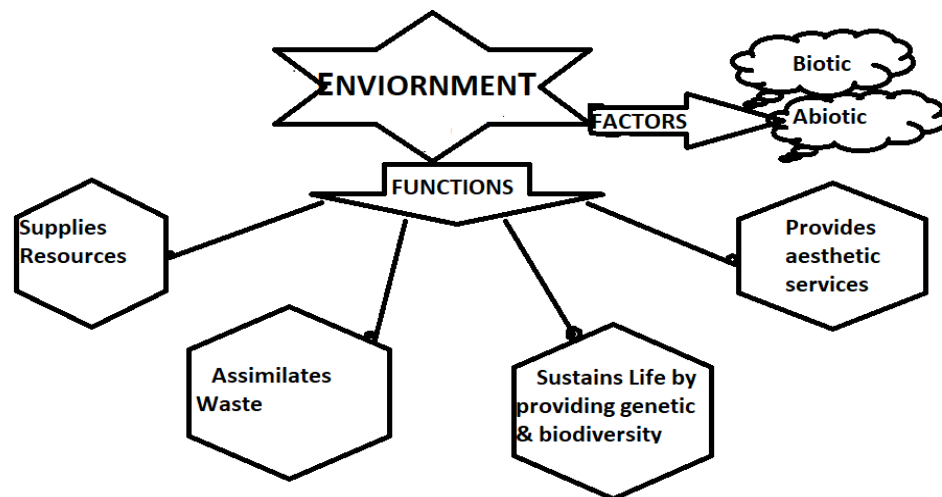
Traditional farm practices relied on the use of organic manures. No doubt we have achieved in increasing productivity. But we should not forget that there has been a serious damage to the environment in terms of depletion of water table and pollution of water. etc. Hence, it's high time that we revert back to our traditional practices, reduce environmental degradation and achieve sustainable development.

QUESTIONS FOR PRACTICE

1. What are the various causes of land degradation?
2. What is deforestation? Mention its adverse effects.

3. What are the challenges to India's environment?
4. Explain the relevance of intergenerational equity in the definition of sustainable development.
5. India has abundant natural resources-substantiate the statement.
6. Account for current environmental crisis
7. Why is sustainability important?
8. What are the 3 pillars of sustainability?

MIND MAPS



CHAPTER 8

DEVELOPMENT EXPERIENCES OF INDIA: A COMPARISON WITH NEIGHBOURS

INTRODUCTION

Over the last two decades or so, the economic transformation that is taking place in different countries across the world, partly because of the process of globalization, has both short as well as long term implication for each country, India, China and Pakistan.

Nations have been primarily trying to adopt various means which will strengthen their own domestic economies. To this effect they are forming regional and global economic grouping such as SAARC, European Union, ASEAN, G-8, G-20, BRICS etc. In addition, there is also an increasing eagerness on the parts of various nations to try and understand the developmental process pursued by their neighboring nations as it allows them to better comprehend their own strengths and weaknesses vis- a- vis their neighbors.

SIMILARITIES IN THE DEVELOPMENT STRATEGIES OF INDIA, CHINA, PAKISTAN.

- All the three nations started towards their developmental path at the same time. While India and Pakistan became Independent nations in 1947, People's Republic of China was established in 1949.
- All the three countries started planning their development strategies in similar ways. While India announced its first five-year plan for 1951-56, Pakistan announced its first five-year plan, called the medium term plan, in 1956. China announced its first five-year plan in 1953
- India and Pakistan adopted similar strategies, such as creating a large public sector and raising public expenditure on social development
- Till the 1980s, all the three countries had similar growth rate and per capita incomes
- Economic reforms took place in all the three countries. Reforms started in India in 1991, in China 1978, and in Pakistan in 1988

HISTORICAL PATH OF DEVELOPMENT POLICIES IN CHINA

The Great Leap Forward Campaign (GLF)- It was initiated in 1958 aimed at industrializing the country on a massive scale. People were encouraged to set up industries in their backyards

Problems faced by GLF Campaign

- A severe drought caused havoc in China killing about 30 million people.
- When Russia had conflict with China, it withdrew its professionals who had earlier been sent to China to help in the industrialization process

Commune System – Under the commune system, people collectively cultivated lands. In 1958, there were 26000 communes covering almost all the farm population

Great Proletarian Cultural Revolution (1966-76)- In 1965, Mao Se Tung introduced the Great Proletarian Revolution under which students and professionals were sent to work and learn from the countryside

Economic Reforms in China 1978- China’s present rapid industrial growth can be traced back to its reforms in 1978. China introduced reforms in phases

Initial Phase- Reforms were initiated in agriculture, foreign trade and investment sectors. In agriculture, commune lands were divided into small plots, which were allocated to individual households. They were allowed to keep all income from the land after paying stipulated taxes.

Later Phase- Reforms were initiated in the industrial sector

- Private sector firms, in general, and township and village enterprises in particular were allowed to produce goods
- At this stage, enterprises owned by government (known as State Owned Enterprises- SOEs) In India we call PSUs were made to face competition
- The reform process also involved **dual pricing**. This means fixing the prices in two ways- farmers and industrial units were required to buy and sell fixed quantities of inputs and outputs on the basis of prices fixed by the government and rest were purchased and sold at market prices
- In order to attract foreign investors, Special Economic Zones (ZESs) were set up

INITIATIVES TAKEN BY PAKISTAN FOR ITS ECONOMIC DEVELOPMENT

- Pakistan followed the mixed economy model
- In the late 1950s and 1960s, Pakistan introduced a variety of regulated policy framework (Import substitution based industrialization). The Policy combined tariff protection for manufacturing of consumer goods together with direct import controls on competing imports.
- The introduction of Green Revolution led to mechanization and increase in public investment, which finally led to a rise in the production of food grains.
- In the 1970s, nationalization of capital goods industries took place. During this period, Pakistan also received financial support from western nations and remittances from continuously increasing outflow of emigrants to the middle east.
- The government at that time also offered incentives to the private sector.
- In 1988 economic reforms were initiated in the country.

DEVELOPMENT EXPERIENCE– A COMPARATIVE STUDY

Salient Demographic Indicators

Country	Estimated Population (in million)	Density (per sq.km)	Annual growth of population	Sex ratio	Fertility Rate	Urbanization
India	1311	441	1.2	929	2.3	33
China	1371	146	0.5	941	1.6	56
Pakistan	188	245	2.1	947	3.7	39

Source-World Development Indicators 2017, www.worldbank.org

- (1) **Size of population-** (a) **China** has the highest population closely followed by India. India and china together are a habitat for 38% of the world’s population. (b) China with nearly 1371 million (2015) is a habitat for nearly 20 % of world population (c) India with nearly 1311million people (2015) is a habitat for nearly 18% of world population. (d) The population of Pakistan is very small and accounts for roughly about one- tenth of China or India.
- (2) **Growth rate of population-** (a) The population growth is the highest in Pakistan followed by India and China. (b) One Child Norm introduced in China in the late 1970s is the major reason for low population growth. (c) The trend of growth rate tells that the population of India would exceed China soon.
- (3) **Density of Population-** It is estimated to be 148 persons per square kilometer in China 275 per sq.km in Pakistan, and 455 persons per sq.km in India.
- (4) **Sex Ratio-** The sex ratio is low and biased against females in all three countries ‘preference for son ‘prevailing in all these countries is the reason for low sex ratio
- (5) **Urbanization-** In India 34% of population is urbanized compared with 37% in Pakistan and 59% in China.

Note- One child norm and resultant arrest in growth of population also have other implications. For instance, after a few decades, in China there will be more elderly people in proportion to young people. This led to allowing couples to have two children from 2016 and allowing three children from 2021

GDP Growth Rate

Annual Growth of GDP (in%), 1980-2015

Country	1980-90	2011-2015
India	5.7	6.7
China	10.3	7.9
Pakistan	6.3	4.0

- China has the second largest GDP of 19.8 trillion dollars. India’s GDP is 8.07 trillion dollars. Pakistan’s GDP is 0.94 trillion dollars.
- In the 1980s Pakistan was ahead of India, China was having double digit growth and India was at the bottom
- In 2011-15 there has been decline in China’s growth rates, whereas, Pakistan met with drastic decline at 4 percent. Some scholars hold the reform processes introduced in 1988 in Pakistan and political instability over a long period as reasons behind the trend.

Sectoral Contribution Towards GDP & Sectoral Share of Employment**Sectoral share of employment and GDP (%) in 2015- 2017**

Sector	Contribution to GDP			Distribution of workforce		
	India	China	Pakistan	India	China	Pakistan
Agriculture	17	9	25	42.7	17.5	42
Industry	30	43	21	23.8	26.5	3.7
Services	53	48	54	33.5	56	54.3
Total	100	100	100	100	100	100

Source: Human Development Report; key indicators of Asia and Pacific 2016

- In both India and Pakistan, the contribution of agriculture to GDP was 17 and 25 per cent, respectively, but the proportion of workforce that works in this sector is more in India. In Pakistan, about 42 per cent of people work in agriculture, whereas in India, it is 43 per cent.
- The sectoral share of output and employment also shows that in all three economies, the industry and service sector have less proportion of workforce but contribute more in terms of output
- In China manufacturing and service sector which contribute the highest to GDP at 43 and 48 per cent respectively whereas in India and Pakistan, it is the service sector which contributes the highest by more than 50 per cent of GDP
- The contribution of industries to GDP is at 30 per cent in India and 21 per cent in Pakistan.

Indicators of Human Development

<i>Item</i>	India	China	Pakistan
<i>Human Development Index (value)</i>	0.624	0.738	0.550
<i>Rank (Based on HDI)</i>	131	91	148
<i>Life Expectancy at birth (Years)</i>	68.3	76	66.4
<i>Mean years of schooling (%aged 15 and above)</i>	6.3	7.6	5.1
<i>People Below Poverty line (%) 3.10 per day</i>	37	32	44
<i>GDP per capita (PPP US Dollar)</i>	6092	14,400	4866
<i>Infant Mortality Rate (per 1000 live births)</i>	38	9	66
<i>Maternal Mortality Rate (per 1 lakh births)</i>	174	27	178

Population using improved sanitation (%)	40	77	64
Population with Sustainable access to improved water source (%)	94	96	91
Percentage of Undernourished Children	39	9	45

- China is moving ahead of India and Pakistan. This is true for many indicators of human development-(1) **Income indicators** such as GDP per capita, proportion of population below poverty line (2) **Health indicators** such as mortality rates, access to sanitation, adult literacy rate, life expectancy, malnourishment
- Pakistan is ahead of India in reducing proportion of people below the poverty line and also its performance in sanitation.
- Neither of these two countries- India and Pakistan- have been able to save women from maternal mortality.
- In China, for one lakh births, only 27 women die whereas in India and Pakistan, about 178 and 174 women die respectively.
- In China, for one lakh births, only 27 women die whereas in India and Pakistan, about 178 and 174 women die respectively

Liberty Indicators- The human development indicators given above are all extremely important indicators; but these are not sufficient. Along with these, we also need what may be called 'Liberty indicators'. liberty indicators are those indicators which represent the degree of social and political freedom to individuals in a country

Examples- A measure of the extent of democratic participation in social and political decision making

A measure of the extent of constitutional protection given to rights of citizen

A measure of the extent of constitutional protection of the independence of the judiciary and the Rule of Law

DEVELOPMENTAL STRATEGIES-AN APPRAISAL AND CONCLUSION

China

China introduced reforms in 1978 to address the slow pace of economic growth. They felt that Maoist vision of economic development based on decentralization, self-sufficiency and shunning of foreign technology, goods and capital had failed.

Various factors that led to the rapid growth in economic development in China

- Establishment of infrastructure in the areas of education and health, land reforms, long existence of decentralized planning and existence of small enterprises helped positively in improving the social and income indicators in the post reform period.
- Through the commune system, there was more equitable distribution of food grains

- Each reform measure was first implemented at a smaller level and then extended on a massive scale
- The experimentation under decentralized government created favorable condition for agriculture. It created conditions for subsequent phenomenal growth in rural industries and built up a strong support base for more reforms.

Pakistan

Reasons for the slow growth and re-emergence of poverty in Pakistan

- Agricultural growth and food supply situation were based not on an institutionalized process of technical change but on good harvest. When there was a good harvest, the economy was in good condition, when it was not, the economic indicators showed stagnation or negative trends
- If a country is able to build up its foreign exchange earnings by sustainable export of manufactured goods, it need not worry. In Pakistan most foreign exchange earnings came from remittances from Pakistani workers in the Middle –east and the exports of highly volatile agricultural products.
- There was also growing dependence on foreign loans on the one hand and increasing difficulty in paying back the loans on the other.

India

Our performance is neither so bad nor so good. GDP of Pakistan is just 11% of GDP of India. But GDP of India is just 41% of GDP of China. During the reforms, India performed moderately, but a majority of its people still depend on agriculture. Infrastructure is lacking in many parts of the country. It is yet to raise the level of more than one-fourth of its population that lives below the poverty line.

OBJECTIVE TYPE QUESTIONS

1. While India and Pakistan became independent nations in 1947, People’s Republic of China was established in
(a) 1949 (b) 1953 (c) 1958 (d) 1965

Answer:(a) 1949

2. Which of the following countries has the lowest density of population?
(a) India (b) China (c) Pakistan (d) None of the above

Answer: China

3. Special Economic Zones were set up by China to:
(a) Attract foreign investors (b) To develop the backward regions
(c) To maintain economic equality (d) To promote private sector

Answer:(a) Attract foreign investors

4. Proportion of people living below poverty line is more in---
(a) India (b) China (c) Pakistan (d) None of the above

Answer:(a) India

5. China discontinued the One child policy because:
(a) There will be more elderly people in proportion to young people.
(b) It increased the number of dependent population

(c) People became dissatisfied with the policy

(d) All the above

Answer:(d) All the above

6. First five-year plan of India was commenced in the year-----

Answer:1956

7. ----- campaign was initiated in China in 1958, aimed at industrializing the country on a massive scale

Answer: The Great Leap Forward

8. Reforms in -----were introduced in 1978 (China/Pakistan)

Answer: China

9. In 1965, Mao introduced the ----- under which students and professionals were sent to work and learn from the countryside.

Answer: The Great proletarian and cultural revolution.

10. ----- is considered as the major reason for low population growth in China

Answer: ns: One child norm

11. When were economic reforms introduced in Pakistan

a)1978

b)1980

c)1988

d)1991.

