VVR
An Institute for IAS Examination

An Associate of IMS (Institute of Mathematical Sciences)

GENERAL STUDIES

(Pre Special)

ECONOMY

Set-1

Basic Economy

HEAD OFFICE: 25/8, Old Rajender Nagar Market, Delhi - 110060. Branch: 105-106, Top Floor, Mukherjee Tower, Mukherjee Nagar, Delhi-110009
Ph:. 011-45629987, 09999329111, 09999197625
Website: www.vvrias.com || Email: vvrias@gmail.com

GS – ECONOMY

Basic Economy

The study of Basic Economy will help the aspirants to develop better understanding of the upgoing subject matter and further study. The student is expected to be familiar with the basic economic variables after reading these notes as well as the concepts like types of goods, factors of production, National Income variables and its methods of estimation. Important topics like Green GDP,ICOR,Hindu Rate of Growth,Economic Systems are also dealt with, enabling a comprehensive grasp of macroeconomic parameters.

MICROECONOMICS

Microeconomics is a branch of economics that studies the behavior of individual households and firms in making decisions on the allocation of limited resources. Typically, it applies to markets where goods or services are bought and sold. Microeconomics examines how these decisions and behaviors affect the supply and demand for goods and services, which determines prices, and how prices, in turn, determine the quantity supplied and quantity demanded of goods and services.

MACROECONOMICS

Macroeconomics is a branch of economics dealing with the performance, structure, behavior, and decision-making of an economy as a whole, rather than individual markets. This includes national, regional, and global economies. With microeconomics, macroeconomics is one of the two most general fields in economics.

FACTORS OF PRODUCTION

In economics, factors of production are the inputs to the production process. Finished goods are the output.

All factors of production like land, labor, capital and technology are required in combination at a time to produce a commodity. In economics, production means creation or an addition of utility. Factors of production (or productive 'inputs' or 'resources') are any commodities or services used to produce goods and services.

TYPES OF GOODS

An item that is meant for final use and will not pass through any more stages of production or transformations is called a **final good**. Because once it has been sold it passes out of the active economic flow. It will not undergo any further transformation at the hands of any producer. It may, however, undergo transformation by the action of the ultimate purchaser.

Thus it is not in the nature of the good but in the economic nature of its use that a good becomes a final good. Of the final goods, we can distinguish between **consumption goods and capital goods.**

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

Further there are **intermediate goods**, mostly used as raw material or inputs for production of other commodities. These are not final goods. that part of our final output that comprises of capital goods constitutes gross investment of an economy.

CONCEPTS OF NATIONAL INCOME

The total net value of all goods and services produced within a nation over a specified period of time, representing the sum of wages, profits, rents, interest, and pension payments to residents of the nation

National Income is defined as the sum of incomes accruing to factors of production,supplied by normal residents of the country before deduction of direct taxes. It is identically equal to the net national product at Factor Cost.

MEASURES OF NATIONAL INCOME

Gross domestic product (**GDP**) is the market value (Gross) of all officially recognized final goods and services produced within a country in a given period.

Hence. Income from outside the country is not included in GDP. GDP is related to national accounts, a subject in macroeconomics. GDP is not to be confused with Gross National Product (GNP) which allocates production based on ownership.

The Nominal GDP is calculated at current prices or market prices. The Real GDP is evaluated at constant or fixed prices.

The Nominal GDP includes inflation while real GDP excludes it.

The macroeconomic variable which takes into account such additions and subtractions is known as **Gross National Product (GNP)**. It is, therefore, defined as follows

GNP = GDP + (Factor income earned by the domestic factors of production employed in the rest of the world) – (Factor income earned by the factors of production of the rest of the world employed in the domestic economy)

To Simplify,

GNP= GDP + (X – M)

Where,

X= Income earned from abroad

M=Income earned by foreigners in India

X – M= Net Income from abroad

Hence, GNP = GDP + Net factor income from abroad

We have already noted that a part of the capital gets consumed during the year due to wear and tear. This wear and tear is called depreciation. Naturally, depreciation does not become part of anybody's income. If we deduct depreciation from GNP the measure of aggregate income that we obtain is called **Net National Product (NNP)**. Thus

NNP = GNP – Depreciation

NNP is expressed in 3 separate terms:

1) At Market Price or Current Price (MP)
2) At Fixed Price or Constant Price or Price of the Base Year(FP)
3) At Factor Cost

Market price is equal to GNP minus charges of depreciation and replacements where depreciation represents the value of fixed capital consumed during the process of production.

NNP_{MP}=GNP_{MP} – Depreciation

It is to be noted that all these variables are evaluated at market prices. Through the expression given above, we get the value of NNP evaluated at market prices. But market price includes **indirect taxes**. When indirect taxes are imposed on goods and services, their prices go up. Indirect taxes accrue to the government. We have to deduct them from NNP evaluated at market prices in order to calculate that part of NNP which actually accrues to the factors of production. Similarly, there may be **subsidies** granted by the government on the prices of some commodities (in India petrol is heavily taxed by the government, whereas cooking gas is subsidised). So we need to add subsidies to the NNP evaluated at market prices.

