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XII ECONOMICS
STUDY MATERIAL & QUESTION BANK
KVS AHMEDABAD REGION



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STUDY MATERIAL & QUESTION BANK

PART-A

INTRODUCTORY MACRO ECONOMICS

Unit – 1 National income and Related Aggregates (10 Marks)

Macro Economics : Macro economics is a branch of economics which studies economic problem at the level of an economy as a whole.

It studies aggregate economic unit. Like National Income, Aggregate Demand, General price level etc.

Circular flow of income

Circular Flow of income: **Circularity of real flows and money flows between different sectors of the economy.**

Flow of money from producer to household. Households are the owners of factor of production (labour, land, capital) they provide factor services to firms and receive payment (wages, rent, interest) for it. Firms hire factors of production and produce goods and services and sell to the household.

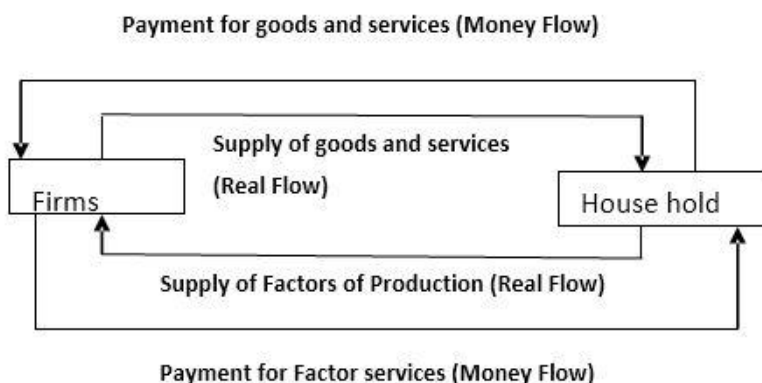
Flow of money from household to producer as payments for the purchase of consumer goods and services.

This non-stop continuity of intersectoral flow is called “circular flow”

Real Flow (Product Flow) : Flow of goods and services between different sectors of the economy.

Money Flow : Flow of money between different sectors of the economy.

Circular flow in a two sector economy.



Define Investment , Gross Investment , Net Investment and Depreciation

Investment: Increase in the stock of capital during the year.

Gross Investment: Expenditure on purchase of fixed assets plus expenditure on the inventory stock during the year.

Depreciation: Fall in the value of fixed assets due to wear and tear, accidental damage.

Net Investment: Gross Investment – Depreciation

Differentiate between Intermediate and good Final

Intermediate Good	Final Good
1.They are <i>used for production of other goods and services</i>	1.They are <i>used for final consumption.</i>
2.These goods are <i>for resale in the market.</i>	2.These goods <i>are not for resale</i> in the market.
3.Its value is <i>not included in National Income</i>	3.Its value is <i>included in National Income.</i>
Example: Wood	Example : Furniture

Differentiate between Consumption good and Capital good

Consumption Good	Capital Good
1. It is <i>used by consumer for consumption.</i>	1.It is used by producer for production.
2. They have limited life span generally less than a year	2. they have generally long life span generally more than a year
3.Example: Durable like car, Non-durable Like vegetable	3.Example : machines road,bridge,

Differentiate between Stock Variable and Flow Variable

Stock Variable	Flow Variable
1. Stock is measured at point of time.	1.Flow is measured during a period of time. Like per hour, per day, per year.
2.Stock is static concept.	2.It is dynamic concept.
3. It does not have a time dimension	3. It has time dimension
4. Example : Wealth, capital	4. Example : Investment, income

Concept of Domestic (Economic) Territory

Domestic territory is a geographical territory administered by a government within which persons, goods and capital circulate freely. (Areas of operation generating domestic income, freedom of circulation of persons, goods and capital)

Scope identified as

*Political frontiers including territorial waters and air space.

*Embassies, consulates, military bases etc. located abroad but including those located within the political frontiers

*Ships, aircrafts etc., operated by the residents between two or more countries.

*Fishing vessels, oil and natural gas rigs etc. operated by the residents in the international waters or other areas over which the country enjoys the exclusive rights or jurisdiction.

Resident (normal resident):-

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

The Centre of economic interest implies :- (1) the resident lives or is located within the economic territory. (2) The resident carries out the basic economic activities of earnings, spending and accumulation from that location 3. His center of interest lies in that country.

Relation between national product and Domestic product.