Answer: c)1988

12.Which of the following is an indicator of human development?

a) life expectancy

b) Maternal mortality rate

c)Infant mortality rate

d) All of these

Answer: d) All of these

11. Match the following

Column 1	Column 2
(a)Regional and Global economic grouping's such as the SAARC, G-8, G-20, ASEAN etc.	Students and Professionals were sent to work and learn from the country side.
(b)The Great Leap Forward campaign initiated by China in 1958	(2) Meant to strengthen the own domestic economies
(c) The Commune system in China	(3) People collectively cultivated lands
d) The Great Proletarian Cultural Revolution introduced by Mao in 1965	(4) Industrialising the country on a massive scale

Answer: a-2, b-4, c-3, d-1

12. Match the following

Column 1	Column 2
(a) High degree of urbanisation	1)India
(b) Very high fertility rate	2)China
(c) Lowest Density of population	3)Pakistan
(d) Growth due to service sector	

Answer: a-2, b-3, c-2, d-1

13. Identify the correct sequence of alternatives given in Column 11 by matching them with respective events of China in Column 1

Column 1	Column 11
(a) Introduction of Economic Reforms in China	(i) 1949
(b) Establishment of People’s Republic of China	(ii) 1953
(c) China announced its five-year plan	(iii) 1958
(d) Great Leap Forward campaign initiated in China	(iv) 1978

Answer: a-iv, b-i, c-ii, d-iii

14. What are the various means by which countries are trying to strengthen their own domestic economies?

Answer: To strengthen their own domestic economies nations are forming regional and global economic groupings such as the SAARC, European Union, ASEAN, G-8, G-20, BRICS etc.

15. Write a note on Commune system

Commune system was introduced in 1958 in China. Under Commune system people collectively cultivated lands. In 1958, there were 26000 communes covering almost all the farm population.

SHORT ANSWER QUESTIONS

1. There is also an increasing eagerness on the parts of various nations to try and understand the developmental processes pursued by their neighbouring nations. Why?

Answer: Because it allows them to better comprehend their own strengths and weaknesses and their neighbours. It is particularly essential for developing countries as they face competition not only from developed nations but also amongst themselves. Besides an

understanding of the other economies also required as all major common economic activities in the region impinge on overall human development in a shared environment.

2. India, Pakistan and China have similar physical endowments but totally different political systems. Explain.

Answer: India has the largest democracy of the world which is wedded to a secular and deeply liberal Constitution. Pakistan has militarist political power structure. China has the command economy. Recently Pakistan started moving towards a democratic system. And China towards more liberal economic restructuring.

3. What is dual pricing?

Answer: Dual pricing introduced in China as part of Economic reforms. This means fixing the prices in two ways- farmers and industrial units were required to buy and sell fixed quantities of inputs and output on the basis of prices fixed by the government and the rest were purchased and sold at market prices. Over the years, as production increased, proportion of goods and inputs transacted in the market also increased.

4. What are the factors that created conducive climate for new investments in Pakistan.?

Answer: Pakistan received financial support from western nations and remittances from continuously increasing outflow of emigrants to the middle east. The government also offered incentives to the private sector. It created a conducive climate for new investments in Pakistan.

5. Though China is the largest nation and geographically occupies the largest area, the contribution of agriculture to GDP was very low. Why?

Answer: In China, due to topographic and climatic conditions, the area suitable for cultivation is relatively small- only about 10% of its total land area. Until 1980s more than 80% of the people in China were dependent on farming as their sole source of livelihood. Since then the government encouraged people to leave their fields and pursue other activities such as handicrafts, commerce and transport.

6. Why did China introduce structural reforms in 1978?

Answer: China did not have any compulsion to introduce reforms as dictated by the World Bank and International Monetary Fund to India and Pakistan. The new leadership at that time in China was not happy with the slow pace of growth and lack of modernisation in the Chinese economy under the Maoist rule. They felt that Maoist vision of economic development based on decentralisation, self-sufficiency and shunning of foreign technology goods and capital had failed. Despite extensive land reforms, collectivisation, the Great Leap Forward and other initiatives, the per capita food grain output in 1978 was the same as it was in the mid -1950s.

7. What similar developmental strategies have India, China and Pakistan followed for their respective developmental paths?

Answer: All the three nations have started towards their developmental path at the same time. While India and Pakistan became independent nations in 1947, People's Republic of China was established in 1949.

India announced its first Five Year plan for 1951-56, Pakistan announced its first five-year plan called Medium term plan in 1956 and China announced its First five-year plan in 1953.

India and Pakistan adopted similar strategies such as –creating a large public sector and raising public expenditure on social development.

8. Describe the path of developmental initiatives taken by Pakistan for its economic development.

- a) In the late 1950's and 1960's Pakistan introduced a variety of regulated policy framework (for import substitution –based industrialisation). The policy combined tariff protection and direct import controls.
- b) The introduction of Green Revolution led to mechanisation in infrastructure, which led to a rise in the production of food grains.
- c) In the 1970's nationalisation of capital goods industries took place.
- d) Pakistan shifted its policy orientation in the late 1970s and 1980s to denationalisation and encouragement of private sector. During this period Pakistan received financial support from western nations and remittances from Pakistani workers in the middle-east. The government also offered incentives to the private sector. All these stimulated economic growths.
- e) In 1988 economic reforms were initiated in Pakistan.

9. Evaluate various factors that led to the rapid growth in economic development in China.

Answer: Following are various factors that led to the rapid growth in economic development in China

- a) Establishment of infrastructure in the areas of education and health, land reforms, long existence of decentralised planning and existence of small enterprises had helped positively in improving the social and income indicators in the post reform period.
- b) Through the commune system, there was more equitable distribution of food grains.
- c) Each reform measure was first implemented at a smaller level and then extended on a massive scale.
- d) The handing over of plots of land to individuals for cultivation after the reform, brought prosperity to vast number of poor people. It created conditions for the subsequent phenomenal growth in rural industries and build up a strong support for more reforms.

10. Explain the Great Leap Forward campaign of China and state the problems which GLF campaign met with.

Answer: The Great Leap Forward (GLF) campaign was initiated in China in 1958, which aimed at industrialising the country on a massive scale. People were encouraged to set up industries in their backyards. GLF campaign met with many problems. A severe drought caused havoc in China killing about 30 million people. When Russia had conflict with

China, it withdrew its professionals who had earlier been sent to China to help in the industrialisation process.

11. “The present day fast industrial growth in China can be traced back to the reforms introduced in 1978” Defend or refute the above statement.

Answer: The given statement is correct.

i) In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors.

For instance, in agriculture commune lands were divided into small plots which were allocated to individual households. They were allowed to keep all income from the land after paying taxes.

ii) In the latter phase, reforms were initiated in the industrial sector. Private sector firms and township and village enterprises were allowed to produce goods. At this stage, State Owned Enterprises (SOE) were made to face competition.

(iii) The reform process also involved ‘dual pricing’. This means fixing the prices in two ways- farmers and industrial units were required to buy and sell fixed quantities of inputs and output on the basis of prices fixed by the government and the rest were purchased and sold at market prices. Over the years, as production increased, proportion of goods and inputs transacted in the market also increased.

iv) In order to attract foreign investors, special economic zones were set up.

12. “In Pakistan the Reform process led to worsening of all the economic indicators. However, during the last few years, Pakistan has recovered its economic growth and has been sustaining.” Do you agree with this statement?

Answer: The given statement is correct.

The reform process introduced in Pakistan led to declining growth rate in Pakistan. The annual growth of GDP was 6.3 percent during 1980-90, which decreased to 5.3 percent during 2015-2017. The proportion of poor in 1980s was 25%, which started rising again during 1990s. The reasons for the slow-down of growth and re-emergence of poverty in Pakistan’s economy are as follows:

i) **Volatile performance of agriculture sector-** Agricultural growth and food supply situation were based not on an institutionalised process of technical change but on good harvest. When there was good harvest, the economy was in good condition, when it was not, the economic indicators showed stagnation or negative trends.

ii) Over-dependence on remittances and foreign aid. -In Pakistan most foreign exchange earnings came from remittances from Pakistani workers in the middle east and the exports of highly volatile agricultural products. There was also growing dependence on foreign loans, and increasing difficulty in paying back loans.

iii) Political instability over a long period time.

LONG ANSWER: QUESTIONS

1. Explain the Demographic indicators of China, Pakistan and India.

Answer: i) Population: The population of China is the highest followed by India. Out of every six persons living in this world, one is an Indian and another a Chinese. The population of Pakistan is very small.

Country	Estimated population (in million) (2015)
India	1311
China	1371
Pakistan	188

ii) Population Density: Though China is the largest nation and geographically occupies the largest area among the three nations, its density is the lowest.

Country	Density (per sq.km)
India	441
China	146
Pakistan	245

iii) Annual growth of Population: The population growth is the highest in Pakistan, whereas it is the lowest in China. 'One Child norm' introduced in China in the late 1970s is the major reason for low population growth in China. The annual population growth rate of India is in the danger zone of more than 1% p.a. India will be overtaking China as the most populous country in the world in near future.

Country	Annual Growth of population (2015)
India	1.2
China	0.5
Pakistan	2.1

(iv) Child sex ratio: The child sex ratio is low and biased against females in all three countries Preference for the son may be the reason. Amongst the three countries, India has most skewed data sex ratio (929 females per 1000 males). This is one of the major concerns for the demographers in India.

Country	Child sex ratio (2015)
India	929
China	941
Pakistan	947

(v)Fertility rate: The fertility rate is low in China and very high in Pakistan.

Country	Fertility rate (2015)
India	2.3
China	1.6
Pakistan	3.7

vi)Urbanisation: Urbanisation is high in China with India having only 33% of its people living in urban areas.

Country	Urbanisation (2015)
India	33%
China	56%
Pakistan	39%

2. China is ahead of India and Pakistan on many human development indicators. Explain various factors that led to the rapid growth in economic development in China.

Answer: China is moving ahead of India and Pakistan in terms of Human Development indicators as shown below:

HD Indicators	India	China	Pakistan
Life expectancy	68.8	76.4	66.6
People below poverty line	60.4	23.5	46.4
Infant Mortality Rate	34.6	8.5	64.2
Maternal Mortality Rate	174	27	178

Following are some of the reasons for growth in economic development in China.

- Establishment of infrastructure in the areas of education and health, land reforms, long existence of decentralised planning and existence of small enterprises helped positively in improving the social and income indicators in the post reform period.
 - Through the commune system, there was more equitable distribution of food grains.
 - Each reform measure was first implemented at a smaller level and then extended on a massive scale.
 - The experimentation under decentralised government enabled to assess the economic, social, and political costs of success or failure. For instance, when reforms were made in agriculture by handing over plots of land to individuals for cultivation, it brought prosperity to a vast number of poor people. It created conditions for the subsequent phenomenal growth in rural industries and built up a strong support base for more reforms.
3. What is the trend of GDP growth rate in India, China and Pakistan?

Answer: Till the late 1970s, India, China and Pakistan—all the three countries were maintaining the same level of low development. The last three decades have taken these countries to different levels.

Annual Growth Rate trends in India, China and Pakistan

Country	1980-90	2015-2017
India	5.7	7.3
China	10.3	6.8
Pakistan	6.3	5.3

INDIA

- The annual growth of GDP increased moderately from 5.7% during 1980-90 to 7.3% during 2015-2017. The share of service sector in GDP is the largest (53%)
- A majority of its people still depend on agriculture. In 2015-2017 about 43% of India workforce was engaged in agriculture. In 2015-2017 about 43% of India workforce was engaged in agriculture.
- Infrastructure is lacking in many parts of the country.
- It is yet to raise the level of living of more than one-fourth of its population that lives below the poverty line.

PAKISTAN

- The annual growth rate of GDP has fallen from 6.3% during 1980-90 to 5.3% during 2015-2017.
- The official data of Pakistan indicate rising poverty there. The proportion of poor which was 25% in 1980s started rising again in 1990s.
- Political instability over a long period of time, over-dependence on remittances and foreign aid and volatile performance of agricultural sector are the reasons for the slowdown of the Pakistan economy.

CHINA

- In China, the lack of political freedom and its implications for human rights are major concerns; yet in the last three decades, it used the market system without losing political commitment and succeeded in raising the level of growth along with alleviation of poverty.
 - China has used the market mechanism to create additional social and economic opportunities.
 - By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas.
 - Public investment in social infrastructure brought about positive results in human development indicators in china.
4. **“In the normal course of development, countries first shift their employment and output from agriculture to industry and then to services. But in India and Pakistan, the shift is taking place directly to the service sector.” Do you agree with the above statement? Give reason.**

Answer: The statement is correct. In the normal course of development, countries first shift their employment and output from agriculture to industry and then to services. This is what is happening in China. But in India and Pakistan, the shift is taking place directly to the service sector.

Sector	India	China	Pakistan
Agriculture	17	9	25
Industry	30	43	21
Services	53	48	54
Total	100	100	100

In all three economies, the industry and service sectors contribute more in terms of output. In China, manufacturing and service sectors contribute the highest to GDP at 43 and 48 percent respectively whereas in India and Pakistan.

MIND MAPS

Similarities in development path

- All three countries started towards development path same time
- India & Pakistan got independence in 1947. People Republic of China formed in 1949
- All three countries adopted five-year plan
- Till 1980s all had similar growth rate and Per Capita Income

Structural contribution

The contribution of agriculture to GDP has fallen in all three countries.

The service sector is emerging as a major player of development in three countries

Growth Rate GDP

(2015-17)

India -7.3%

China-6.8%

Pakistan- 5.3%

Development Path of China

- Great Leap Forward Campaign -1958 for massive industrialisation of country
- Commune system where people collectively cultivated land
- Great proletarian Cultural revolution-1965
- Economic reforms -1978, under which students and professionals were sent to work in countryside
- In the first phase reforms were initiated in agriculture, foreign trade, and investment
- In the second phase reforms were initiated in industrial sector. This phase includes dual pricing and setting up of Special Economic Zones.