The measure that we obtain by incorporating taxes and subsidies is called **Net National Product at factor cost** or **National Income**.

Thus,

NNP_{FC} = National Income

NNP_{FC} = NNP_{MP} – Indirect Taxes + Subsidies

Also, **Per capita income** or average income or income per person is the mean income within an economic aggregate, such as a country or city. It is calculated by taking a measure of all sources of income in the aggregate (such as GDP or Gross National Income) and dividing it by the total population. It does not attempt to reflect the distribution of income or wealth.

$$\text{PCI} = \frac{\text{National Income}}{\text{Total Population}}$$

In order to compare the GDP figures (and other macroeconomic variables) of different countries or to compare the GDP figures of the same country at different points of time, we cannot rely on GDPs evaluated at current market prices. For comparison we take the help of **real GDP**. Real GDP is calculated in a way such that the goods and services are evaluated at some **constant set of prices** (or **constant prices**). Since these prices remain fixed, if the Real GDP changes we can be sure that it is the volume of production which is undergoing changes. **Nominal GDP**, on the other hand, is simply the value of GDP at the current prevailing prices.

Notice that the ratio of nominal GDP to real GDP gives us an idea of how the prices have moved from the **base year** (the year whose prices are being used to calculate the real GDP) to the current year. In the calculation of real and nominal GDP of the current year, the volume of production is fixed. Therefore, if these measures differ it is only due to change in the price level between the base year and the current year. The ratio of nominal to real GDP is a well known index of prices. This is called **GDP Deflator**. Sometimes the deflator is also denoted in percentage terms.

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

METHODS OF ESTIMATING NATIONAL INCOME

The methods used for estimating National Income depend on the availability of statistics.This can be viewed by interrelated angles of production, income and expenditure. These are broadly related to GNP,GNI,GNE.Consequently 3 different methods are used:

(1) Production Method

(2) Income Method

(3) Expenditure Method

PRODUCTION METHOD

This method measures National Income as sum of net products produced by production units in given period. In product method we calculate the aggregate annual value of goods and services produced.

NNP = GNP – Depreciation – Intermediate Products

Further addition on Net National Income from abroad to this total would give Net National Income at Factor Cost.

INCOME METHOD

The Income Method measures the national income as the sum of total factor income shares accruing to factor owners

Factors of Production: Land Labour Capital Organization

Factors of Income: Rent Wage Interest Profit

The aggregation of them is called National Income at Factor Cost. Additions may accrue from foreign rent, profits etc. and deductions may be done for theft, robbery etc.

$$\boxed{\text{National Income}_{FC} = \text{National Income}_{MP} - \text{Indirect Tax} + \text{Subsidies}}$$

For sake of convenience, Product method is used for Primary Sector and Income method for Tertiary Sectors.

EXPENDITURE METHOD

The expenditure approach is basically an output accounting method. It focuses on finding the total output of a nation by finding the total amount of money spent. It is done by calculating the GDP is by looking at the demand side of the products. This is acceptable, because like income, the total value of all goods is equal to the total amount of money spent on goods. The basic formula for domestic output takes all the different areas in which money is spent within the region, and then combines them to find the total output.

The full equation for GDP using this approach is

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

Where,

C : Household spending
I : Capital Investment spending
G : Government spending
X : Exports of Goods and Services
M : Imports of Goods and Services

In India a combination of Production Method and Income Method is used when National Income is estimated. But the use of Expenditure Method is negligible due to lack of sufficient dat

ACTIVITIES EXCLUDED FROM ESTIMATION OF NATIONAL INCOME

1. **Intermediate Goods and Services**: To avoid this problem we must recognize that it is the **intended use**, rather than the physical characteristics of a product, that determines whether or not it is a **final good**..GDP counts only the value of goods and services **produced** during the period of measurement.GDP excludes sales of used goods. The purchase of a used good is simply a transfer of ownership. Nothing is produced when a used good is purchased. The used good was already included in GDP in a previous period when it was produced & sold for the first time. Including the sale of a used good would be **double counting**.
2. **Transfer payments** (Unemployment benefits, payments under social welfare programmes): Transfer payments are transactions made not for the purpose of buying a product or service or making an investment, but to remain loyal to a formal or moral obligation. Hence, they are not included in the GDP. For example, the state does not grant benefits to the unemployed, low-income families and people with disabilities for the sake of production, but because of regulations regarding citizens' welfare.
3. **Non Economic Activities**, Voluntary labor, constitutes unpaid service provision and as such, it is not result in a worker earning a wage or a consumer buying a service — it remains out of the GDP's scope. In a similar fashion, housework performed by members of the household is not included in the GDP, even though the same work, when performed by paid house cleaners, is.A nurse working in hospital is performing a economic activity but same nurding work performed at home for say her husband or father is not an economic activity.
4. **Capital Gains** for e.g on property accruing due to increase in value during temporal possession are excluded. Capital gains can accrue on any other valuable commodity like antiques, paintings or even stocks.
5. **Illegal Activites**: The underground economy is the sector that includes profitable illegal activities, such as human trafficking, illegal immigration, gambling, extortion and drug trade. Since offenders don't declare profits from such activities, they are excluded from the GDP calculation. Unreported earnings for the purpose of tax evasion are also included in this category.