Domestic product concept is based on the production units located within domestic(economic)

territory, operated both by residents and non-residents.

National product concept based on resident and includes their contribution to production both within and outside the economic territory.

Differentiate between Domestic Income and National Income.

Domestic Income	National Income
1.It is the sum total of factor incomes generated within the domestic territory of a country by residents and non-residents(foreigners)	1.It is the sum total of factor incomes generated by residents of a country within the domestic territory and rest of the world
2.It does not include NFIFA(Net factor income from abroad)	2.It includes NFIFA(Net factor income from abroad)

Differentiate between Factor Income and Transfer Income.

Factor Income	Transfer Income
1.It is earned by factor of production like rent, interest, wages and profit	1.It is received by normal people, organization or country like gifts, grants and donations
2.It is earned due to some production process	2.It is received without any production process
3.It is included in national income	3.It is not included in national income
4. Eg. Rent, interest, profit, wages	Eg. Scholarship, gifts, grants, donations, aid

Differentiate between Real GDP and Nominal GDP. Which is better measure of welfare and why?

Real GDP	Nominal GDP
1.It is the value of output at base year price.	1.It is the value of output at current year price.
2.It will increase only when output increases.	2.It will increase when price or output increases.
3.It is reliable index of welfare	3.No confirmation of welfare

Real GDP is better measure of welfare because when welfare will increase when output increases whereas nominal GDP can increase without increase in real output due to increase in prices.

Three methods of calculation of national income

I - Product Method (Value added method):

The first step to determine

GVA mp = Value of Output – Intermediate consumption

Value of output = Sales + Change in stock

Change in stock = (closing stock – opening stock)

The sum of value of GVAmp of all the firms in the economy is GDPmp

NNP Fc (N.I) = GDPmp - Consumption of Fixed Capital (Depreciation)-NIT+ NFIFA

II Income method:

The first step is to determine NDPfc

NDPfc = Comp. of Emp. + Operating Surplus + Mixed Income

NNPfc = NDPfc + NFIFA

1.**Compensation of Employees**(Payment in Cash, Payment in kind, Employer contribution to social security scheme, Retirement pension)

2. **Operating Surplus** (Rent and royalty + Interest + Profit)

(Profit = Corporate Tax + Corporate Savings (undistributed profit) + Dividend

3.**Mixed income of self-employed**

III Expenditure Method

The first step to determine GDP mp,

$GDP\ mp = \text{Private Final Consumption Expenditure} + \text{Government Final Consumption Expenditure} + \text{Gross Domestic Capital Formation (Gross Domestic Fixed Capital Formation} + \text{Change in Stock)} + \text{Net Export}$

$NNP\ fc = GDP\ mp - CFC - NIT + NFIFA$

Or

$NNP\ fc = GDP\ mp - CFC - NIT - NFITA$

$NDP_{MP} = \text{Private final consumption expenditure(PFCE)} + \text{Govt. final consumption expenditure(GFCE)} + \text{Net domestic capital formation (NDCF)} + \text{Net Exports}$

(This formula may be directly used when Net domestic capital formation is given Or CFC is not given)

Master Key for calculation

Gross	=	Net	+	Depreciation
National Income	=	Domestic Income	+	NFIFA
Market Price	=	Factor Cost	+	NIT

Here,

Net Factor Income From Abroad (NFIFA) = Factor Income received from abroad (FIFA)
- Factor Income paid to abroad (FITA)

Net Indirect Tax (NIT) = Indirect Tax - Subsidy

Net Exports = Exports - Imports

Basic Aggregates of National Income

1) **Gross Domestic Product at Market Price (GDPmp)**

It refers to gross market value of all final goods and services produced within the domestic territory of a country during a given period of one year.

'Gross' in GDPmp signifies that it includes depreciation(CFC).

'Domestic' in GDPmp signifies that it includes goods and services produced by all units (resident + non-resident) located in the domestic territory.

'Product' in GDPmp signifies that only final goods and services have to be included.