Development Path of Pakistan

- In 1950s and 60s introduced policies for promoting domestic industries
- Green revolution led to mechanization and rise in food grain production
- Nationalization of capital goods industries took place in 1970s
- In 1988 reforms were initiated

Human Development Indicators

AS per Human Development Report 2018, HDI for India, China and Pakistan was 0.647, 0.758 and 0.560 respectively. Accordingly, these countries were ranked at 129, 85, and 152 respectively

Indicators

China has highest life expectancy

China has highest mean years of schooling

China has highest GNP per capita

China has lowest infant mortality rate

HDI RANK 2020

INDIA – 131

CHINA -85

PAKISTAN -154

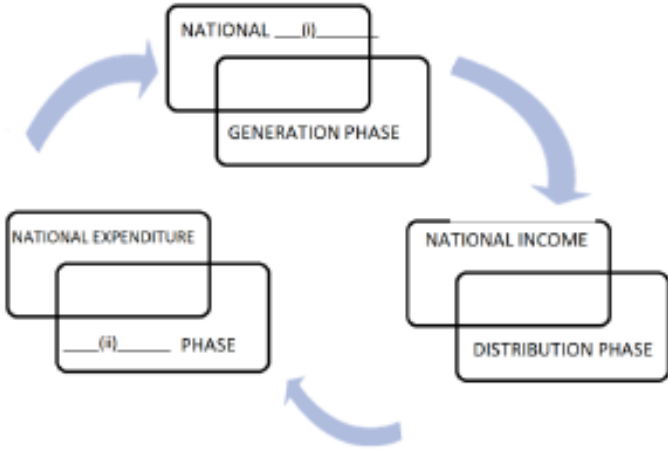


***SAMPLE
PAPERS***

CBSE SAMPLE PAPER (2022-23)**ECONOMICS (030) CLASS 12****TIME: 3 HOURS****M.M. – 80****GENERAL INSTRUCTIONS:**


- This question paper contains two sections:
Section A – Macro Economics
Section B – Indian Economic Development
- This paper contains 20 Multiple Choice Questions type questions of 1 mark each.
- This paper contains 4 Short Answer Questions type questions of 3 marks each to be answered in 60 to 80 words.
- This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.
- This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words.

Q.NO.	SECTION A – MACRO ECONOMICS	MARKS
1	<p>Read the following statements carefully:</p> <p>Statement 1: The consumption curve is an upward sloping straight line curve due to the direct relationship between income and consumption and the assumption of constant Marginal Propensity to Consume.</p> <p>Statement 2: Aggregate Demand curve and Consumption curve are parallel to each other.</p> <p>In the light of the given statements, choose the correct alternative from the following:</p> <p>a) Statement 1 is true and statement 2 is false b) Statement 1 is false and statement 2 is true c) Both statements 1 and 2 are true d) Both statements 1 and 2 are false</p>	1
2	<p>‘Owing to the Russia-Ukraine crisis, the world is experiencing rising crude prices due to supply-side issues.’</p> <p>Identify the most likely impact on the Balance of Payment situation of the Indian economy from the following:</p> <p>a) Production of cars in India will rise. b) Production and sale of cycles in India will rise. c) Inflow of US Dollars in India will rise. d) Outflow of US Dollars from India will rise.</p>	1
3	<p>_____ is an institution that accept deposits for lending purposes.</p> <p>(Fill up the blank with correct alternative)</p> <p>a) Commercial Banks b) Life Insurance Corporation c) Reserve Bank of India d) Government of India</p>	1

4	<p>Read the following statements carefully:</p> <p>Statement 1: Export of financial services by India will be recorded on credit side of current account.</p> <p>Statement 2: Foreign Direct Investments in India will be recorded on credit side of capital account.</p> <p>In the light of the given statements, choose the correct alternative:</p> <p>a) Statement 1 is true and statement 2 is false</p> <p>b) Statement 1 is false and statement 2 is true</p> <p>c) Both statements 1 and 2 are true</p> <p>d) Both statements 1 and 2 are false</p>	1
5	<p>Read the following statements carefully:</p> <p>Statement 1 - Net investment is a stock concept.</p> <p>Statement 2 - Capital is a flow concept.</p> <p>In the light of the given statements, choose the correct alternative from the following:</p> <p>a) Statement 1 is true and statement 2 is false</p> <p>b) Statement 1 is false and statement 2 is true</p> <p>c) Both statements 1 and 2 are true</p> <p>d) Both statements 1 and 2 are false</p> <p style="text-align: center;">OR</p> <p>Read the following figure carefully and choose the correct pair from the alternatives given below:</p>  <p>Alternatives:</p> <p>a) Output, Production</p> <p>b) Value added, Production</p> <p>c) Output, Disposition</p> <p>d) Wealth, Development</p>	1
6	<p>If in an economy, the value of investment multiplier is 4 and Autonomous Consumption is ₹ 30 Crore, the relevant consumption function would be :</p>	

	Balance on current account will be _____ of ₹ _____ thousand Crore. a) deficit, 10 b) surplus, 5 c) deficit, 5 d) surplus, 10	1
9	Read the following statement -Assertion (A) and Reason (R). Choose one of the correct alternatives given below: Assertion (A): Ex-post Investments represent planned Investments; whereas ex-ante Investments represent actual level of investments. Reason (R): At equilibrium level, Ex-ante Savings and Ex-ante Investments are always equal. Alternatives: a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A). c) Assertion (A) is true but Reason (R) is false. d) Assertion (A) is false but Reason (R) is true.	1
10	Read the following statement -Assertion (A) and Reason (R). Choose one of the correct alternatives given below: Assertion (A): Saving curve makes a negative intercept on the vertical axis at zero level of income. Reason (R): Saving function refers to the functional relationship between saving and income. Alternatives: a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A). c) Assertion (A) is true but Reason (R) is false. d) Assertion (A) is false but Reason (R) is true.	1
11	Suppose in a hypothetical economy there are only two Firms A and B, Firm A sold goods for ₹ 2,000 to Firm B and purchased goods for ₹ 1,000. Firm B exported goods for ₹ 2,500 and had domestic sales of ₹ 1,500. Calculate Net Domestic Product at market price, if consumption of fixed capital is ₹ 200.	3
12	Explain, how exchange rate is determined under a free market exchange rate system. OR Distinguish between autonomous and accommodating transactions in Balance of Payments Accounts.	3 3

13	If an economy plans to increase its income by ₹ 2,000 crore and the Marginal Propensity to Consume is 75%. Estimate the increase in investment required to achieve the targeted increase in income.	4																				
14	As per the following news published in The Economic Times on 26 th December, 2021: 'Reserve Bank of India has sold government securities worth ₹ 8,710 crore in the secondary market, over the last four weeks, to drain out excessive liquidity'. Identify the likely cause and the consequences behind, this type of action plan of the Reserve Bank.	4																				
15	<p>Read the following text carefully, discuss briefly the relevant function of the Central Bank, indicated :</p> <p>Recently, Reserve Bank of India (RBI) conducted a statutory inspection for supervisory evaluation against a Commercial Bank. The commercial bank was imposed with stringent penalties, owing to deficiencies in regulatory compliances.</p> <p>As per the Central Bank, the inspection revealed non-compliances vis-à-vis different directions issued by RBI, on the following fronts:</p> <ol style="list-style-type: none"> ATM Card frauds Ensuring integrity and quality of data Loans to small borrowers <p style="text-align: right;">(adapted/moderated -livemint.com)</p> <p style="text-align: center;">OR</p> <p>'Reserve Ratio and Credit Creation are inversely related.' Do you agree with the given statement? Justify your answer with a suitable numerical example.</p>	4																				
16	<ol style="list-style-type: none"> Define Gross Domestic Product (GDP) deflator and discuss its importance. State and discuss any two precautions to be considered while estimating national income by Expenditure Method. 	3 3																				
17	<p>a) Compare the trends depicted in the figures given below:</p> <div style="display: flex; justify-content: space-around;"> <div data-bbox="331 1355 869 1691"> <p style="text-align: center;">Figure 1: Trends in Fiscal deficit and primary deficit</p> <table border="1"> <caption>Data for Figure 1: Trends in Fiscal deficit and primary deficit</caption> <thead> <tr> <th>Year</th> <th>Fiscal Deficit (lakh crore)</th> <th>Primary Deficit (lakh crore)</th> </tr> </thead> <tbody> <tr> <td>Apr-Nov 2019</td> <td>8.1</td> <td>4.7</td> </tr> <tr> <td>Apr-Nov 2020</td> <td>10.8</td> <td>6.9</td> </tr> <tr> <td>Apr-Nov 2021</td> <td>7.0</td> <td>2.4</td> </tr> </tbody> </table> <p style="text-align: center;">Source: CGA Monthly Accounts</p> </div> <div data-bbox="877 1355 1332 1691"> <p style="text-align: center;">Figure 2: Fiscal deficit as a per cent of Budget estimate</p> <table border="1"> <caption>Data for Figure 2: Fiscal deficit as a per cent of Budget estimate</caption> <thead> <tr> <th>Year</th> <th>Fiscal deficit as a per cent of BE</th> </tr> </thead> <tbody> <tr> <td>Apr-Nov 2019</td> <td>114.8</td> </tr> <tr> <td>Apr-Nov 2020</td> <td>135.1</td> </tr> <tr> <td>Apr-Nov 2021</td> <td>46.2</td> </tr> </tbody> </table> </div> </div> <p style="text-align: center;">OR</p> <ol style="list-style-type: none"> Elaborate the objective of 'allocation of resources' in the Government budget. Distinguish between revenue receipts and capital receipts of the government, with suitable examples. Distinguish between direct and indirect taxes, with suitable examples. 	Year	Fiscal Deficit (lakh crore)	Primary Deficit (lakh crore)	Apr-Nov 2019	8.1	4.7	Apr-Nov 2020	10.8	6.9	Apr-Nov 2021	7.0	2.4	Year	Fiscal deficit as a per cent of BE	Apr-Nov 2019	114.8	Apr-Nov 2020	135.1	Apr-Nov 2021	46.2	3 3 3
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	<p>a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p> <p>b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).</p> <p>c) Assertion (A) is true but Reason (R) is false.</p> <p>d) Assertion (A) is false but Reason (R) is true.</p>	1
27	<p>Read the following statement -Assertion (A) and Reason (R). Choose one of the correct alternatives given below:</p> <p>Assertion (A): In the late 1970s, China's population growth rate had sharply declined.</p> <p>Reason(R): China has witnessed an increase in the proportion of elderly people owing to stringent family planning programmes.</p> <p>Alternatives:</p> <p>a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p> <p>b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).</p> <p>c) Assertion (A) is true but Reason (R) is false.</p> <p>d) Assertion (A) is false but Reason (R) is true.</p>	1
28	<p>Interpret the given picture on account of current environmental challenges.</p>  <p>Source: https://www.theenvironmentalblog.org/current-environmental-issues</p>	3
29	<p>Defend or refute the following statement with valid explanation: 'Disguised unemployment is a common form of unemployment in rural India'</p> <p style="text-align: center;">Or</p> <p>Critically evaluate the role of rural banking system in the process of rural development in India.</p>	3 3
30	<p>Compare and analyse the following information related to Imports and Exports of the three neighbouring nations:</p>	

Country	Exports from India (in ₹ Crore)			Imports to India (in ₹ Crore)		
	2004-05	2018-19	Annual rate of growth (%)	2004-05	2018-19	Annual rate of growth (%)
Pakistan	2,341	14,426	3.7	427	3,476	5.1
China	25,232	1,17,289	2.6	31,892	4,92,079	10.3

4

- 31 a) Name any one Maharatana company.
b) 'Land ceiling promotes equity.' Support the given statement with valid explanation.

OR

Discuss briefly, how institutional reforms (land reforms) have played a significant role in transforming Indian agriculture.

1
3

4

- 32 State whether the following statements are true/false, with valid arguments:
a) Human Capital and Human Development are one and the same thing
b) India has a poor stock of technical manpower.

2
2

- 33 a) Define agricultural marketing.
b) Discuss briefly the importance of micro-credit programmes in rural development.
c) Enlist any two problems faced by farmers in the initial years of organic farming.

OR

- a) "India has failed to implement the recommendations of Education Commission of 1964 -66." Give valid arguments in support of the given statement.
b) 'Casual wage work is the major source of employment in rural India '. Defend or refute the given statement with valid reason.

2
2
2

3

3

- 34 Read the following text carefully and answer the given questions on the basis of the same and common understanding:

The Green Revolution in India began in the mid-1960s marking a transition from traditional agriculture in India to high-yielding varieties of seeds and the associated modern agricultural techniques. The need for introduction of Green Revolution in India arose due to a shortage of food-grains in the post-independent period.

The government in the post-independent India wanted to ensure self-dependence in terms of food-grain production. Such efforts coincided with the development of high-yielding varieties of seeds of wheat developed by Dr. Norman Borlung and his associates in Mexico. These seeds also necessitated changes in farming techniques such as the addition of fertilizers, pesticides and better irrigation facilities. High yielding varieties of seeds were first introduced in India in the states of Punjab, Haryana and parts of western Uttar Pradesh.

In the early period of the green revolution in India, the focus was to acclimatise the new system with the more resource-intensive agricultural methods. The argument for introducing the new crop varieties was to increase agricultural production in terms of higher crop yields. The seeds introduced during the early period of the green revolution in Punjab were not high-yielding by themselves. These high yields were possible due to the seeds being highly responsive to certain inputs such as irrigation water and fertilizers.

The green revolution in India, thus, necessitated a resource-intensive process whereby, those who could make significant capital investments could benefit, whereas, those others became more marginalized in regions affected by practices of the green revolution in India. On one hand, the results derived from the green revolution helped farmers to increase their yield and income and on the other hand, it helped the government to procure and preserve more food grains through agencies like Food Corporation of India. These food grain reserves were helpful in creation of buffer stocks in India, which helped in the situations of adversities.

3

3

- a) Why was Green revolution implemented and how did it benefit the farmers?
- b) Justify the following statement with valid explanation:
'Green revolution enabled the government to procure sufficient food grains to build its stocks that could be used during time of shortage'.