SUBDIVISIONS OF NATIONAL INCOME

We can further subdivide the National Income into smaller categories. Let us try to find the expression for the part of NI which is received by households. We shall call this **Personal Income** (**PI**). First, let us note that out of NI, which is earned by the firms and government enterprises, a part of profit is not distributed among the factors of production. This is called **Undistributed Profits** (**UP**).

Disposable Income = Personal Income – Personal Direct Taxes
= Savings + Consumption

ESTIMATION OF NATIONAL INCOME IN INDIA

Dadabhai Naoroji was the first man who estimated the national income first in 1868. Prof. **V.K.R.V. Rao** adopted scientific methodology to arrive at estimation of National Income. In 1949 National income Committee was set up and its chairman was Mr P.C. Mahalanobis.

As of today the key role is played by **Central Statistical Organization** in this regard. The Central Statistical Office which is one of the two wings of the National Statistical Organisation (NSO) is responsible for coordination of statistical activities in the country and for evolving and maintaining statistical standards. Its activities include compilation of National Accounts; conduct of Annual Survey of Industries and Economic Censuses, compilation of Index of Industrial Production, as well as Consumer Price Indices. The Central Statistical Office (CSO) located in Delhi with a wing at Kolkata, is responsible for formulation and maintenance of statistical standards, work pertaining to national accounts, industrial statistics, consumer price indices for urban non-manual employees, conduct of economic census and surveys, coordination of statistical activities undertaken within the country and liaising with international agencies in statistical matters.

For purposes of income estimation it has divided the economy into three sectors:

- **Primary:** Involves the retrieval and production of raw materials, such as corn, coal, wood and iron. (A coal miner and a fisherman would be workers in the primary sector.)Agriculture is an important activity in primary sector.Agriculture including allied activities, accounted for 14.5 per cent of gross domestic product (GDP) at 2004-05 prices, in 2010-11.

  Agriculture's share in the GDPis critical from the income distribution perspective as it accounted for about 58 per cent employment in the country according to Census 2001. Hence growth in agriculture and allied sectors remains a 'necessary condition' for inclusive growth.

  In terms of composition, out of the total share of 14.5 per cent that agriculture and allied sectors had in GDP in 2010-11, agriculture alone accounted for 12.3 per cent, followed by forestry and logging at 1.4 per cent

- **Secondary:** Involves the transformation of raw or intermediate materials into goods e.g. manufacturing steel into cars, or textiles into clothing. (A builder and a dressmaker would be workers in the secondary sector.) ;construction and electricity etc.

  Industrial growth in the country has, in terms of long run trend, remained aligned with the growth rate of gross domestic product (GDP). The share of industry, including construction, in GDP remained generally stable at around 28 per cent in the post-reform period. The share of manufacturing, which is the most dominant sector within industry, also remained in the 14-16 per cent range during this period.

- **Tertiary:** Involves the supplying of services to consumers and businesses, such as baby-sitting, cinema and banking. (A shopkeeper and an accountant would be workers in the tertiary sector.); Insurance,Telecommunications,Trade,Hotels etc. The services sector covers a wide range of activities from the most sophisticated information technology (IT) to simple services provided by the unorganized sector, such as the services of the barber and plumber. National Accounts classification of the services sector incorporates trade, hotels, and restaurants; transport, storage, and communication; financing, insurance, real estate, and business services; and community, social, and personal services. In World Trade Organization (WTO) and Reserve Bank of India (RBI)classifications, construction is also included.

  The share of services in India's GDP at factor cost (at current prices) increased from 33.5 per cent in 1950-1 to 55.1 per cent in 2010-11 and to 56.3 per cent in 2011-12 as per Advance Estimates (AE). If construction is also included, the service sector's share increases to 63.3 per cent in 2010-11 and 64.4 per cent in 2011-12. With a 16.9 per cent share,trade, hotels, and restaurants as a group is the largest contributor to GDP among the various services' subsectors, followed by financing, insurance, real estate, and business services with a 16.4 per cent share.

SOME IMPORTANT ASPECTS

GREEN GDP

Traditional measurements of performance, such as gross domestic product (GDP), account for economic develop-ment but do not accurately reflect human or environmen-tal well-being. Since the 1990s several new metrics have been proposed, including green GDP, which attempts to provide a more accurate accounting that considers both the positive transactions that benefit well-being and the negative economic activities that diminish it.

Green GDP (also green NNP), therefore, has been proposed to explicitly estimate these missing costs by subtracting the economic penalties imposed by natural resource deple-tion and pollution from national accounting. As a result, the green GDP is meant to advance a more inclusive view of “natural capital” and promote more sustainable management practices.

The green gross domestic product (green GDP) is an index of economic growth with the environmental consequences of that growth factored in. Green GDP monetizes the loss of biodiversity, and accounts for costs caused by climate change.