'Market Price' in GDP mp signifies that it includes amount of indirect taxes paid and excludes amount of subsidy received (means NIT is added)

2) **Gross Domestic Product at Factor Cost (GDPfc)**

It refers to gross money value of all final goods and services produced within the domestic territory of a country during a given period of one year.

$$GDPfc = GDPmp - NIT$$

3) **Net Domestic Product at Market Price (NDPmp)**

It refers to net market value of all final goods and services produced within the domestic territory of a country during a given period of one year.

$$NDPmp = GDPmp - CFC$$

4) **Net Domestic Product at Factor Cost (NDPfc)**

It refers to net money value of all final goods and services produced within the domestic territory of a country during a given period of one year.

$$NDPfc = GDPmp - NIT - CFC$$

NDP fc is also known as Domestic Income.

5) Gross National Product at Market Price (GNPmp)

It refers to gross market value of all final goods and services produced by the normal residents of a country during a given period of one year.

$$\text{GNPmp} = \text{GDPmp} + \text{NFIFA}$$

6) Gross National Product at Factor Cost (GNPfc)

It refers to gross money value of all final goods and services produced by the normal residents of a country during a given period of one year.

$$\text{GNPfc} = \text{GNPmp} - \text{NIT}$$

7) Net National Product at Market Price (NNPmp)

It refers to net market value of all final goods and services produced by the normal residents of a country during a given period of one year.

$$\text{NNPmp} = \text{GNPmp} - \text{CFC}$$

8) Net National Product at Factor Cost (NNPfc)

It refers to net money value of all final goods and services produced by the normal residents of a country during a given period of one year.

$$\text{NNPfc} = \text{GNPmp} - \text{NIT} - \text{CFC}$$

NNP fc is also known as National Income.

Precautions to be taken while calculating national income through product method (value added method)

- a) Avoid double counting of production, take only value added by each production unit.
- b) The output produced for self-consumption to be included
- c) The sale & purchase of second hand goods should not be included.
- d) Value of intermediate consumption should not be included
- e) The value of services rendered in sales must be included.

Precautions to be taken while calculating national income through income method.

- a) Income from owner occupied house to be included.
- b) Wages & salaries in cash and kind both to be included.
- c) Transfer income should not be included
- d) Interest on loans taken for production only to be included. Interest on loan taken for consumption expenditure is non-factor income and so not included.

Precautions to be taken while calculations N.I under expenditure method.

- a) Avoid double counting of expenditure by not including expenditure on intermediate product
- b) Transfer expenditure not to be included
- c) Expenditure on purchase of second hand goods not to be included.

Explain the problem of double counting. How can we avoid it ?

Double counting means counting the value of goods and services more than once in the estimation of national income. This problem arises when we consider output of firms are final output therefore we are counting the value of goods at every stage of production more than one time.

But it is the fact that output of one firm may be the input for other firm.

It can be avoided by following ways :

1. Taking Value Addition method in the calculation of the National income.
2. Taking the value of final goods only while calculating national income.

How 'non-monetary exchange' and 'externalities' are a limitation in taking GDP as an index of welfare?

GDP is considered as an index of welfare of the people. Increase in GDP means increase in the level of welfare of the people. But some time it not true that Increase in GDP means increase in the level of welfare as given in the following context:

1.Non-monetary exchange : In India, the barter system of exchange is existing in the rural areas where commodities are exchanged for commodities. Payments are made in kind instead of cash. Such transactions are not recorded when we are calculating GDP therefore GDP remains underestimated, it loses the importance as an index of welfare.

2.Externalities : Externalities refers to good and bad impact of an economic activity.

Positive externalities : When a beautiful garden maintained by one person will raises the welfare of other person who is not paying for it. The value of welfare is not included in the estimation of GDP.

Negative externalities : Smoke released by factory causes air pollution. People of that locality have to suffer by diseases like asthma which causes the loss of social welfare. But nobody is penalized for it and there is no valuation of it in the estimation of GDP.

Therefore GDP as an index of welfare is not a perfect index because it underestimates the level of welfare.

Formula of GNP Deflator

It measures the average level of prices of all goods and services that makes GNP.

$$\text{GNP Deflator} = \frac{\text{Nominal GNP(GNP at current price)}}{\text{Real GNP(GNP at constant price)}} \times 100$$

Green GNP : This concept is used to denote sustainable development. Development which should not cause environment pollution and reduction of resources and also promote economic welfare.