MARKING SCHEME - SAMPLE QUESTION PAPER (2022-23)**ECONOMICS (030) CLASS 12**

Q.NO.	SECTION A – MACRO ECONOMICS	MARKS																
1	c) Both statements 1 and 2 are true	1																
2	d) Outflow of US Dollars from India will rise.	1																
3	a) Commercial Banks	1																
4	c) Both statements 1 and 2 are true	1																
5	d) Both statements 1 and 2 are false OR c) Output, Disposition	1 1																
6	a) $C=30+0.75 Y$ OR d) Equal to zero	1 1																
7	a) 1,2 and 3 are correct	1																
8	a) Improvement in balance of trade OR b) surplus,5	1 1																
9	d) Assertion (A) is false but Reason (R) is true.	1																
10	b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)	1																
11	<table border="1"> <thead> <tr> <th></th> <th>Value of Output (in ₹)</th> <th>Intermediate Consumption (in ₹)</th> <th>Value Addition (in ₹)</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>2,000 (to B)</td> <td>1,000 (Purchases)</td> <td>1,000</td> </tr> <tr> <td>B</td> <td>2,500 (exports) 1,500(domestic sales)</td> <td>2,000</td> <td>2,000</td> </tr> <tr> <td>Total</td> <td>6,000</td> <td>3,000</td> <td>3,000</td> </tr> </tbody> </table> <p>Net Domestic Product at MP = Gross Domestic Product at Market price – Consumption of Fixed Capital = 3,000 – 200 = ₹ 2,800</p>		Value of Output (in ₹)	Intermediate Consumption (in ₹)	Value Addition (in ₹)	A	2,000 (to B)	1,000 (Purchases)	1,000	B	2,500 (exports) 1,500(domestic sales)	2,000	2,000	Total	6,000	3,000	3,000	2 ½ ½
	Value of Output (in ₹)	Intermediate Consumption (in ₹)	Value Addition (in ₹)															
A	2,000 (to B)	1,000 (Purchases)	1,000															
B	2,500 (exports) 1,500(domestic sales)	2,000	2,000															
Total	6,000	3,000	3,000															
12	<p>Equilibrium rate of exchange is established at a point where the quantity demanded and quantity supplied of foreign exchange are equal. In the foreign exchange market, if disequilibrium occurs, it may lead to a situation of excess demand or excess supply.</p> <p>The market mechanism will drive the exchange rate back to the equilibrium level. This implies that the free market forces of demand and supply will operate in such a manner that the equilibrium rate of exchange is automatically restored.</p> <p style="text-align: center;">OR</p> <p>Autonomous transactions are those international economic transactions which are independent of the state of Balance of Payments (BOP). These transactions generally take place with 'economic motive'. These transactions are called 'above the line' transactions in the Balance of Payments account.</p> <p style="text-align: center;">Whereas;</p>	3 1½																

	Accommodating transactions are those international economic transactions which are undertaken (by competent authorities) to cover the surplus or deficit in Balance of Payments. These transactions are independent of any economic motive and are called 'below the line' transactions in the Balance of Payments account.	1½												
13	<p>Given, MPC = 0.75, $\Delta Y = ₹ 2,000$ Crore</p> $K = \frac{1}{1-MPC} = \frac{1}{1-0.75} = \frac{1}{0.25} = 4$ <p>According to the question:</p> $K = \frac{\Delta Y}{\Delta I}$ $4 = \frac{2000}{\Delta I}$ $\Delta I = \frac{2000}{4} = ₹ 500 \text{ Crore}$ <p>Therefore, increase in investment (ΔI) required = ₹ 500 Crore</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p>												
14	<p>The given instance where, Reserve Bank of India has sold government securities in the secondary market indicates towards inflation as a possible cause behind the action taken by RBI.</p> <p>By selling off the government securities, RBI withdraws money from circulation and thereby reducing the lending capacity of the commercial banks. In this process, the economy will experience contraction of credit, leading to reduction in consumption and investment demand. Consequently, the inflationary pressure in the economy will get eased out.</p>	<p>1</p> <p>3</p>												
15	<p>The given text indicates the 'supervisory function' of the Central Bank, under which the Reserve Bank of India (RBI) regulates and supervises routine functioning of the commercial banks.</p> <p>Under this function, the RBI may exercise periodic inspections/audits of commercial banks, filing of reports by commercial banks and other statutory compliances. Central bank may take necessary corrective and punitive actions against the banks owing to deficiencies in regulatory compliances.</p> <p style="text-align: center;">OR</p> <p>Yes, there exists an inverse relation between Reserve Ratio and Credit Creation in the economy.</p> <p>We know that:</p> $\text{Money Multiplier} = \frac{1}{\text{Reserve Ratio}}$ <p>Credit Creation = Initial Deposits x Money Multiplier</p> <p>Assuming that the value of initial deposits is ₹ 10,000 crore. (All figure in ₹ crore)</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Reserve Ratio</th> <th>Money Multiplier</th> <th>Initial Deposits</th> <th>Credit Creation (Initial Deposits x Money Multiplier)</th> </tr> </thead> <tbody> <tr> <td>10%</td> <td>$\frac{1}{0.1} = 10$</td> <td>10,000</td> <td>1,00,000</td> </tr> <tr> <td>25%</td> <td>$\frac{1}{0.25} = 4$</td> <td>10,000</td> <td>40,000</td> </tr> </tbody> </table> <p>From the above calculation, we can conclude that higher the reserve Ratio, lesser credit will be created by Commercial Banks in the economy.</p>	Reserve Ratio	Money Multiplier	Initial Deposits	Credit Creation (Initial Deposits x Money Multiplier)	10%	$\frac{1}{0.1} = 10$	10,000	1,00,000	25%	$\frac{1}{0.25} = 4$	10,000	40,000	<p>4</p> <p>½</p> <p>½</p> <p>3</p>
Reserve Ratio	Money Multiplier	Initial Deposits	Credit Creation (Initial Deposits x Money Multiplier)											
10%	$\frac{1}{0.1} = 10$	10,000	1,00,000											
25%	$\frac{1}{0.25} = 4$	10,000	40,000											
16	<p>a) GDP Deflator is the ratio of Nominal to Real GDP. It is a tool which is used to eliminate the effect of price fluctuations in the economy and to determine the real change in physical output of current year. GDP deflator helps in comparison of growth rate of the economy.</p> <p>b) i) Expenditure on second hand goods is not to be included in the final consumption expenditure as the production of these goods might not be attributed to the current year. ii) Expenditure on 'intermediate goods' are not to be taken into account, to avoid the problem of double counting of value of goods and services.</p>	<p>3</p> <p>1½</p> <p>1½</p>												
17	<p>a) Considering the data represented in the given diagram, trend of year-on-year deficit (reporting for April to November) may be stated as follows:</p> <p>(i) Fiscal Deficit in 2020 increased to 10.8 lakh crore from 8.1 lakh crore in 2019. In 2021 it has gone down to 7 lakh crore.</p>	<p>1</p>												

(ii)	Primary Deficit in 2020 increased to 6.9 lakh crore from 4.7 lakh crore in 2019. In 2021 it has gone down to 2.4 lakh crore.	1
(iii)	Fiscal Deficit in 2020 increased to 135.1% of Budget Expenditure from 114.8% in 2019. In year 2021, it is 46.2% of Budget Expenditure.	1
b)	Government seeks to allocate resources with a view to balance the goals of all sections of the society. Production of goods and services which are injurious to health may be discouraged through taxation policy. Similarly, production of goods of socially beneficial nature may be encouraged through subsidies. If the private sector does not take initiative in certain activities (Public Goods), the government may directly control them like water supply and sanitation etc.	3
OR		
a)	Revenue receipts are those receipts which neither creates any liabilities nor causes any reduction in the assets of the government. For example: taxes, dividends received from public enterprises etc.	1½
	Whereas;	
	Capital receipts are those receipts which either creates liabilities or causes reduction in the assets of the government. For example: borrowings, disinvestments etc.	1½
b)	Direct taxes are those taxes whose impact and incidence lies on the same entity. In other words, the liability of paying direct taxes can't be shifted. For example: income tax.	1½
	Whereas;	
	Indirect taxes are those taxes whose impact and incidence may lie on different entities. In other words, the liability of paying indirect taxes can be shifted. For example: GST.	1½

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18	b) Change in composition of India's foreign trade	1
19	a) Karve	1
	Or	
	b) 1948	1
20	a) I and II	1
	Or	
	c) Great leap forward	1
21	c) Money Lenders	1
22	b) ii – B	1
23	c). Both statements 1 and 2 are true	1
24	d). Both statements 1 and 2 are false	1
25	d). Guarding green cover	1
	Or	
	c) Use of thermal power	1
26	c) Assertion (A) is true but Reason (R) is false.	1
27	d) Assertion (A) is false but Reason (R) is true.	1
28	The given image indicates towards the environmental challenge of 'global warming'. Global warming is a gradual increase in the average temperature of the earth's lower atmosphere as a result in the increase in greenhouse gases.	3

	The statement given, ' <i>we are running out of time, act now before it's too late</i> ' represents the urgency of actions to be taken to control the situation. Various studies have shown that global warming is causing rise in sea level, loss of coastal land, increase risks of floods etc.	
29	<p>The given statement is true. Disguised unemployment is a situation where the marginal productivity of labour is zero. In India, this situation is often witnessed, as farming is more of a family affair in rural areas and most of the members are generally engaged on the farms without any direct contribution to the production process. This problem persists in rural India due to lesser availability of jobs.</p> <p style="text-align: center;">Or</p> <p>Rapid expansion of the banking system had positive effect on rural farm and non-farm output, income and employment. In spite of it, following problems have been faced in the rural banking such as-</p> <ul style="list-style-type: none"> ➤ The volume of rural credit in the country is still insufficient in comparison to its demand and institutional sources have failed to cover the entire rural farmers of the country. ➤ Less attention has been given on the credit requirements of needy (small and marginal farmers) and the problem of overdue in agricultural credit continues. 	<p style="text-align: right;">3</p> <p style="text-align: right;">1½</p> <p style="text-align: right;">1½</p>
30	<p>The above table shows that during the given periods the Exports from India to Pakistan have increased at an annualized rate of 3.7 % while the same with China shows 2.6% of growth. On the other hand, India's import from China accounted for a massive 10.3 %. The corresponding figure with Pakistan witnessed an average of 5.1% respectively.</p> <p>The situation indicates that Indian imports from China are too high in comparison to the exports to China. This shows that Indian economy was over-dependent on Chinese economy for goods and services, over the given period of time. Whereas, in case of Pakistan gap is quite narrow, which may be due to various reasons.</p>	4
31	<p>a) Indian Oil Corporation Limited.</p> <p>b) Land ceiling means fixing the maximum size of land which could be owned by an individual, beyond which it would be taken over by the government and would be allotted to landless and small farmers. The purpose of land ceiling was to reduce the concentration of land ownership in few hands and promote equity.</p> <p style="text-align: center;">OR</p> <p>After independence the government of India took several institutional/land reforms to ensure transformation of Indian agriculture, such as:</p> <ol style="list-style-type: none"> i) Land ceiling – It ensured reduction of concentration of land ownership in few hands. ii) Abolition of Zamindari system – It focused on elimination of farmers' exploitation and promotion of agricultural growth. <p>These reforms have led to stability of farming as an occupation and promoted equity.</p>	<p>1</p> <p>3</p> <p>2</p> <p>2</p>
32	<p>a) The given statement is not true to perfection. These two may sound similar but are not exactly same. Whereas, human capital considers education and health as a means to increase labour productivity, human development is based on the idea that education and health are integral to human wellbeing.</p> <p>b) The given statement is not true. India has a rich stock of scientific and technical manpower in the world. Also, India has taken a number of steps to improve it qualitatively and ensure that they are optimally utilized.</p>	<p>2</p> <p>2</p>
33	<p>a) Agriculture marketing is a process that involves the assembling, storage, processing, transportation, packaging grading and distribution of different agricultural commodities across the country</p> <p>b) Self-help groups (SHG's) have emerged to fill the gap in the formal credit system in India as its delivery mechanism has not only proven inadequate but has also not been fully integrated into the overall rural social and community development. It came up as the micro finance program. Focus of</p>	<p>2</p> <p>2</p>

	<p>SHGs is on those rural people, small and marginal farmers, agricultural and non-agricultural laborers who do not have sustainable access to formal banking system.</p> <p>c) i) Inadequate infrastructure and marketing ii) Compared to conventional farm products, organic products have more shorter shelf life span</p> <p style="text-align: center;">OR</p> <p>a) The given statement is appropriate. Over the years India has not been able to raise the educational standards to the desired level. Education Commission of 1964-66 had recommended that at least 6 % of GDP should be spent on education so as to make a noticeable rate of growth in educational achievements. However, the current expenditure level has been quite inadequate. Thus, necessary steps must be taken by the government in this direction.</p> <p>b) The given statement is refuted. In rural areas, non-farm job opportunities are limited. People generally do not show preference to acquire skill and training for non-farm occupation. They prefer to stay on family farms and fields as self-employed.</p>	<p>1 1 3</p>
34	<p>a) Green revolution was implemented in India to overcome the shortage of food-grain availability in the post-independence period. Green revolution has increased the production and productivity in the agriculture sector which was otherwise very low. It helped in improving the income of the farmers by creating marketable surplus, increased employment and output.</p> <p>b) The given statement is appropriate as the Green Revolution helped government to procure and preserve more food grains through agencies like Food Corporation of India. Increase in food grain production has been so substantial that India not only started maintaining buffer stocks of food grains but also became a dominant player in food grain exports market.</p>	<p>3 3</p>

	(or)											
	If Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) are equal, then the value of the Multiplier is _____ (choose the correct alternative) a) 1 b) 2 c) 3 d) 0											
3	<p>The following information is given for an imaginary economy.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;">Particular</th> <th style="width: 40%;">(Rs. In Crores)</th> </tr> </thead> <tbody> <tr> <td>(i) Revenue Expenditure</td> <td style="text-align: right;">45000</td> </tr> <tr> <td>(ii) Borrowings</td> <td style="text-align: right;">12000</td> </tr> <tr> <td>(iii) Revenue Receipt</td> <td style="text-align: right;">35000</td> </tr> <tr> <td>(iv) Interest Payments</td> <td style="text-align: right;">30% of Revenue Deficit</td> </tr> </tbody> </table> <p>Fiscal deficit will be _____ and Primary deficit will be _____ (Choose the correct alternative)</p> <p>a) Rs. 10000/ and Rs.8000/ b) Rs. 10000/ and Rs.9000/ c) Rs. 12000/ and Rs.9000/ d) Rs. 12000/ and Rs.5000/</p>	Particular	(Rs. In Crores)	(i) Revenue Expenditure	45000	(ii) Borrowings	12000	(iii) Revenue Receipt	35000	(iv) Interest Payments	30% of Revenue Deficit	1
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4	<p>From the statement given in column I and Column II, choose the correct pair of statement.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;">Column I</th> <th style="width: 50%; text-align: center;">Column II</th> </tr> </thead> <tbody> <tr> <td>(A) Revenue Receipt</td> <td>(i) Either creates an asset or reduces the liability of the Government</td> </tr> <tr> <td>(B) Revenue Expenditure</td> <td>(ii) Either creates an asset or reduces the liability of the Government</td> </tr> <tr> <td>(C) Capital Receipt</td> <td>(iii) Either creates any liability or reduces some asset of the Government</td> </tr> <tr> <td>(D) Capital Expenditure</td> <td>(iv) Neither creates a liability nor reduces asset of the Government</td> </tr> </tbody> </table> <p>(a) (i) (b) (ii) (c) (iii) (d) (iv)</p>	Column I	Column II	(A) Revenue Receipt	(i) Either creates an asset or reduces the liability of the Government	(B) Revenue Expenditure	(ii) Either creates an asset or reduces the liability of the Government	(C) Capital Receipt	(iii) Either creates any liability or reduces some asset of the Government	(D) Capital Expenditure	(iv) Neither creates a liability nor reduces asset of the Government	1
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5	<p>Ms. Meenaskhi a student of class XII, was asking about the reason for price rise in petroleum products due to Russia Ukraine crisis. The teacher was explaining the hike in price of crude oil by the OPEC countries in the international market.</p> <p>From the above discussion, which item of the Balance of Payment explained by them?</p> <p>(a) Visible items (b) Invisible item (c) Unilateral items (d) Capital items</p>	1
6	<p>Read the following statements carefully and choose the correct alternative from the following:</p> <p>Statement 1: In accounting sense, Balance of Payment(BOP) always remain balanced because of double entry system</p> <p>Statement 2: Imbalance in BOP account indicates that its sub accounts are imbalanced.</p> <p>Alternatives:</p> <p>a) Both the statements are true. b) Both the statements are false. c) Statement 1 is true and Statement 2 is false d) Statement 2 is true and Statement 1 is false</p>	1
7	<p>DIRECTION: Read the following statements—</p> <p>Assertion (A) and Reason(R). Choose one of the correct alternatives given below:</p> <p>Assertion(A): Higher taxes can be imposed by the Government on income earned by the rich and also on the goods consumed by them in order to reduce their personal disposable income as an objective of reducing inequalities of income and wealth.</p> <p>Reason(R): Equitable distribution of income is a way to social justice; it is the principle objective of any welfare providing country like India.</p> <p>(a)Assertion and Reason both are correct statements and Reason is correct explanation for Assertion. (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion. (c) Assertion is true but Reason is false. (d) Assertion is false but Reason is true</p>	1