NATIONAL SAMPLE SURVEY OFFICE (NSSO)

The National Sample Survey (NSS) was set up in 1950 for conducting large scale sample surveys to meet the data needs of the country for the estimation of national income and other aggregates. It was reorganized in 1970 by bringing together all aspects of survey work under a single agency known as the National Sample Survey Organisation (NSSO) under the overall technical guidance of a Governing Council. After setting up of the National Statistical Commission (NSC), vide Government of India resolution of 1 June 2005 the role of Governing Council has been taken over by the NSC. A Steering Committee for NSS has been constituted to look into various aspects of surveys.

HINDU RATE OF GROWTH

The Hindu rate of growth refers to the low annual growth rate of the socialist economy of India before 1991, which stagnated around 3.5% from 1950s to 1980s, while per capita income growth averaged 1.3%.

Some argue that the slow Indian growth rate is better attributable to the Government of India’s protectionist and interventionist policies (like Licence Raj) rather than to a specific religion or to the attitude of the adherents of a particular religion.

The term was coined by Indian economist Raj Krishna.

It suggests that the low growth rate of India, a country with a high Hindu population was in a sharp contrast to high growth rates in other Asian countries, especially the East Asian Tigers, which were also newly independent. This meaning of the term, popularised by Robert McNamara, was used disparagingly and has connotations that refer to the supposed Hindu outlook of fatalism and contentedness.

COR

A **Capital Output Ratio** which is abbreviated as **COR** is related to be availability of natural resources in a country. It is used to measure the capital ratio that would be used for the production of some output over a certain period of time. The capital output ratio tends to increase if the capital available in a country is cheaper than the other inputs. Therefore, the countries that are rich in natural resources have a low capital output ratio. This is because they can easily substitute the capital with natural resources in order to increase the output. When countries use their natural resources instead of capital then

COR reduces.. Other things that determine the Capital output ratio include innovation and technical progression. Apart from all these factors, another thing that can determine the capital output ratio is an investment. The more the rate of investment is, the more will be the Capital output ratio

Incremental Capital Output Ratio - ICOR

A metric that assesses the marginal amount of investment capital necessary for an entity to generate the next unit of production. Overall, a higher ICOR value is not preferred because it indicates that the entity's production is inefficient. The measure is used predominantly in determining a country's level of production efficiency. ICOR is calculated as:

$$\text{ICOR} = \frac{\text{Annual Investment}}{\text{Annual Increase in GDP}}$$

For example, suppose that Country X has an ICOR of 10. This implies that Rs.10 worth of capital investment is necessary to generate Re.1 of extra production. Furthermore, if country X's ICOR was 12 last year, this implies that Country X has become more efficient in its use of capital.

ECONOMIC SYSTEMS

CAPITALIST ECONOMY

Capitalism or a capitalist economy is not a new concept and dates back to the industrial revolution. It is termed as an economy where the government does not take part in any kind of production process and entrepreneurs are encouraged by the government.

Also known as Market Economy and Laissez Faire economic system.

PROBLEMS OF A CAPITALISTIC SYSTEM

- **Exploitation**: Critics of capitalism view the system as inherently exploitative related to the expropriation of labor for profit
- **Imperialism and political oppression**:Marxists, importantly Vladimir Lenin, argue that capitalism needs imperialism in order to surviveThe unplanned nature of capitalism, they say, inevitably overproduces commodities and overuses resources, which leads it to expand its markets into and drain the resources out of other, less-developed nation
- **Inefficiency and waste**: due to a consumer based economy which pushes ready made products into the markets and encourages rampant large scale consumption
- **Inequality**:Critics argue that capitalism is associated with the unfair distribution of wealth and power; a tendency toward market monopoly or oligopoly (and government by oligarchy); imperialism, counter-revolutionary wars and various forms of economic and cultural exploitation; repression of workers and trade unionists, and phenomena such as social alienation, economic inequality, unemployment, and economic instability
- **Market failure & Market instability**:Critics of capitalism, particularly Marxists, identify market instability as a permanent feature of capitalist economyMarx believed that the unplanned and explosive growth of capitalism does not occur in a smooth manner, but is interrupted by periods of overproduction in which stagnation or decline occur (i.e., recessions)

- **Sustainability**:An economic system that produces strong economic growth and requires essentially free trade has a debilitating effect on the environment

SOCIALIST ECONOMIC SYSTEM

A socialist economy is a heavily planned economy where a planning board or the government itself sets the direction and targets for the manufacturing sector. The government officials decide the allocation of resources, set the production targets and also the profit margin.. Thinkers such as Karl Marx and János Kornai, established some definite principles and theories of socialism, upon which a socialist economy is based.

The following is a summary of a socialist economy:

1) **Ownership by Government**: The principal characteristic of a socialist economy is the governmental ownership and nationalization of key production sectors. Though in theory almost all firms and companies should be nationalized, in practice, such a transfer from private to public is almost impossible. Due to this governments are promoted to rely on some private establishments that are largely regulated and managed by governmental laws and officials. Organizations that are involved in production in many cases are co-operative organizations, instead of firms and companies.
2) **Progressive Taxation and Wealth Redistribution**: Often considered to be a drawback of the socialist economy, taxation system, progressively taxes higher income with higher tax percentages. The collected mammoth tax is then redistributed with the help of several public welfare schemes and policies.
3) **Price Control**: Another distinct feature of a socialist economy is the technique of price control. Prices of commodities are not fixed by demand and supply analysis, but are fixed by the government, with respect to the necessity and nature of the commodity.