QUESTIONS AND ANSWERS FROM THE UNIT 1

1. Which is Not a factor service:
(a) Land (b) labour (c) rent (d) capital
2. Which one of the following is paid as remuneration on capital?
(a) Rent (b) wages (c) interest (d) profit
3. A television set purchased by a consumer is an example of:
(a) Money flow (b) real flow (c) nominal flow (d) none of these
4. Old age pension given to old people by the government is an example of:
(a) Money flow (b) real flow (c) nominal flow (d) both a and c
5. Which one of the following is an example of money flow:
(a) Service provided by a teacher in govt. school
(b) Rent paid to the landlord by a tenant
(c) Purchase of cement for construction of a house
(d) All of above
6. Value of production is converted into factor income after monetary value of goods and services is (collected/distributed) among factors of production.

7. When households purchase the final goods, there is (investment/consumption) expenditure and when producers purchase the final goods, there is (investment/consumption) expenditure.
8. Excess of production over consumption is called (capital formation/capital stock).
9. Goods and services flow in direction and money payment to acquire these, flow in the direction. [return/one]
10. Which one of the following is a stock?
(a) Wealth (b) saving (c) exports (d) profits
11. Which one of the following is Not a flow?
(a) Capital (b) income (c) investment (d) depreciation
12. Quantity measured at a point of time.
(a) Depreciation (b) stock (c) income (d) production
13. Circular flow is of types.
(a) Two (b) three (c) four (d) all of these
14. Which one of the following is a stock variable?
(a) Income (b) savings (c) expenditure (d) money supply
15. Circular flow models are significant as they:
(a) Provide knowledge of interdependence among different sectors
(b) Give knowledge of structure of the economy
(c) Enable estimation of national income
(d) All of above
16. By which economic effect generate demand of goods and services?
(a) Stock (b) leakages (c) injections (d) none of these
17. Saving, taxation and imports are the example of (injections/leakages).
18. Losses are the example of (stock/flow).
19. Expansion of circular flow implies.....(leakages/injections) into it.
20. Contraction implies(leakages/injections) from the circular flow.

3/4/6 MARKS QUESTIONS

1. "Households and firms depend on each other in the circular flow of income". Justify the statement in case of a two-sector model. 3
2. Discuss the concept of stock and flow. Why is national income a flow concept? 3
3. Distinguish between leakages and injections. Give two examples of each. 4
4. Why is the flow of income and product called a circular flow? 3
5. Differentiate between real flow and money flow. 4
6. What are the principles of circular flow of "Income and Product"? 3

7. Imports create leakages in the circular flow of income. Do you agree? How in your opinion the leakages can be corrected? 4
8. Government provides subsidies to producers and transfer payments to the households. It increases government expenditure. How can this excessive expenditure be reduced? 4
9. Explain with diagram, the circular flow of income giving suitable example. 6
10. Explain the importance of the circular flow of income. 6

ASSERTION/REASON TYPE QUESTIONS

11. Assertion (A): Real flow and money flow are one or the same thing, presented in a different form.

Reason (R): In money flow, there is no involvement of goods in its physical form.

Alternatives:

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

12. Assertion (A): Total production is equal to total consumption in the case of circular flow in a two-sector economy.

Reason (R): The household sector supplies factor services only to firms and the firm hire factor services only from households.

Alternatives:

- a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
- b) Both Assertion and Reason 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): The stock variable does not have a time dimension.

Reason (R): The stock variable is measured over a period of time.

Alternatives:

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

14. Assertion (A): Money received from the sale of second-hand cars will be considered while estimating national income.

Reason (R): Their value is already included and it does not contribute to the current flow of goods and services.

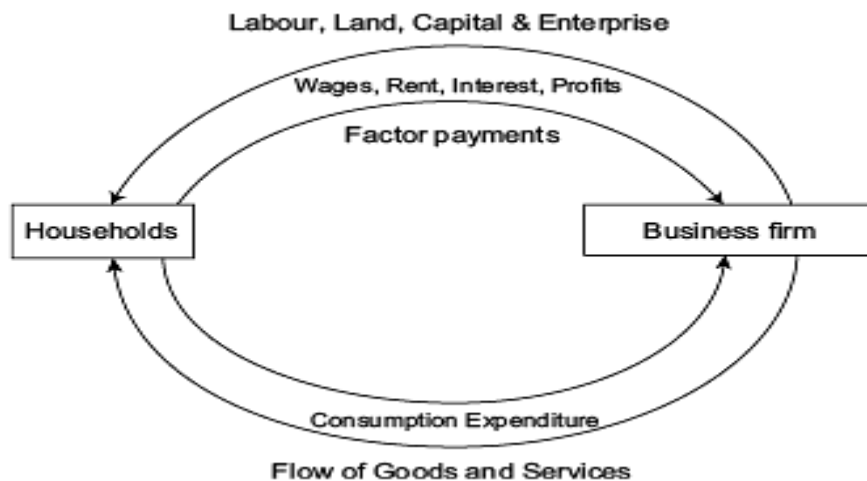
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- c) Assertion (A) is True but Reason (R) is False
- d) Assertion (A) is False but Reason (R) is True