8	<p>Which among the following are a part of a country's Net Domestic Product (NDP) at Market Price? (Choose the correct alternatives)</p> <ol style="list-style-type: none"> 1. Net Indirect Taxes 2. Net export 3. Net Factor Income from Abroad 4. Consumption of Fixed capital <p>Alternatives:</p> <ol style="list-style-type: none"> a) 1 and 2 only b) 1 and 3 only c) 2 and 3 only d) 3 and 4 only 	1
9	<p>Read the following statements carefully:</p> <p>Statement 1; Sum total of primary and secondary deposits is equal to total demand deposits of the Commercial Bank.</p> <p>Statement 2: Primary deposits are always more than secondary deposits.</p> <p>In the light of the given statements, choose the correct alternative from the following:</p> <ol style="list-style-type: none"> a) Statement 1 is true and statement 2 is false b) Statement 1 is false and statement 2 is true c) Both statements 1 and 2 are true d) Both statements 1 and 2 are false 	1
10	<p>DIRECTION: Read the following statements—</p> <p>Assertion (A) and Reason(R). Choose one of the correct alternatives given below:</p> <p>Assertion(A): Anything will be called money, if the law of a country proclaims it to be money. It will be commonly accepted measure of value as it will be endowed with legal tender power. Thus money is what law say it is.</p> <p>Reason(R): Limited legal tender money can be accepted up to a certain maximum limit. In India, coins up to Rs.1000 only can be accepted legally in payment. All currency note has unlimited legal tender.</p> <p>Alternatives:</p> <ol style="list-style-type: none"> (a)Assertion and Reason both are correct statements and Reason is correct explanation for Assertion. (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion. 	1

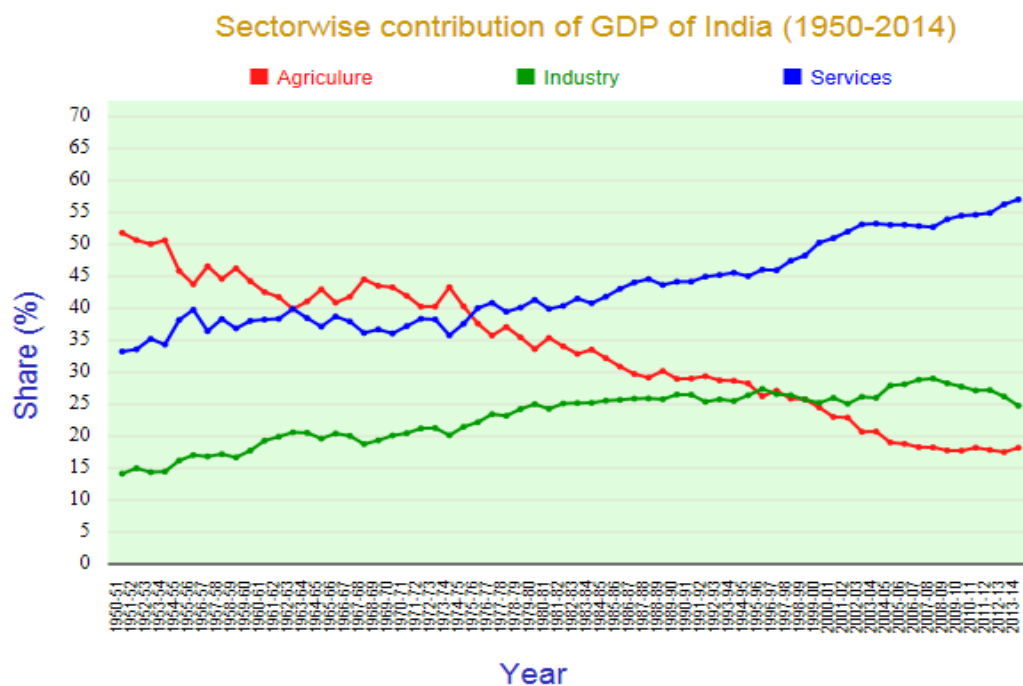
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11	<p>In an economy, following transactions took place. Calculate value of output and value added by firm B</p> <p>(i)Firm A sold to Firm B goods of Rs.80 crores; to firm C Rs. 50 crores; to households rs.30 crores and goods of value Rs. 10 crores remain unsold</p> <p>(ii)Firm B sold to firm C goods of Rs.70 crores; to firm D Rs. 40 crores; goods of value Rs. 30 crores were exported and goods of value 5 crore was sold to Government.</p>	3
12	<p>In the Government of India’s budget for the year2022-23, the Finance Minister proposed to raise the Goods and Service Tax(GST)on luxury items. She also proposed to increase Income tax on Individual earning.</p> <p>Identify and explain the type of tax proposed by the Finance Minister? What possible welfare objectives could the Government be considering?</p> <p style="text-align: center;">(or)</p> <p>Identify the following as Revenue Expenditure and Capital expenditure. Give reasons.</p> <p>(i) Expenditure on construction of Metro</p> <p>(ii) Pension paid to retired Government Employees</p>	3

13	<p>‘Growth of Indian Economy requires investment’. In this context, how Reserve Bank of Indian(RBI) can use the instrument of Cash Reserve Ratio (CRR)?</p> <p style="text-align: center;">(or)</p> <p>Explain using numerical example, how an increase in reserve deposit ratio affects the credit creation power of the banking system.</p>	4																												
14	<p>If in an Economy</p> <p>Change in Initial Investment = Rs 500 crore</p> <p>Marginal Propensity to save =0.2</p> <p>Find the values of the following:</p> <p>a) Investment Multiplier</p> <p>b) Change in Final Income</p>	4																												
15	Why does the demand for foreign currency fall and supply rises when its price rises? Explain?	4																												
16	<p>From the data, calculate (a). National Income by Income method and (b) National Income by Expenditure Method</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Items</th> <th style="text-align: center;">Rs. (in crores)</th> </tr> </thead> <tbody> <tr> <td>1.Government Final Expenditure</td> <td style="text-align: center;">790</td> </tr> <tr> <td>2.Indirect Taxes</td> <td style="text-align: center;">880</td> </tr> <tr> <td>3.Gross Fixed Capital Expenditure</td> <td style="text-align: center;">1330</td> </tr> <tr> <td>4.Mixed Income of the self-employed</td> <td style="text-align: center;">2930</td> </tr> <tr> <td>5.Subsidies</td> <td style="text-align: center;">110</td> </tr> <tr> <td>6.Change in stock</td> <td style="text-align: center;">320</td> </tr> <tr> <td>7.Rent, Interest and Profit</td> <td style="text-align: center;">960</td> </tr> <tr> <td>8.Consumption of fixed capital</td> <td style="text-align: center;">410</td> </tr> <tr> <td>9.Privater Final Consumption Expenditure</td> <td style="text-align: center;">5220</td> </tr> <tr> <td>10.Import of goods and services</td> <td style="text-align: center;">570</td> </tr> <tr> <td>11.Export of goods and services</td> <td style="text-align: center;">480</td> </tr> <tr> <td>12.Net factor income from abroad</td> <td style="text-align: center;">(-) 50</td> </tr> <tr> <td>13.Compensation of employees</td> <td style="text-align: center;">2500</td> </tr> </tbody> </table>	Items	Rs. (in crores)	1.Government Final Expenditure	790	2.Indirect Taxes	880	3.Gross Fixed Capital Expenditure	1330	4.Mixed Income of the self-employed	2930	5.Subsidies	110	6.Change in stock	320	7.Rent, Interest and Profit	960	8.Consumption of fixed capital	410	9.Privater Final Consumption Expenditure	5220	10.Import of goods and services	570	11.Export of goods and services	480	12.Net factor income from abroad	(-) 50	13.Compensation of employees	2500	6
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	(or)	
	a) Calculate GVA at factor cost from given data- Items Rs. (in crores)	(3)
	1.. Consumption of fixed capital	5
	2.Sales	100
	3.Subsidies	2
	4.Closing Stock	10
	5.Purchase of raw material	50
	6.Opening Stock	15
	7.Indirect Taxes	10
	b) How will you treat the following while estimating domestic product of India? Give reason for your answer- (i). Profits earned by a foreign company in India. (ii). Salary of Indian residents working in Russian Embassy in India.	(3)
17	Explain the how equilibrium level of income is determined with the AD-AS approach. also explain how equilibrium will be restored if AD not equal to AS	6
	SECTION B- INDIAN ECONOMIC DEVELOPMENT	
18	One of the following statements about the Indian economy is not true. Identify the statement: (a) Indian economy was flourishing before the advent of British. (b) British developed the railway system in India for their own benefit. (c) India had a sound industrial base under the British. (d) India's foreign trade throughout the colonial period was marked by a large export surplus	1
19	Arrange the following events in the correct chronological order in context of Indian economy and choose the correct alternative: (i) First phase of green revolution (ii) Launch of First Five Year Plan (iii) First Industrial policy resolution (iv) Constitution of Karve committee	1

	<p>Alternatives;</p> <p>a) (i), (ii), (iv), (iii) b) (iii), (ii), (iv), (i) c) (iv), (i), (iii), (ii) d) (iii), (i), (iv), (ii)</p> <p style="text-align: center;">(or)</p> <p>According to some Economists, which of the following arguments against the subsidy is correct?</p> <p>a) Subsidies do not benefit the poor and small farmers b) Substantial amount of subsidies goes to fertilizer industry c) Subsidies put a huge burden on government finance. d) All of these.</p>																					
20	<p>From the statement given in column I and Column II, choose the correct pair of statement:</p> <table border="1" data-bbox="188 875 1066 1267"> <thead> <tr> <th></th> <th>Column I</th> <th></th> <th>Column II</th> </tr> </thead> <tbody> <tr> <td>(A)</td> <td>Import substitution</td> <td>(i)</td> <td>Inward looking trade strategy</td> </tr> <tr> <td>(B)</td> <td>Land ceiling</td> <td>(ii)</td> <td>Three-fold classification of Industries</td> </tr> <tr> <td>(C)</td> <td>Labour intensive</td> <td>(iii)</td> <td>Land to the tiller</td> </tr> <tr> <td>(D)</td> <td>IPR 1956</td> <td>(iv)</td> <td>Small scale industries</td> </tr> </tbody> </table> <p>(a) (A), (i) (b) (B), (ii) (c) (C), (iii) (d) (D), (iv)</p>		Column I		Column II	(A)	Import substitution	(i)	Inward looking trade strategy	(B)	Land ceiling	(ii)	Three-fold classification of Industries	(C)	Labour intensive	(iii)	Land to the tiller	(D)	IPR 1956	(iv)	Small scale industries	1
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21



Source: Economic growth and employment. Tradingcampus.in

1

Picture showing sector wise contribution of GDP of India (1950-2014) % share. We see that contribution of agriculture constantly falling, service sector increases and industrial sector initially increased, but stagnant for the last few years. What can be the probable reason for decline of agriculture sector? (choose the correct alternative)

- a) Stagnant Industrial sector
- b) Expanded service sector
- c) Migration of work force from agriculture to other sectors
- d) Both (a) and (b)

22

Read the following statements carefully and choose the correct alternative from the following:

1

Statement 1: In rural area, poor people are mostly found among landless agriculture workers, Marginal farmers, landless labourers engaged in other jobs etc.

Statement 2: In urban area, poor are largely due to overflow of rural poor who had migrated urban centers in search of alternative employment.

Alternatives:

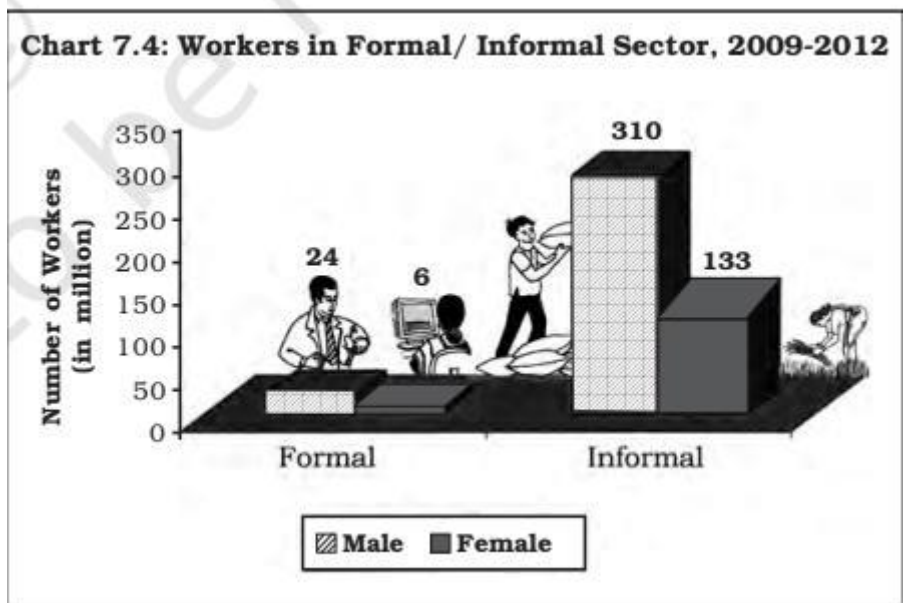
- a) Both the statements are true.
- b) Both the statements are false.