4) **Nationalization and Centralization**: A socialism-driven economic system is basically operated by a central government. The nationalization and centralization of all avenues of production are handled by one centrally based government that also frames the fiscal policies. The success of a socialist economy is found in such a convention where fiscal policies so implemented are executed by regional and grass root level administration, with an absolute timing and discipline. The economy, as a whole, thus, becomes very, very successful. The GDP shoots up almost instantaneously and poverty is abolished.

MIXED ECONOMY

The economy of a nation is based upon a certain ideology. A mixed economy is primarily a combination of a capitalist and socialist ideology, but may include other ideologies and influences too.The public sector and private sector run side by side

Any economy as mentioned above is based upon ideologies and certain principles. These principles are nothing but a doctrine that set primary and secondary functions of the nation's economy. These principles also play quite an effective role in defining the manner and direction in which the national economy must proceed. These ideologies and principles are converted into a practical application with the help of a system of laws, governmental bodies and the banking system of a nation.

Some defining features include.

- Centralized economic planning and legislature
- Decentralized execution of policies and legislation

- Participation of grassroots level government in policy formulation
- Government ownership of key industries such as communications and infrastructure, defense productions, steel production, mining, energy, etc.
- Stringent economic and labor laws
- Decentralization of economic concentration and even distribution of wealth
- In case, if the nation is a democratic republic, members of legislature can be of different ideologies

These might not be all the features of the mixed economies as there are several other unique features that can be found within the economy itself. However, the basic feature of liberty in business and regulation by the government is found. Examples of such an economy include several economies of the developed nations.

Pros and Cons of a Mixed Economy

Capitalism and socialism are two opposing concepts and socialism is often termed to be a reaction to capitalism. Though the system covers up the drawbacks of both the ideologies, this type of economy is also characterized by certain pros and cons.

It is successful in providing the citizens of the state with some basic necessities. These necessities cover up all infrastructure, food, clothing and shelter, absolute defense forces, protection of rights of citizens and freedom to set up private enterprise in almost all sectors, except for the ones where civilian enterprise is banned. However, this monopoly is not very healthy as though the services are provided, they tend to be quite underdeveloped and rife with corruption.

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Questions on Basic Economy (Prelims)

1. Analyse the following statements and choose the correct option—
   Statement A: Secondary sector involves transformation of raw materials into final goods.
   Statement B: Index of Industrial production focuses on all three: primary, secondary and tertiary sectors
   Statement C: India has shown tremendous growth in tertiary sector
   (a) Only B,C are correct
   (b) Only A,B are correct
   (c) Only A,C are correct
   (d) Only A is correct
2. Analyse the following statements and choose the correct option—
   Statement A: Hindu rate of growth was a natural corollary of the Indian religious outlook, hence appropriately named.
   Statement B: Hindu rate of growth was a direct consequence of the Socialistic policies of Government of India
   (a) Only A is correct.
   (b) Only B is correct.
   (c) Both are correct.
   (d) Both are wrong.
3. In the computation of national income the 'intermediate goods' are excluded. This is because:
   (a) They are not final goods hence have no economic value
   (b) The Production method and Expenditure methods explicitly exclude intermediate goods while Income method implicitly includes it.
   (c) It is difficult to quantify intermediate goods
   (d) Intermediate goods are excluded to avoid duplication in calculation
4. An oil spill has happened in Arabian Ocean near Gujarat coast.The government acts quickly in interest of the environment and gives out dredging and oil soaking work to a company from Mumbai which starts operations immediately. Analyse the following stipulations and choose the correct option
   (a) The spill is positive addition to GDP
   (b) The spill is positive addition to Green GDP
   (c) The spill increases the value of green economy since cleanup will warrant expenditure.
   (d) The spill is a negative addition to GDP
5. Since Independence Democratic Socialistic Policies have led the Indian economy to be a amalgamation of private and public initiatives. After 1991:
   (a) Democratic Socialism has been abandoned and capitalist model was adopted.
   (b) Mixed Economy has been compromised by Private enterprise
   (c) Mixed Economy has been strengthened by 1991 reforms
   (d) Government has increased its regulatory role.
6. The issue of doing away with subsidies has been gaining a lot of currency lately. Why do you think subsidies are such a problem in India?
   (a) Due to huge population,the amount to subsidies is massive and far exceeds the limit of Government treasury.
   (b) Net National Product at Factor cost has decreased due to large subsidies.
   (c) Due to ineffective targeting the subsidies are not effective
   (d) Subsidies have led to Balance of Payments crisis
7. The ICOR(Incremental Capital Output Ratio) of different entities in given below
   Z: 10 (2011) ; 12 (2010)
   Y: 2 (2011) ; 1 (2010)
   X: 40 (2011) ; 40 (2010)
   Identify the correct option
   (a) X is more efficient than Z in utilization of resources
   (b) Y has improved its efficiency in 2011 compared to 2010
   (c) Z has improved its efficiency in 2011 compared to 2010
   (d) X has improved its efficiency in 2011 compared to 2010
8. The recent Global Recession has affected economies worldwide.Analyse the statements and mark the wrong option:
   (a) Recession through the boom/bust cycle had been effectively predicted by Karl Marx in his Socialist Theory

