

<i>Crux Notes of Standard books</i>	WriteToBeIAS.com	Ramesh Singh (Indian Economy) (12 th Revised Version)
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1. INTRODUCTION:

ECONOMIC SYSTEMS:	<ul style="list-style-type: none"> ✓ Human life depends on uses (consumption) of certain things (goods and services) some of which, upto a level, are also essential (such as food, water, shelter, cloth, etc.) for survival. This challenge has two dimensions of it— <ul style="list-style-type: none"> • these things need to be created (produced) • they should reach (distributed/supplied to) the needy people. ✓ For production one needs to set up productive assets for which money needs to be spent (known as investment). ✓ Economy mainly are of four types: <ol style="list-style-type: none"> a) Market Economy b) Non-Market Economy c) Mixed Economy d) Distribution Systems
WASHINGTON CONSENSUS	<ul style="list-style-type: none"> ✓ It is a set of reform policy package which was suggested by the International Monetary Fund, World Bank and the US Department of the Treasury (i.e., the US finance ministry) to the developing countries faced with economic crisis. ✓ Since all of these institutions were based in Washington, the policy prescription was called Washington Consensus by the US economist John Williamson.
BEIJING CONSENSUS	<ul style="list-style-type: none"> ✓ the idea of Beijing Consensus was forwarded by Joshua Cooper Remo in 2004. ✓ Also known as Chinese Model of economic development, this refers to the policies which were followed by Deng Xiaoping since 1976 (the year Mao Zedong died). ✓ This model is believed to be forwarded as an alternative to the Washington Consensus (i.e., an anti-Washington Consensus view) for the developing countries. ✓ Over the time experts interpreted this model in different ways rather it is believed to be based on three main pillars— <ol style="list-style-type: none"> 1. Constant experimentation and innovation; 2. Peaceful distributive growth with gradual reforms; 3. Self-determination and inclusion of selective foreign idea
SANTIAGO CONSENSUS	<ul style="list-style-type: none"> ✓ Core idea is inclusion which should not be only economic but social too. This way, this is a socio-economic development model and is bound to have its local characteristics. ✓ This proposal from the World Bank inspired the world governments to focus more on aspect of inclusive socio-economic growth. We see this happening in India also—with the Government launching the third generation of economic reforms in 2002.

I. NATIONAL INCOME

- ✓ **National income** of a country can be defined as the total market value of goods and services produced in the economy in a year.
- ✓ The three-important measure of calculating National Income of a country are:
 - The sum of the value of all final goods and services produced.
 - The sum of all incomes accruing to factors of production, i.e., Rent, Interest, Profit and Wages.

- The sum of consumer's expenditure, net investment, and government expenditure on goods and services.
 - a) **GDP:**
 - **Gross Domestic Product (GDP)** is the value of the all final goods and services produced within the boundary of a nation during one year period.
 - It is also calculated by adding national private consumption, gross investment, government spending and **trade balance** (exports-minus-imports).
 - The use of the exports-minus-imports factor removes expenditures on imports not produced in the nation, and adds expenditures of goods and service produced which are exported, but not sold within the country.
 - b) **NDP:**
 - **Net Domestic Product (NDP)** is the GDP calculated after adjusting the weight of the value of 'depreciation'. This is, basically, net form of the GDP, i.e., GDP minus the total value of the 'wear and tear' (depreciation) that happened in the assets while the goods and services were being produced. Every asset go for depreciation in the process of their uses, which means they 'wear and tear'.
 - The governments of the economies decide and announce the rates by which assets depreciate and a list is published, which is used by different sections of the economy to determine the real levels of **depreciations** in different assets.
 - **NDP = GDP – Depreciation**
 - c) **GNP:**
 - **Gross National Product (GNP)** is the GDP of a country added with its 'income from abroad'. Here, the trans-boundary economic activities of an economy is also taken into account.
 - The items which are counted in the segment 'Income from Abroad' are:
 - ✓ Private Remittances
 - ✓ Interest on External Loans
 - ✓ External Grants
 - d) **NNP:** Net National Product (NNP) of an economy is the GNP after deducting the loss due to 'depreciation'. The formula to derive it may be written like:
 - **NNP = GNP – Depreciation**
 - **NNP = GDP + Income from Abroad – Depreciation**
 - e) **Cost And Price of National Income:**
 - ✓ **Cost:** Income of an economy, i.e., value of its total produced goods and services may be calculated at either the 'factor cost' or the 'market cost'. factor cost' is the 'input cost' the producer has to incur in the process of producing something (such as cost of capital, i.e., interest on loans, raw materials, labour, rent, power, etc.). This is also termed as 'factory price' or 'production cost/price'.
 - ✓ **Price:** Income can be derived at two prices, constant and current. The difference in the constant and current prices is only that of the impact of **inflation**. **Inflation** is considered stand still at a year of the past in the case of the constant price, while in the current price, present day inflation is added. Current price is, basically, **the maximum retail price (MRP)** which we see printed on the goods selling in the market.