	<p>c) Statement 1 is true and Statement 2 is false</p> <p>d) Statement 2 is true and Statement 1 is false</p>	
23	<p>Human capital formation of a country leads to (choose the correct alternative)</p> <p>(a)Efficient Utilisation of resources</p> <p>(b)Increase in stock of physical capital</p> <p>(c)Increase in GDP Growth</p> <p>d)Both (a) and (c)</p>	1
24	<p>Read the following statements – Assertion (A) and Reason ®. Choose one of the correct alternatives given below:</p> <p>Assertion(A): Diversification towards a new area is necessary not only to reduce the risk from agriculture sector but also to provide productive sustainable livelihood options to rural people.</p> <p>Reason (R): Rural diversification includes two aspects – to change in cropping pattern to shift from subsistence farming to commercial farming and the other relates to a shift of work force from agriculture to other allied activities.</p> <p>Alternatives:</p> <p>a) Both Assertion (A) and Reason(R) are true and Reason (R)is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion (A)</p> <p>c. Assertion (A) is true but Reason (R) is false.</p> <p>d. Assertion (A) is false but Reason (R)is true</p>	1
25	<p>Who amongst the following, has received the greatest investment in human capital formation?</p> <p>a) A nurse in clinic who is frequently absent because of ill health</p> <p>b) A 12-year-old boy who helps his mother with construction work</p> <p>c) A girl with class X qualification who works as a store manager in a mall</p> <p>d) A computer science graduate who works at a call center.</p> <p>(or)</p> <p>Since independence, India has witnessed a considerable fall in the Infant Mortality Rate. Identify which of the following may not be one of the reasons for the fall in Infant Mortality Rate? (choose the correct alternative)</p>	1

	<p>a) Improvement in health facilities over the years b) Improvement in educational standards over the years c) Fall in standard of living of the population of the nation over the years d) Technological expansion over the years.</p>	
26	<p>Read the following statements carefully and choose the correct alternative from the following:</p> <p>Statement 1: Environment includes all the biotic and abiotic factors that influence each other.</p> <p>Statement 2: Biotic elements includes non-living elements like air, water, land etc.</p> <p>Alternatives:</p> <p>a) Both the statements are true. b) Both the statements are false. c) Statement 1 is true and Statement 2 is false d) Statement 2 is true and Statement 1 is false</p>	1
27	<p>Read the following statements – Assertion (A) and Reason ®. Choose one of the correct alternatives given below:</p> <p>Assertion (A): The Aim of Great Leap Forward (GLF) campaign initiated in China was to transform agrarian economy into a modern economy through rapid industrialisation.</p> <p>Reason (R): Under Great Leap Forward campaign, students and professionals were sent to work and learn from country side.</p> <p>Alternatives:</p> <p>a) Both Assertion (A) and Reason(R) are true and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason (R) are true and Reason(R) is not the correct explanation of Assertion (A) c. Assertion (A) is true but Reason (R) is false. d. Assertion (A) is false but Reason (R) is true</p>	1
28	<p>4. What do you understand by GST? How good is a system of GST as compared to the old tax system? State its categories.</p> <p style="text-align: center;">(or)</p>	3

	Do you think outsourcing is good for India? Why are developing countries opposing it?																					
29	<p>Sectoral contributions to GDP in % (2014-15) of three countries are given below.</p> <table border="1"> <thead> <tr> <th>Sector</th> <th>India</th> <th>China</th> <th>Pakistan</th> </tr> </thead> <tbody> <tr> <td>Agriculture</td> <td>17</td> <td>9</td> <td>25</td> </tr> <tr> <td>Industry</td> <td>30</td> <td>43</td> <td>21</td> </tr> <tr> <td>Service</td> <td>53</td> <td>48</td> <td>54</td> </tr> <tr> <td>Total</td> <td>100</td> <td>100</td> <td>100</td> </tr> </tbody> </table> <p>Analyze the data and compare them on the basis of sectoral contributions in GDP.</p>	Sector	India	China	Pakistan	Agriculture	17	9	25	Industry	30	43	21	Service	53	48	54	Total	100	100	100	3
Sector	India	China	Pakistan																			
Agriculture	17	9	25																			
Industry	30	43	21																			
Service	53	48	54																			
Total	100	100	100																			
30	<p>What similar developmental strategies have India and Pakistan followed for their respective developmental paths?</p> <p style="text-align: center;">(or)</p> <p>Group the following features pertaining to the economies of India, China and Pakistan under three heads</p> <ul style="list-style-type: none"> <input type="checkbox"/> One-child norm Low fertility rate <input type="checkbox"/> High degree of urbanisation <input type="checkbox"/> Mixed economy <input type="checkbox"/> Very high fertility rate <input type="checkbox"/> Large population <input type="checkbox"/> High density of population <input type="checkbox"/> Growth due to manufacturing sector <input type="checkbox"/> Growth due to service sector 	4																				
31	What is organic farming? How does it promote sustainable development?	4																				
32	Examine the role of education in the economic development of a nation.	4																				

33



a) Explain the concept of Informalisation. Write two differences between Formal and Informal Sector.

3

b) Developmental planning envisaged that as the economy grows, more and more workers would become formal sector workers and the proportion of workers engaged in the informal sector would dwindle. But what has happened in India? Give reason.

3

34

a) "Indian agricultural sector did not suffer due to partition" Defend or Refute?

3

b) 'Atamirbhar Bharat' had been at the root of Indian planning process in the form of 'self-reliance' as an objective of planning process. Do you agree with the given statement? Justify your answer.

3

MARKING SCHEME: SAMPLE PAPER 1

Q NO	VALUE POINT	MARKS
1	a) Statement 1 is true and statement 2 is false	1
2	a) Rs.1000 Crore (or) b) 2	1
3	d) Rs. 12000/ and Rs.5000/	1
4	c) (iii)	1
5	a) Visible items	1
6	a) Both the statements are true.	1
7	(a)) Assertion and Reason both are correct statements and Reason is correct	1

	explanation for Assertion.	
8	a) 1 and 2 only	1
9	a) Statement 1 is true and statement 2 is false	1
10	a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion. (or) c)Assertion is true but Reason is false.	1
11	Value of output of firm B=Rs. 145 crores Value added by Firm B = Rs. 65 crores.	3
12	Goods and Services Tax(GST)- Indirect tax, Income tax- Direct Tax By raising GST on luxury items will discourage the consumption of luxury goods by richer sections, by exempting necessary items without taxing will encourage consumption by poor people. By raising income tax on individual earning will reduce the gap between the rich and poor people. (or) (iii) Expenditure on construction of Metro; Capital expenditure as it increases asset of the Government (ii)Pension paid to retired Government Employees: Revenue Expenditure as it neither creates any asset nor reduces any liability of the Government.	3
13	RBI can use the instrument CRR to raise the investment level in economy which will help to boost the economic growth. If RBI lower CRR, then it will raise the lending capacity of commercial banks. As a result, borrowing from banks will increase, which will lead to rise in demand for investment funds. As investment increase, it will definitely boost up the rate of economic growth. (or) Reserve Deposit Ratio or Legal Reserve Ratio(LRR) is the minimum reserve that a commercial bank must maintain as per the instruction of the Central Bank. Credit creation is inversely related to the reserve deposit ratio. Example: Suppose LRR is 0.2 and initial deposit is Rs. 1000/ Then total credit created = $1/\text{LRR} \times \text{Initial deposit} = 1/0.2 \times \text{Rs.}1000 = \text{Rs.}5000$ Whereas, suppose LRR is 0.5 and initial deposit Rs 1000/ Then total credit created = $1/\text{LRR} \times \text{Initial deposit} = 1/0.5 \times \text{Rs.}1000 = \text{Rs.}2000/$ Thus increase in LRR will decrease the credit creation power of the Banking system.	4
14	Investment multiplier – 5 Change in income=2500	4
15	When price of foreign exchange rises, import becomes costlier, demand for import will fall. As a result, demand for foreign currency falls.	4

	When price of foreign exchange rises, domestic goods become cheaper for foreign buyers, because they can buy more from one unit of foreign currency. As a result, demand for export rise, leading to increase in supply of foreign exchange.	
16	<p>(a). National Income by Income method = Compensation of employees + Rent, Interest and Profit + Mixed Income of the self-employed + Net factor Income from abroad. $= 2500 + 960 + 2930 + (-) 50$ = Rs 6340</p> <p>(b) National Income by Expenditure Method = Private Final Consumption Expenditure + Government Final Consumption Expenditure + Export of goods and services – Import of goods and services + Gross Fixed Capital Formation + Change in Stock – Consumption of fixed capital – Indirect taxes + subsidies + Net factor income from abroad $= 5220 + 790 + 480 - 570 + 1330 + 320 - 410 - 880 + 110 + (- 50)$ = Rs 6340</p> <p style="text-align: center;">(or)</p> <p>(a). GVA at factor cost = Sales - Purchase of raw material + Closing Stock – Opening Stock – Indirect Taxes + Subsidies $= 100 - 50 + 10 - 15 - 10 + 2$ = 37 Lakhs</p> <p>(b)(i). Profit earned by a foreign company in India is a part of domestic product of India because the company is within the domestic territory of India. Hence it is included in domestic product of India.</p> <p>(ii). Salary of Indian residents working in Russian Embassy in Indian is not included in domestic product in India because Russian Embassy is not a part of domestic product of India.</p>	3+3
17	AD-AS Approach Diagram a) When $AD > AS$ b) When $AD < AS$	6
SECTION B - INDIAN ECONOMIC DEVELOPMENT		
18	(c) India had a sound industrial base under the British	1
19	c) (iii), (ii), (iv), (i) (or) d) All of these	1
20	(a) (A), (i)	1
21	c) Migration of work force from agriculture to other sectors	1
22	a) Both the statements are true	1
23	d) Both (a) and (c)	1
24	a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)	1
25	e) A computer science graduate who works at a call center (or) c) Fall in standard of living of the population of the nation over the years	1
26	Statement 1 is true and Statement 2 is false	1
27	c) Assertion (A) is true but Reason (R) is false.	1

28	<p>GST is the “single comprehensive indirect tax” on supply of goods and services right from manufacturer or service provider to the consumer. The system of GST as compared to the old tax system.</p> <ol style="list-style-type: none"> 1.It has simplified the multiplicity of taxes on goods and services. 2. The laws, procedures and rates of taxes across the country are also now standardized. 3. It has also facilitated the freedom of movement of goods and services. 4. It has created a common market in the country. The two categories of GST are CGST and SGST <p style="text-align: center;">(or)</p> <p>Yes, outsourcing is good for India. The following points justify this:</p> <p>(i)Employment: It provides employment to a large number of unemployed Indians.</p> <p>(ii)Exchange of technical know-how: Outsourcing enables the exchange of ideas and technical know-how of sophisticated and advanced technology.</p> <p>However, developed countries oppose outsourcing to India because of the following reasons.</p> <p>(I)Outsourcing leads to outflow of funds from the developed countries to India, which reduces the income disparities between two countries.</p> <p>(II)Outsourcing reduces the employment generation and creates job insecurity in the developed countries.</p>	3												
29	<p>All the three countries contribute maximum through service sector in the GDP. In Pakistan agriculture & industry contribution is almost identical in GDP. In China contribution of industry & services are almost same towards GDP</p> <p>(1x3 =3 for any 3 comparison)</p>	3												
30	<p>i). India and Pakistan follows the mixed economy model.</p> <p>(ii). Both countries introduced a variety of regulated policy framework (for import substitution).</p> <p>(iii) The introduction of green revolution and increase in public investment in infrastructure in selected areas.</p> <p>(iv). Nationalisation of capital goods industries.</p> <p>(b)- Liberty indicator is an index used to measure the participation of the people in taking decisions. Some examples of liberty indicators are the measure of the extent of the constitutional protection rights given to the citizens and the extent of independence of the Judiciary and Rule of Law.</p> <p style="text-align: center;">(or)</p> <table border="1" data-bbox="188 1585 1375 1908"> <thead> <tr> <th data-bbox="194 1594 577 1639">India</th> <th data-bbox="584 1594 967 1639">China</th> <th data-bbox="973 1594 1369 1639">Pakistan</th> </tr> </thead> <tbody> <tr> <td data-bbox="194 1648 577 1693">Mixed economy</td> <td data-bbox="584 1648 967 1693">One-child norm</td> <td data-bbox="973 1648 1369 1693">Mixed economy</td> </tr> <tr> <td data-bbox="194 1702 577 1747">High density of population</td> <td data-bbox="584 1702 967 1747">Low fertility rate</td> <td data-bbox="973 1702 1369 1747">Very high fertility rate</td> </tr> <tr> <td data-bbox="194 1756 577 1881">Growth due to service sector</td> <td data-bbox="584 1756 967 1881">Growth due to manufacturing sector</td> <td data-bbox="973 1756 1369 1881">Large population</td> </tr> </tbody> </table>	India	China	Pakistan	Mixed economy	One-child norm	Mixed economy	High density of population	Low fertility rate	Very high fertility rate	Growth due to service sector	Growth due to manufacturing sector	Large population	4
India	China	Pakistan												
Mixed economy	One-child norm	Mixed economy												
High density of population	Low fertility rate	Very high fertility rate												
Growth due to service sector	Growth due to manufacturing sector	Large population												
31	<p>Organic farming is the form of agriculture that relies on technique such as crop rotation, green manures, compost and biological pest control.</p>	4												

	It is the process of producing safe and healthy food without leaving any adverse impact on the environment. This method avoids the use of synthetically chemical fertilizers and genetically modified organism. It means organic farming promotes sustainable development.	
32	Education is considered an important input for the development of a nation. 1. Education confers higher earning capacity of people 2. It gives better social standing and pride 3. It provides knowledge to understand the changes taking place in society 4. It stimulates innovations. (any four relevant points)	4
33	a) Concept of Informalisation- Informalisation of workforce refers to a situation where there is a continues decline in the percentage of workforce in the formal sector along with simultaneous rise in informal sector's workforce Difference – Formal sectors represent all jobs with specific working hours and regular wages and the worker's job is assured. ... Conversely, informal or unorganized sectors are the ones where the employees or the workers do not have regular working hours and wages and are exempted from taxes Rigid labour laws, poor skill set, poor financial inclusion, competition has resulted in Informalisation.	3 3
34	a) The given statement is refuted. India’s agricultural production received a setback due to the country’s partition at the time of independence. * A sizable portion of highly irrigated and fertile land went to Pakistan *the whole jute producing area became the part of East Pakistan. India Jute industry suffered heavily for lack of raw materials. b) The given statement is correct. The aim of Government policy was to reduce the dependence on the foreign countries for goods, services, technology and capital. Similarly, the main thrust of the ‘Atmanirbhar Bharat, is also to make India an economy that is self-reliant and self -sufficient.	3 3

KENDRIYA VIDYALAYA SANGATHAN

ERNAKULAM REGION

SAMPLE PAPER (2022-2023) NO. 2

ECONOMICS (30)

CLASS XII

Max. Marks: 80

Time: 3 Hours

GENERAL INSTRUCTIONS:

1. This question paper contains two sections: Section A – Macro Economics Section B – Indian Economic Development
2. This paper contains 20 Multiple Choice Questions type questions of 1 mark each.
3. This paper contains 4 Short Answer Questions type questions of 3 marks each to be answered in 60 to 80 words.
4. This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.
5. This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words.