(b) Recession is a consequence of Capitalist culture
(c) Recession is more serious hazard than Depression
(d) Theoretically Socialist Economies are immune from Recession

9. GDP growth rate of India has shown a slight decline recently. Analyse the following statements and identify the correct statement.
(a) Lower rate is *contributed* by decline in the income from Indian factors of production employed abroad due to global recession
(b) The real GDP at constant prices in 2011 is less than real GDP in 2009.
(c) Decline can be partly, albeit in a small way, attributed to depreciation .
(d) Lower rate can be partly attributed lower revenue generation by foreign companies in India.

10. The table given below depicts the composition of India's of India's exports between 1992-93 and 1994-95: ***(1996)***

Items	**Year** 1992-93	1993-94	1994-95
Agriculture and allied products	6.9	18.0	15.9
Ores & Minerals	4.0	4.0	3.7
Manufactured goods	75.5	75.6	78.0
Petroleum products	2.6	1.8	1.9

The changing composition of the export trade is indicative of structural transformation of Indian economy in favour of modernization. The best indicator of this trend is the:
(a) relative share of petrolem products in exports
(b) decline inthe share of agricultural products in exports
(c) constant share of ores and minerals in exports
(d) increase in the share of manufactured products in exports

11. In India, rural incomes are generally lower than the urban incomes. Which of the following reasons account for this? ***(1996)***
1. A large number of farmers are illiterate and know little about scientific agriculture
2. Prices of primary products are lower than of manufactured products
3. Investment in agriculture has been low when compared to investment in industry

Select the correct answer by using the codes given below:
Codes:
(a) 1, 2 and 3 (b) 1 and 3
(c) 1 and 3 (d) 2 and 3

12. Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R): ***(1996)***
Assertion (A): Though India's national income has gone up several fold since 1947, there has been no marked improvement in the per capital income level.
Reason (R): Sizeable proportion of the population of India is still living below the poverty line.
In the context of the above two statements which one of the following is correct?
(a) Both A and R are true and R is the correct explanation of A
(b) Both A and R are true but R is not a correct explanation of A
(c) A is true but R is false
(d) A is false but R is true

13. National Income is: ***(1997)***
(a) Net National Product at market price
(b) Net National Product at factor cost
(c) Net Domestic Product at market price
(d) Net Domestic Product at factor cost

14. The supply-side economics lays greater emphasis on the point of view of: ***(1998)***
(a) producer (b) global economy
(c) consumer (d) middle-man

15. Match List I with List II and select the correct answer using the codes given below the lists: ***(2000)***
List-I
A. Boom B. Recession
C. Depression D. Recovery
List-II
1. Business activity at high level with increasing income, output and employment at macro level
2. Gradual fall of income, output and employment with business activity in a low gear
3. Unprecedented level of under employment and unemployment, drastic fall in income, output and employment
4. Steady rise in the general level of prices, incincome, output and employment

Codes:

	A	B	C	D
(a)	1	2	3	4
(b)	1	2	4	3
(c)	2	1	4	3
(d)	2	1	3	4

16. The per capita income in India was Rs. 20 in 1867-68 was ascertained for the first time by ***(2000)***
    (a) M.G. Ranade (b) Sir W. Hunter
    (c) R.C. Dutta (d) Dabadhai Naoroji
17. The most appropriate measure of a country's economic growth is its: ***(2001)***
    (a) Gross Domestic Product
    (b) Net Domestic Product
    (c) Net National Product
    (d) Per Capita Real Income
18. The term National Income represents: ***(2001)***
    (a) gross national product at market prices minus depreciation
    (b) gross national product at market prices minus depreciation plus net factor income from abroad
    (c) gross national product at market prices minus depreciation and indirect taxes plus subsidies
    (d) gross national product at market prices minus net factor income from abroad
19. Consider the following states: ***(2001)***
    1. Gujarat 2. Karnataka
    3. Maharashtra 4. Tamil Nadu
    The descending order of these states with reference to their level of Per Capita Net State Domestic Product is:
    (a) 1, 3, 4, 2 (b) 3, 1, 2, 4
    (c) 1, 3, 2, 4 (d) 3, 1, 4, 2
20. With reference to the Indian Economy, consider the following activities: ***(2002)***
    1. Agriculture, Forestry and Fishing
    2. Manufacturing
    3. Trade, Hotels, Transport and Communication
    4. Financing, Insurance, Real Estate and Business services
    The decreasing order of the contribution of these sectors to the Gross Domestic Product (GDP) at factor cost at constant prices (2000-01) is:
    (a) 3, 1, 2, 4 (b) 1, 3, 4, 2
    (c) 3, 4, 1, 2 (d) 1, 3, 2, 4
21. Which of the following is correct regarding the stabilization and structural adjustment as two components of new economic policy adopted by India? ***(1996)***
    (a) Stabilization is a gradual, multi step process while structural adjustment is a quick adaptation process
    (b) Structural adjustment is a gradual, multi step process, while Stabilization is a quick adaptation process
    (c) Stablization and Structural adjustment are very similar and complimentary policies. It is difficult to separate one from another.
    (d) Stabilization mainly deals with the set of policies which are to be implemented by Central government while structural adjustment is to be set in motion by State governments
22. Which of the following is the correct sequence of decreasing order of contribution of different sectors to GDP of India ***(2007)***
    (a) Service-Industry- Agriculture
    (b) Service-Agriculture-Industry
    (c) Industry-Service-Agriculture
    (d) Industry-Agriculture-Service
23. Consider the following statements ***(2010)***
    1. The GDP has increased 4 times in last 10years
    2. The percentage share of Public sector GDP has declined in last 10 years
    Which statements are correct?
    (a) 1 only (b) 2 only
    (c) Both 1 and 2 (d) Neither 1 or 2
24. ***(2010)***