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2. GROWTH, DEVELOPMENT AND HAPPINESS

ECONOMIC GROWTH:	<ul style="list-style-type: none"> ✓ An increase in economic variables over a period of time is economic growth. The term can be used in an individual case or in the case of an economy or for the whole world. The most important aspect of growth is its quantifiability, i.e., one can measure it in absolute terms.
ECONOMIC DEVELOPMENT:	<ul style="list-style-type: none"> ✓ Economic development is the growth of the standard of living of a nations people from a low-income (poor) economy to a high-income (rich) economy. When the local quality of life is improved, there is more economic development. • Measuring Development: The idea of developing a formula/method to measure the development was basically facing two kinds of difficulties: <ul style="list-style-type: none"> ✓ At one level it was difficult to define as to what constitutes development. Factors which could show development might be many, such as levels of income/consumption, quality of consumption, healthcare, nutrition, safe drinking water, literacy and education, social security, peaceful community life, availability of social prestige, entertainment, pollution free environment, etc. It has been a really difficult task to achieve consensus among the experts on these determinants of development. ✓ At the second level it looked highly difficult to quantify a concept as development constitutes quantitative as well as qualitative aspects. It is easy to compare qualitative aspects such as beauty, taste, etc., but to measure them we don't have any measuring scale. • Human Development Index: a human development index (HDI) which was the first attempt to define and measure the level of development of economies. The HDR measures development by combining three indicators—Health, Education and Standard of Living—converted into a composite human development index, the HDI. The creation of a single statistic in HDI was a real breakthrough which was to serve as a frame of reference for both 'social' and 'economic' development. • Introspecting Development: As the western world came to be regarded as developed, having top twenty ranks on the HDI, social scientists started evaluating the conditions of life in these economies. Most of such studies concluded that life in the developed world is anything but happy. Crime, corruption, burglaries, extortion, drug trafficking, flesh trade, rape, homicide, moral degradation, sexual perversion, etc.—all kinds of the so-called vices—were thriving in the developed world. It means development had failed to deliver them happiness, peace of mind, a general well-being and a feeling of being in good state.
SOCIAL NORMS, CULTURE AND DEVELOPMENT:	Economic development is not only dependent on fiscal policy, monetary policy and taxation , but is also rooted in human psychology, sociology, culture and norms. In economics, there has been a bit of resistance in emphasising other aspects of development, because it is thought of giving ground to the neighbouring disciplines .
NUDGE & PUBLIC POLICY:	<ul style="list-style-type: none"> • Behavioural economics provides insights to nudge people towards desirable behaviour. By now, nudge has been successfully used in India as an instrument of public policy (in the Swachh Bharat Mission (SBM) and Beti Bachao Beti Padhao (BBBP) campaigns) • it can be further used to aim even higher goals such as— <ul style="list-style-type: none"> ✓ from BBBP to BADLAV (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi). ✓ from Swachh Bharat to Sundar Bharat. ✓ from 'Give it up'(for the LPG subsidy) to 'Think about the Subsidy'.

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✓ from tax evasion to tax compliance.

EVOLUTION OF THE INDIAN ECONOMY:

PRIME MOVING FORCE: AGRICULTURE VS. INDUSTRY:

- ✓ Every economy has to go for its development through exploitation of its natural and human resources. There are priorities of objectives set by the economy which is attempted to be realised in **a proper time frame**.
- ✓ The availability and non-availability of resources are not the only issues which make an economy decide whether to opt for agriculture or industry as its prime moving force.
- ✓ There are many more **socio-political** compulsions and objectives which play their roles in such decision making.
- ✓ Given the available resource base it seems an illogical decision as India lacked all those pre-requisites which could suggest the declaration of industry as its prime mover:
Almost no presence of **infrastructure sector**, i.e., power, transportation and communication.
Negligible presence of the infrastructure industries, i.e., iron and steel, cement, coal, crude oil, oil refining and electricity.
- Lack of investible capital—either by the government or the private sector.
- Absence of required technology to support the process of industrialisation and no research and development.
- Lack of skilled manpower.
- Absence of entrepreneurship among the people.
- Absence of a market for industrial goods.
- Many other **socio-psychological factors** which acted as negative forces for the proper **industrialisation** of the economy.
- ✓ The obvious choice for India would have been the agriculture sector as the prime moving force of the economy because:
 - The country was having the natural resource of fertile land which was fit for cultivation.
 - Human capital did not require any kind of higher training.
- ✓ There were many decisions which were taken under the influence of the main political force of the times, still some very vital ones were influenced by the visionary hunches of the political leadership mainly being **J. L. Nehru**. This is why the economic thinking of independent India is considered and said to be nurtured by **Nehruvian Economics** even today.
- ✓ Looking at the resources available, agriculture would have been the obvious choice as the **prime moving force (PMF)** of the economy
- ✓ The **dominant ideology** around the world as well as in the **WB and the IMF** was in favour of industrialisation as a means to faster growth, which could be translated into faster development.
- ✓ The **second World War** has proved the supremacy of defence power. For defence a country needs not only the support of science and technology, but also an industrial base. India also required a powerful defence base for herself as a deterrent force.
- ✓ Even before Independence, there was a socio-economic consensus among social scientists along with the nationalist leaders, that India needed a boost towards social change as the country lagged behind in the areas of **modernisation**.
- ✓ By the time India got her independence the might of industrialisation was already proven and there