Q.NO	SECTION A – INTRODUCTORY MACROECONOMICS	MARKS
1	<p>Read the following statements carefully:</p> <p>Statement 1: when CRR is increased, credit creation capacity of commercial banks reduces.</p> <p>Statement 2: with increase in reserve ratios, banks have less funds available for loans.</p> <p>a) Statement 1 is true and statement 2 is false</p> <p>b) Statement 1 is false and statement 2 is true</p> <p>c) Both statements 1 and 2 are true</p> <p>d) Both statements 1 and 2 are falls</p>	1
2	<p>Credit creation in commercial banks is determined by</p> <p>a) Cash Reserve ratio</p> <p>b) Statutory liquidity Ratio</p> <p>c) Initial Deposits</p> <p>d) All the above</p>	1


3	<p>Assertion (A): borrowings are capital receipts but payment of interest on borrowings is revenue expenditure.</p> <p>Reason (R): borrowings create liability but payment of interest does not reduce liability.</p> <p>a) Both Assertion (A) and Reason (R) are true, (R) is correct explanation of (A).</p> <p>b) Both Assertion (A) and Reason (R) are true but (R) is not correct explanation of (A).</p> <p>c) Assertion (A) is true and Reason (R) is false.</p> <p>d) Assertion (A) is false and Reason (R) is true.</p>	1
4	<p>Progressive tax is a tax which is</p> <p>a) Charged at a decreasing rate when income of the individual increases</p> <p>b) Charged at an increasing rate when income of the individual increases</p> <p>c) A fixed percentage of an individual income</p> <p>d) None of these.</p>	1
5	<p>Suppose that the Balance of Trade of a nation, exhibits a surplus of Rs 20,000 crores. The import of merchandise of the nation is half of the exports of merchandise to the rest of the world. The value of exports would be..... crores.</p> <p>(a) 30,000</p> <p>(b) 40000</p> <p>(c) 24000</p> <p>(d) 35000</p> <p style="text-align: center;">OR</p> <p>Identify which of the following is not an example of 'invisible item' under current account of the balance of payment transactions?</p> <p>(a) Air and sea transport</p> <p>(b) Postal and courier service.</p> <p>(c) Education related travel</p> <p>(d) Merchandise linked transactions.</p>	1
6	<p>If Rs.120 are required to buy 1\$, instead of Rs.100: -</p> <p>(a) Domestic currency has appreciated</p> <p>(b) Domestic currency has depreciated</p> <p>(C) Rupee value of import bill will increase</p> <p>(d) Rupee value of export bill will decrease</p>	1

	<p style="text-align: center;">OR</p> <p>Which of the following items are excluded from GNP measurement? (A) Purely financial transactions (B) Transfer of used goods and non-market goods and services (C) Illegal activities and the value of leisure (D) All of these</p>	
7	<p>In the consumption function, $200 + 0.6Y$, the value of autonomous saving will be</p> <p>a) 200 b) -200 c) 0.6 d) 0.4</p>	1
8	<p>An economy is at full employment excess demand situation. Suggest a suitable monetary policy measure to bring the economy at full employment equilibrium</p> <p>a) Reducing excess cash reserves with commercial banks b) Encouraging borrowings of commercial banks c) enhancing the credit creating power of commercial banks. d) increasing excess cash reserves with commercial banks</p> <p style="text-align: center;">OR</p> <p>Breakeven point occurs when</p> <p>a) $Y = S$ b) $S = 0$ c) $C > Y$ d) $Y > C$</p>	1
9	<p>How are both APC and APS associated with National Income</p> <p>a) both APC and APS fall with increase in National Income b) both APC and APS rise with increase in National Income c) APC falls APS rises with increase in national income d) APC rises APS falls with increase in national income</p>	1
10	<p>Which of the following is termed as Gross Domestic Product at factor cost?</p> <p>a) It is the market value of all the final goods and services produced within domestic territory of a country. b) It is the market value of all the final goods and services produced nationally. c) It is the market value of all the final goods and services produced within domestic territory of a country less net indirect taxes.</p>	1

	d) It is the market value of all the final goods and services produced nationally less indirect taxes.	
11	Calculate 'Sales' NVA fc = 300 Intermediate consumption = 200 Indirect tax = 20 Depreciation = 30 Change in stock = (-)50	3
12	In an economy, the consumption function is $C = 500 + 0.75Y$. Calculate the equilibrium level of income and consumption expenditure, when investment expenditure is Rs.5000.	3
13	How does money overcome the problems of barter system? Explain briefly. OR Explain the significance of the unit of account function of money.	4
14	Tax rates on higher income group have been increased. Which economic value does it reflect? Explain OR Government has started spending more or providing free services like education and health to the poor. Explain the economic value it reflects.	4
15	Name the broad categories of transactions recorded in the Current account of the balance of payment accounts.	4
16	(A) Distinguish between Real Gross Domestic Product and Nominal Gross Domestic Product. Which of these is a better index of welfare of the people and why? (B) Explain why subsidies are added to and indirect taxes deducted from domestic product at market price to arrive at domestic product at factor cost?	3+3
17	Explain the determination of equilibrium level of income using 'Investment and saving' approach. Use dgm OR Show with the help of a diagram explain deflationary gap.	3+3

SECTION A – INDIAN ECONOMIC DEVELOPMENT		
18	<p>The opening of the Suez Canal in 1869</p> <p>(a). Raised the cost of goods transportation between Britain and India</p> <p>(b). Adversely affected the monopoly control of India’s foreign trade</p> <p>(c) Reduced the cost of goods transportation between Britain and India</p> <p>(d)Reduced the export of goods from India to foreign countries</p>	1
19	<p>land Reform is:</p> <p>(a) fixing the maximum size of land</p> <p>(b) to change in the ownership of land Holdings</p> <p>(c) use of new technology in agriculture sector</p> <p>(d) abolition of intermediaries</p>	1
20	<p>What was the growth rate of per capita income in India on the eve of Independence?</p> <p>(A) 0.9%</p> <p>(B) 0.5%</p> <p>(C) 1.2%</p> <p>(D) 3%</p> <p style="text-align: center;">OR</p> <p>Why there was a need for economic reforms in India?</p> <p>(A) Due to fiscal deficit</p> <p>(B) Due to adverse BOP</p> <p>(C) Rise in prices</p> <p>(D) All of the above</p>	1
21	<p>Which of the following is not a merit of human capital formation?</p> <p>(A) Improves technical knowledge</p> <p>(B) Enlarges the size of business</p> <p>(C) Increases cost of production</p> <p>(D) Changes social outlooks</p>	1

22	<p>Match and choose the correct combination.</p> <table border="1" data-bbox="204 286 1362 763"> <tr> <td data-bbox="204 286 703 450">(i) Preventive medicine</td> <td data-bbox="703 286 1362 450">(A) medical intervention during illness</td> </tr> <tr> <td data-bbox="204 450 703 607">(ii) Curative medicine</td> <td data-bbox="703 450 1362 607">(B) vaccination</td> </tr> <tr> <td data-bbox="204 607 703 763">(iii) Social medicine</td> <td data-bbox="703 607 1362 763">(C) the spread of health literacy</td> </tr> </table> <p>(A) (i) – (B); (ii) – (A); (iii) – (C) (B) (i) – (A); (ii) – (B); (iii) – (C) (C) (i) – (C); (ii) – (B); (iii) – (A) (D) (i) – (B); (ii) – (C); (iii) – (A)</p>	(i) Preventive medicine	(A) medical intervention during illness	(ii) Curative medicine	(B) vaccination	(iii) Social medicine	(C) the spread of health literacy	1
(i) Preventive medicine	(A) medical intervention during illness							
(ii) Curative medicine	(B) vaccination							
(iii) Social medicine	(C) the spread of health literacy							
23	<p>Which among the following is a process that involves the assembling, storage, processing, transportation, packaging, grading, and distribution of different agricultural commodities across the country?</p> <p>(A) Agricultural Management (B) Agricultural Banking (C) Agricultural Diversification (D) Agricultural Marketing</p>	1						
24	<p>Read the following statements-</p> <p>Assertion (A) and Reason (R). choose one of the correct alternative given below Assertion: Social medicine is a source of human capital</p> <p>Reason: Easy availability of medicine makes cure easy</p> <p>a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A</p> <p>b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A</p> <p>c) Assertion A is true but reason R is false</p>	1						

	d) Assertion A is false but reason R is true	
25	Use of which of the following has resulted in a significant reduction in Delhi's pollution? (A) LPG at homes (B) Solar cells for electricity (C) Thermal power plants (D) CNG in public transport	1
26	Which source of credit had emerged to fully integrate the formal credit system into the overall rural social and community development? (A) Self-help Groups (B) Regional Rural Banks (C) Commercial Banks (D) Land Development Banks	1
27	With which of the following concepts is the commune system associated? (A) Industrialisation (B) Human rights (C) Equal distribution of land (D) Special Economic Zones	1
28	Agriculture sector appears to be adversely affected by the reform process. Why?	3
29	Interpret the given picture on account of current Chinese economy  <p style="text-align: right;">WANG XIAOYING / CHINA DAILY</p>	3

Source:<https://www.google.co.in/url?sa=i&url=http%3A%2F%2Furope.chinadaily.com>.**OR**

China's rapid industrial growth can be traced back to its reforms in 1978. Do you agree? Elucidate.

- 30 The following table shows distribution of workforce in India for the year 1972-73. Analyze it and give reasons for the nature of workforce distribution. You will notice that the data is pertaining to the situation in India 30 years ago

4

Place of Residence	Workforce (in millions)		
	Male	Female	Total
Rural	125	70	195
Urban	32	7	39

- 31 (a) State any four pressing environmental concerns of India.
 (b) Correction for environmental damages involves opportunity costs— explain.

2+2

OR

- (a) Highlight any two serious adverse environmental consequences of development in India.
 (b) India's environmental problems pose a dichotomy — they are poverty induced and, at the same time, due to affluence in living standards—is this true?

32	<p>China's rapid industrial growth can be traced back to its reforms in 1978. Do you agree? Elucidate.</p>	4
33	<p>1) Why was it necessary for a developing country like India to follow self-reliance as a planning objective?</p> <p>2) What is sectoral composition of an economy? Is it necessary that the service sector should contribute maximum to GDP of an economy? Comment.</p> <p style="text-align: center;">OR</p> <p>1) Those public sector undertakings which are making profits should be privatized. Do you agree with this view? Why?</p> <p>2) Why has the industrial sector performed poorly in the reform period?</p>	3+3
34	<p>Read the following text carefully and answer the given questions on the basis of the same and common understanding</p> <p style="text-align: center;">We classify workers into two categories: workers in formal and informal sectors which are also referred to as organised and unorganised sectors. All the public sector establishments and those private-sector establishments which employ 10 hired workers or more are called formal sector establishments and those who work in such establishments are formal sector worker. The workers in the formal sector get regular income. They also enjoy social security benefits such as maternity benefit, provident fund, gratuity and pension. They earn more than those in the informal sector. The government through its labour laws, enable them to protect their rights in various ways. The formal sector workers form trade unions bargaining with employers for better wages and other</p>	3+3

	<p>social security measures. All those who work in the areas other than formal sector comes under Informal sector Informal sector, which includes millions of farmers and agricultural laborers, owners of small enterprises and people working in those enterprises, the self-employed people who do not have any hired workers, all non from casual wage laborers who work for more than one employer such as construction workers and head load workers.</p> <p>1) There has been a change in the structure of workforce and the nature of employment in India explains.</p> <p>2) Work plays an important role in our lives as individuals and as members of society why do people work?</p>	
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MARKING SCHEME

S.NO	ANSWERS	MAR KS
1	A	1
2	D	1
3	A	1
4	B	1
5	40000 OR D	1
6	B OR D	1
7	B	1
8	A OR B	1
9	C	1
10	C	1

11	<p>$NVA_{fc} = GVA_{mp} - \text{Depreciation} - NIT$</p> <p>$NVA_{fc} = (\text{Value of output} - IC) - \text{Depreciation} - NIT$</p> <p>$NVA_{fc} = (\text{Sales} + \text{change in stock} - IC) - \text{Depreciation} - NIT$</p> <p>$300 = \text{sales} + (-) 50 - 200 - 30 - 20$</p> <p>$300 = \text{sales} - 300$</p> <p>$\text{Sales} = 600$</p>	3
12	<p>$Y = c + I$</p> <p>$Y = 500 + 0.75 + 5000$</p> <p>$0.25y = 5500$</p> <p>$Y = 22000$</p> <p>2. $c = 500 + 0.75y$</p> <p>$C = 500 + 0.75 \times 22000$</p> <p>$C = 17000$</p>	3
13	<p>Money overcomes the problem of barter system by replacing the C-C economy with monetary economy</p> <p>(i) In a barter system, there was a problem of double coincidence of wants. It is very difficult to match the expectations of two different individuals. Thus, money was involved to overcome the problem of coincidence of wants. As it is very difficult to find two person having goods needed by the other person in the barter system of exchange.</p> <p>(ii) When there was no money, it was difficult to give common unit of value to measure goods or commodities but when money is evaluated, it gives a common unit of amount to every goods and commodities.</p> <p>(iii) Money facilitates the contractual and future payments i.e. deferred payments which, were very difficult at the time of barter system.</p> <p>(iv) Money is also a legal tender which has a general acceptance which was not the case under barter system.</p> <p style="text-align: center;">OR</p> <p>Money serves as a unit of value or common measure of value in terms of which the value of all goods and services are measured. This helps in measuring the exchange values of commodities. The prices of all the goods and services can be fixed in terms of money and the problem of expressing of the value of each commodity in terms of quantities of other goods can be avoided. This function of money makes it possible to keep business accounts. It would not be possible to keep business account unless all business transaction are expressed in terms of money.</p>	4
14	<p>The economic value that is reflected in the rise in tax rate for higher income group is the 'equality and social welfare'. The main objective of the budgetary policy of the government is to reduce inequalities of income and wealth in the country. Even distribution of wealth and social welfare remains the main objective of budgetary policy. The government uses progressive taxation policy to reduce the inequalities of income and wealth in the country. Government imposed high tax rates on higher income group and low tax rate on lower income group. People with income below a certain level are not levied any direct tax altogether. On the other hand, the government spent these tax receipts on granting subsidies and providing other public services such as health and education, to people with lower income groups, the wealth gets redistributed and reduction in inequalities is achieved.</p> <p style="text-align: center;">OR</p> <p>The economic value reflected by the above act of the government is 'Promoting Social Welfare'. The government uses the fiscal instruments of subsidies and taxation to improve the distribution of income and wealth in the economy. By spending more on</p>	4