	Term	Description
1.	Meltdown	Fall in stock prices
2.	Recession	Fall in growth rate
3.	Slowdown	Fall in GDP

    Which is correctly matched?
    (a) 1 only (b) 2 and 3
    (c) 1 and 3 (d) 1,2 and 3
25. Under which of the following circumstances may 'capital gains' arise?
    1. When there is an increase in the sales of a product.
    2. When there is a natural increase in the value of the property owned
    3. When you purchase a painting and there is a growth in its value due to increase in its popularity
    Select the correct answer using the codes given below:
    (a) 1 only (b) 2 and 3 only
    (c) 2 only (d) 1, 2 and 3

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ANSWERS (PRELIMS)

Answer 1: (C) IIP incorporates only industrial activity.

Answer 2: (B) Noted politician and journalist Arun Shourie has pointed out, the so called Hindu rate of growth was a result of socialist policies implemented by staunch secular governments and had nothing to do with Hinduism

Answer 3: (D) Intermediate goods are excluded by all methods of calculating GDP even though they have definite economic value.This is because they are already accounted for.

Answer 4: (A) Spill is a positive addition to GDP since in encourages the economic activity by employing cleaning companies.It is a negative addition to green GDP.

Answer 5: (C) After independence economy was state heavy and very little private enterprise were present and new entrepreneurship was discouraged by license Raj. But after 1991 private industry got a boost and equalized state industries though PSU behemoths are still few of the biggest companies in India e.g NTPC,ONGC

Answer 6: (C) That is why direct cash transfer of subsidies is being mooted recently.

Answer 7: (C) Because ICOR of Z has decreased he is able to produce same unit of goods with lesser input.

Answer 8: (C) Depression is more prolonged and devastating.

Answer 9: (D) (A)is wrong since Indian factors of production working abroad donot contribute to GDP directly. But foreign factors of production working in India do contribute.

Answer 10: (D) Increase in manufacturing exports indicates greater industrialization

Answer 11: (A)

Answer 12: (B) Discussed in class

Answer 13: (B) Refer notes

Answer 14: (A) Supply Side lays emphasis on producer since he is the supplier while demand side lays emphasis on the consumer.

Answer 15: (A) refer notes

Answer 16: (D) Estimated by Dadabhai Naoroji in his book 'Poverty and Un-British Rule in India'

Answer 17: (D) PCI = NNP at Factor Cost

Answer 18: (C) Refer notes

Answer 19: (B) Source: Economic Survey Data

Answer 20: (C) To be related with Primary ,Secondary,Tertiary activities

Answer 21: (A) Stabilization is slow, step by step process while structural adjustment is dynamic adaptation to evolving challenges.

Answer 22: (A) Source: Economic Survey Data

Answer 23: (B)

Answer 24: (A)

Answer 25: (B) When value of any asset rises with time the capital gains accrue to the owner.

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IMPORTANT DATA

BASED ON ECONOMIC SURVEY, 2012-13

Table 1.4 : Private Final Consumption Expenditure : Annual Growth and Shares at 2004-05 prices

	2004-05	2006-07	2007-08	2008-09	2009-10	2010-11 1R	2011-12 2R
				Annual growth (per cent)			
Food, beverages, & tobacco		3.4	6.4	3.3	0.4	5.9	5.8
Clothing & footwear		23.3	5.0	5.0	14.9	20.2	-3.9
Gross Rent, fuel, & power		3.8	4.7	3.6	6.0	4.2	6.2
Furniture, furnishings, etc.		17.1	16.1	12.2	9.0	16.6	6.2
Medical care & health services		8.7	4.5	6.9	8.9	7.6	6.2
Transport & communication		9.1	7.9	7.7	12.1	10.0	9.8
Recreation, education, & cultural services		8.4	9.8	6.8	4.0	11.8	8.1
Miscellaneous goods & services		21.1	28.6	20.2	15.7	7.9	19.1
Total private consumption expenditure		8.7	9.2	7.1	7.5	8.7	7.9
				Share in total (per cent)			
Food, beverages, & tobacco	40.0	37.3	36.3	35.0	32.7	31.8	31.2
Clothing & footwear	6.6	8.3	8.0	7.8	8.4	9.3	8.2
Gross Rent, fuel, & power	13.8	12.6	12.1	11.7	11.5	11.1	10.9
Furniture, furnishings, etc.	3.4	3.9	4.1	4.3	4.4	4.7	4.6
Medical care & health services	5.0	5.0	4.8	4.8	4.8	4.8	4.7
Transport & communication	19.3	18.9	18.7	18.8	19.6	19.8	20.2
Recreation, education, & cultural services	3.0	3.0	3.0	3.0	2.9	3.0	3.0
Miscellaneous goods & services	8.9	11.0	13.0	14.6	15.7	15.6	17.2
Total private consumption expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSO. Notes: IR: First Revised Estimate. 2R: Second Revised Estimate.

Table 1.5 : Ratio of Investment to GDP (at current market prices per cent)

		2004-05	2006-07	2007-08	2008-09	2009-10	2010-11 2R	2011-12 1R
1.	**Gross capital formation (investment)**	32.8	35.7	38.1	34.3	36.5	36.8	35.0
	Public sector	7.4	8.3	8.9	9.4	9.2	8.4	7.9
	Private sector	23.8	26.4	28.1	24.8	25.4	26.5	24.9
	Corporate sector	10.3	14.5	17.3	11.3	12.1	13.4	10.6
	Household sector	13.4	11.9	10.8	13.5	13.2	13.1	14.3
2.	**Gross fixed capital formation**	28.7	31.3	32.9	32.3	31.7	31.7	30.6
	Stocks	2.5	3.4	4.0	1.9	2.8	3.1	2.1
	Valuables	1.3	1.2	1.1	1.3	1.8	2.1	2.7
3.	**Gross domestic savings**	32.4	34.6	36.8	32.0	33.7	34.0	30.8
4.	**Saving-investment gap (3-1)**	-0.4	-1.1	-1.3	-2.3	-2.8	-2.8	-4.2

Source: CSO. Notes: 1R: First Revised Estimate, 2R: Second Revised Estimate. Totals may not tally due to adiustment for errors and omissions.

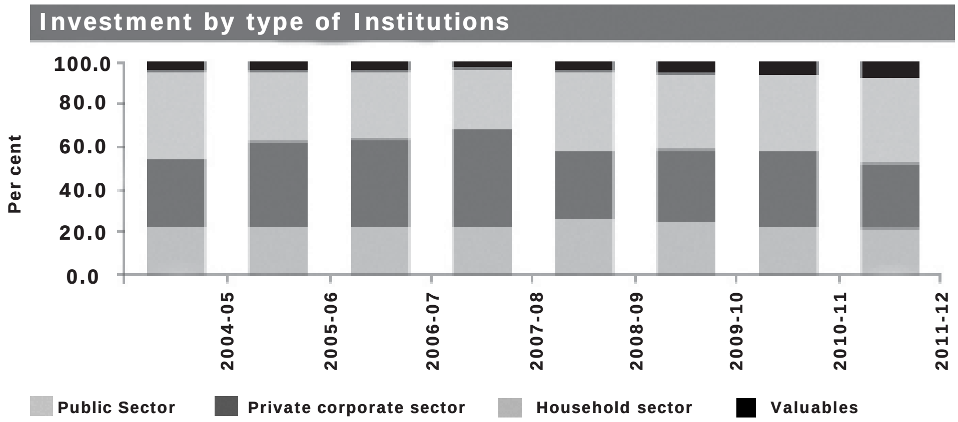

Table 1.7 : Ratio of Savings to GDP (at current market prices per cent)

	2004-05	2006-07	2007-08	2008-09	2009-10	2010-112R	2011-121R
Gross domestic saving	32.4	34.6	36.8	32.0	33.7	34.0	30.8
Public sector	2.3	3.6	5.0	1.0	0.2	2.6	1.3
Private sector	30.1	31.0	31.8	31.1	33.5	31.5	29.5
Household sector	23.6	23.2	22.4	23.6	25.2	23.5	22.3
Financial saving	10.1	11.3	11.6	10.1	12.0	10.4	8.0
Saving in physical assets	13.4	11.9	10.8	13.5	13.2	13.1	14.3
Private corporate sector	6.6	7.9	9.4	7.4	8.4	7.9	7.2

Source: CSO.

Notes: 1R: First Revised Estimate, 2R : Second Revised Estimate.

Table 1.6: Current Account Balance

Items	2011-12 H1(Apr-Sep. 2011)	2012-13 H1(Apr-Sep. 2012)
US$ billion		
Exports	158.2	146.5
Imports	247.7	237.2
Trade deficit	89.5	90.7
Net invisibles	53.1	51.7
CAD	36.4	39.0
	Memo items as per cent of GDP	
Trade deficit	9.9	10.8
Net invisibles	5.9	6.2
CAD	4.0	4.6

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