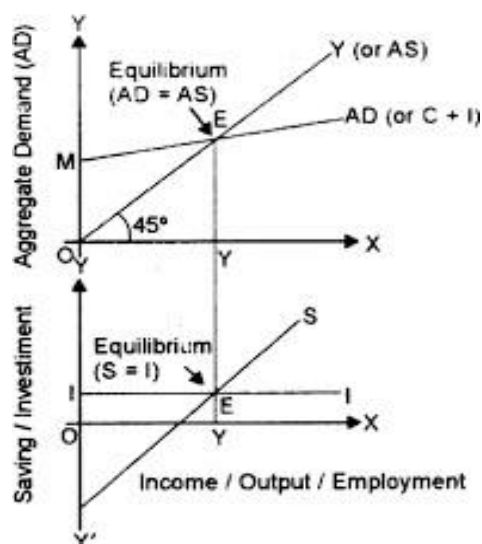
	provision of free services like education and health, government is trying to promote social justice. Social justice is the principal objective of annual budget of a developing country like India. It leads to fair and equitable distribution of income in an economy.	
15	<p>Current account records import and exports of goods and services and unilateral transfers. Components of Current Account The main components of Current Account are:</p> <ol style="list-style-type: none"> 1. Export and Import of Goods (Merchandise Transactions or Visible Trade): A major part of transactions in foreign trade is in the form of export and import of goods (visible items). Payment for import of goods is written on the negative side (debit items) and receipt from exports is shown on the positive side (credit items). Balance of these visible exports and imports is known as balance of trade (or trade balance). 2. Export and Import of Services (Invisible Trade): It includes a large variety of non-factor services (known as invisible items) sold and purchased by the residents of a country, to and from the rest of the world. Payments are either received or made to the other countries for use of these services. Services are generally of three kinds: (a) Shipping, (b) Banking, and (c) Insurance. Payments for these services are recorded on the negative side and receipts on the positive side. 3. Unilateral or Unrequited Transfers to and from abroad (One sided Transactions): Unilateral transfers include gifts, donations, personal remittances and other 'one-way' transactions. These refer to those receipts and payments, which take place without any service in return. Receipt of unilateral transfers from rest of the world is shown on the credit side and unilateral transfers to rest of the world on the debit side. 4. Income receipts and payments to and from abroad: It includes investment income in the form of interest, rent and profits. 	4
16	<p>(i) Nominal GDP is the market value of all final goods and services produced in a geographical region usually a country, on the other hand, Real GDP is a macroeconomic measure of the value of output, economically adjusted for price changes. The adjustment transforms the NominalGDP into an index for quantity of total output.</p> <p>(ii) Nominal values of GDP from different time periods can differ due to changes in quantities of goods and services and/or changes in general price levels. Values for Real GDP are adjusted for difference in price levels while figures for Nominal GDP are not adjusted.</p> <p>(II) Subsidies by government are grants that decrease the price of a commodity, whereas indirect taxes are paid by a firm and households that increase the final price of a commodity. Hence, to derive Gross Domestic Product at Factor Cost from Gross Domestic Product at Market Price, we deduct indirect taxes and add subsidies. Also subsidies are the income received while indirect taxes are paid.</p>	3+3
17	<p>According to the Keynesian theory, an economy reaches equilibrium level, when planned (ex-ante)AD for goods and services is equal to the planned (ex-ante) AS, during an accounting year.</p> <p>Full employment equilibrium is a situation, where all the resources of the country get employment. It implies that the volume of Aggregate Demand is just sufficient for the full utilization of country's available resources and the production is being done to the maximum possible resources and to themaximum possible limit. It means aggregate demand is neither in excess nor deficient.</p>	3+3

AD represents consumption and investment and AS represents consumption and saving. Hence the equilibrium level is achieved, when; $AD = AS$

From the table we can see that, when income is at Rs. 300, both ex- ante AD and ex- ante AS reach equilibrium. ($AD = AS, 300 = 300$), therefore 300 is known as equilibrium income.

At the same situation, both ex- ante Saving and ex- ante Investment also reach equilibrium. ($S = I, 20 = 20$). Therefore we can say that Rs. 300 as equilibrium level of income. This situation is also known as EFFECTIVE DEMAND situation.

The following diagram illustrates the determination of income and employment by using AD & AS and S & I analysis.

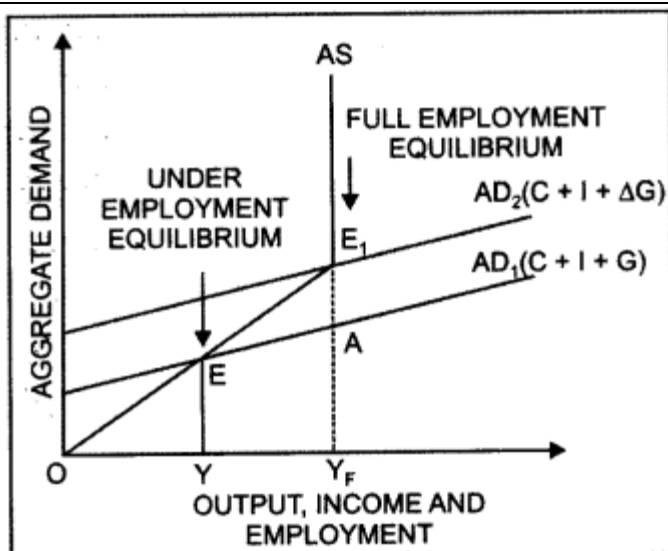


As per the above diagram, we can see that economy reaches equilibrium at 'OY' level of income, where AD equals to AS, In the same situation we could see that S & I are also equal.

The situation is also known as 'EFFECTIVE DEMAND' situation

OR

. Deflationary gap refers to the excess of available supply of output (Aggregate Supply) over the anticipated expenditure (Aggregate Demand) at constant prices of base period. It measures the gap between AD and AS at full employment level of output. Since Aggregate Demand remains less than essential demand at full employment level, the problem of involuntary unemployment takes place. Thus, there is an under employment equilibrium.



18	C	1
19	A	1
20	B OR D	1
21	C	1
22	A	1
23	D	1
24	Option (c) Social medicine is investing in spread of health literacy	1
25	D	1
26	A	1
27	C	1
28	<p>There has been deceleration in agricultural growth. This deceleration is the root cause of the problem of rural distress that reached crisis in some parts of the country. Farmers find themselves into crippling debt due to low farm incomes combined with low prices of output and lack of credit at reasonable prices. This has led to widespread distress migration.</p> <p>Economic reforms have not been able to benefit the agricultural sector because:</p> <p>(a) Liberalisation has forced the small farmers to compete in a global market where prices of goods have fallen while removal of subsidies has led to increase in the cost of production. It has made farming more expensive.</p> <p>(b) Various policy changes like reduction in import duties on agricultural products, removal of minimum support price and lifting of quantitative restrictions have increased the threat of international competition to the Indian farmers.</p>	3

	(c) The export-oriented growth has favored increased production of cash crops rather than food grains. This has increased the prices of food grains.	
29	<p>Any three point related to Chinese development.</p> <p style="text-align: center;">OR</p> <p>Starting 1978, several reforms were introduced in phases in China. First, agriculture, foreign trade and investment sectors were taken up. Commune lands were divided into small plots. These were allotted to individual households for cultivation.</p> <p>The reforms were expanded to industrial sector. Private firms were allowed to set up manufacturing units. Also, local collectives or cooperatives could produce goods. This meant competition between the newly sanctioned private sector and the old state-owned enterprises.</p> <p>This kind of reform in China brought in the necessity of dual pricing. This meant the farmers and industrial units were to buy and sell fixed quantities of raw material and products on the basis of prices fixed by the government. As production increased, the material transacted through the open market also rose in quantity. Special Economic Zones (SEZs) were set up in China to attract foreign investors</p>	3
30	<p>In 1972-73, out of total workforce of 234 million, 195 million was in rural areas and 39 million in urban areas. It shows 83% workforce lived in rural areas. Gender differences were also observed. In rural areas, males accounted for 125 million workforce and women 70 million of workforce. In urban areas, 32 million males formed the workforce whereas women workforce was only 7 million. In the country only 77 million female workers were there as compared to 157 million male workers. In other words, 32% of female workers were there and 68% male workers were there in the country in 1972-73.</p> <p>The data shows:</p> <p>(a) pre dominance of agriculture.</p> <p>(b) more male workers both in urban and rural areas.</p> <p>(c) less female workers in both rural and urban areas. Also, female workers were much lesser in urban areas.</p>	4
31	<ol style="list-style-type: none"> 1. Global Warming. Global warming is a gradual increase in the average temperature of the earth's lower atmosphere as a result of the increase in greenhouse gases due to industrialisation in recent times. 2. Ozone Depletion. The depletion of ozone layer has been caused by high levels of chlorine and bromine compounds in the stratosphere. It causes skin cancer, and lowers the production of aquatic organisms. 3. Environmental Crisis. The rising population of the developing countries and the affluent consumption and production standards of the developed world have put a great stress on the environment in terms of its functions of supplying resources and assimilating waste. 	2+2

	<p>4. Massive Overuse and Misuse of Environmental Resources. There is massive overuse and misuse of environmental resources which results in deforestation, land degradation, ozone depletion and global warming.</p> <p style="text-align: center;">OR</p> <p>Biodiversity Loss (i) India has approximately 20 per cent of livestock population on a mere 2.5 per cent of the world’s geographical area. The high density of population and livestock and the competing uses of land for forestry, agriculture, pastures, human settlements and industries exert an enormous pressure on the country’s finite land resources.</p> <p>Air Pollution (i) In India, air pollution is widespread in urban areas where vehicles are the major contributors. Vehicular emissions are of particular concern since these are ground level sources and, thus, have the maximum impact on the general population. The number of motor vehicles has increased from about 3 lakhs in 1951 to 67 crores in 2003.</p> <p>Dichotomy of the Threat to India’s Environment The developmental activities in India have resulted in pressure on its finite natural resources, besides. creating impacts on human health and well-being. The threat to India’s environment poses a dichotomy—threat of poverty-induced environmental degradation and, at the same time, threat of pollution from affluence and a rapidly growing industrial sector.</p>	
<p>32</p>	<p>Starting 1978, several reforms were introduced in phases in China. First, agriculture, foreign trade and investment sectors were taken up. Commune lands were divided into small plots. These were allotted to individual households for cultivation. The reforms were expanded to industrial sector. Private firms were allowed to set up manufacturing units. Also, local collectives or cooperatives could produce goods. This meant competition between the newly sanctioned private sector and the old state-owned-enterprises.</p> <p>This kind of reform in China brought in the necessity of dual pricing. This meant the farmers and industrial units were to buy and sell fixed quantities of raw material and products on the basis of prices fixed by the government. As production increased, the material transacted through the open market also rose in quantity. Special Economic Zones (SEZs) were set up in China to attract foreign investors.</p>	<p>4</p>
<p>33</p>	<p>1) On the eve of independence, India was poor, stagnant and backward. There were heavy imports of food grains. It was important to be self-reliance. Features of Self-reliance are: (a) Self-sufficiency in food grains. (b) Fall in foreign aid and reduced dependence on imports which is possible when there is growth in domestic production.</p>	<p>3+3</p>

	<p>(c) Rise in exports. (d) Rise in contribution of industries in gross domestic product.</p> <p>2) The contribution made by each of these sectors in the GDP of a country is called sectoral composition of the economy. If the service sector or tertiary sector contributes maximum to GDP of an economy, then the country is economically developed.</p> <p style="text-align: center;">OR</p> <p>1) No, if profit making PSUs are privatized then there will be only loss making PSUs left. Government needs the profit of the profit making PSUs to modernize them, to make them, more competitive and more efficient.</p> <p>2) The post-reform period shows that industrial growth has slowed down. This was due to:</p> <p>(a) Globalisation created conditions for free movement of goods and services from foreign countries. It adversely affected the local industries and employment in developing countries.</p> <p>(b) Globalisation led to decrease in demand for domestic industrial products due to cheaper imports.</p> <p>(c) There was inadequate investment in infrastructural facilities such as power supply.</p> <p>(d) A development country like India still does not have the access to markets of developed countries due to high non-tariff barriers.</p>	
<p>34</p>	<p>1. There has been a change in the structure of work force and the nature employment in India 1) Newly emerging jobs are found mostly in the service sector. The expansion of service sector and advent of technology now frequently permit a highly competitive existence for efficient small scale and often individual enterprises or specialist workers side by side with multinationals. 2) Outsourcing of workers has become a common practice. It means that a big firm find it profitable to close down some of the specialist departments (for example legal or computer programming or customer service sections) and handover a large number of small piecemeal jobs to very small enterprises or specialist individuals sometimes situated even in other countries. 3) The traditional notion of modern factory or office as a result has been altering in such a manner that for many the home is becoming the workplace. All of this change has not gone in favour of the individual worker.</p> <p>2. 1) people work for earning a living. 2) being employed in work gives us a sense of self-worth and enables us to relate ourselves meaningfully with other 3) every working person is actively contributing to national income and hence the development of the country by engaging in various economic activities that is the real meaning of earning a living 4) we do work not only for ourselves we also have a sense of accomplishment when we work to meet the requirements of this was dependent on us.</p>	<p>3+3</p>