CASE STUDY BASED QUESTIONS

DIRECTION: READ THE BELOW CASE AND ANSWER THE QUESTIONS THAT FOLLOW:

CIRCULAR INCOME FLOW IN A TWO SECTOR ECONOMY: IN THE FIGURE GIVEN WE CAN SEE THAT UPPER LOOP SHOWS THE RESOURCES SUCH AS LAND, CAPITAL AND ENTREPRENEURIAL ABILITY FLOW FROM HOUSEHOLDS TO FIRMS IN THE DIRECTION SHOWN BY THE ARROW DIRECTION.



THE MONEY FLOWS FROM FIRMS TO THE HOUSEHOLDS AS FACTOR PAYMENTS IN THE FORM OF WAGES, RENT, INTEREST AND PROFITS, SHOWN BY THE ARROW DIRECTION.

THE LOWER PART OF THE FIGURE SHOWS THE FLOW OF MONEY FROM HOUSEHOLDS TO FIRMS IN THE FORM OF CONSUMPTION EXPENDITURE DONE BY THE HOUSEHOLDS TO PURCHASE THE GOODS AND SERVICES PRODUCED BY THE FIRMS, MAKING THE FLOW OF GOODS AND SERVICES FROM FIRMS TO HOUSEHOLDS.

THUS, WE SEE THAT MONEY FLOWS FROM BUSINESS FIRMS TO HOUSEHOLDS AS FACTOR PAYMENTS AND THEN IT FLOWS FROM HOUSEHOLDS TO FIRMS. THUS, THERE IS, IN FACT, A CIRCULAR FLOW OF MONEY OR INCOME. THIS IS HOW THE ECONOMY FUNCTIONS.

1. INCOME GENERATION AND EXPENDITURE INVOLVING DIFFERENT _____ OF THE ECONOMY.

- [A] Sector. [B] Aspect [C] Type. [D] None of the above.

2. MONEY FLOWS FROM _____ TO _____ AS FACTOR PAYMENTS.

- [A] Firms, households [B] Households, firms [C] Government, firms [D] Households, government

3. Which of the following is not the significance of Circular Flow of Income?

[A] It reflects structure of an economy.

[B] It shows interdependence among different sectors..

[C] It shows injections and leakages from flow of money..

[D] It does not help in estimation of national income and related aggregates..

4. WHICH OF THE FOLLOWING IS NOT AN ASSUMPTION OF A TWO SECTOR MODEL OF CIRCULAR FLOW OF INCOME?

[A] Domestic economy comprises only 2 sectors, the producers and the households..

[B] The households spend their entire income, so that there is no saving..

[C] Domestic economy is an open economy (no exports and imports)..

[D] There is no government in the economy..

MULTIPLE CHOICE QUESTIONS

1. Macroeconomics is concerned with:

(a) The level of output of goods and services in the economy

(b) The general level of prices

(c) GDP growth

(d) All of these

ANSWER-(d) all of these

2. Which of the following statements is associated with general equilibrium analysis?

(a) Equilibrium in the market of gold ornaments

(b) Equilibrium across all markets in the economy

(c) Equilibrium price of a good in the competitive market

(d) None of these

ANSWER- (b) Equilibrium across all markets in the economy

3. Consumption of all goods and services in the economy during the period of an accounting year is known as:

(a) Aggregate demand

(b) Aggregate supply

(c) Aggregateconsumption

(d) None of these

ANSWER-(c) Aggregate consumption

4. Final goods are used by the:

(a) Consumers

(b) Producers

(c) Government

(d) All of these

ANSWER-(d) All of these

5. Classification of goods depend on the:

(a) Consumption of goods

(c) First-use of goods

(b) Production of goods

(d) End-use of goods

ANSWER-(d) End-use of goods

6. Capital goods are those goods:

- (a) Which are used in the production process for several years
- (b) Which are used in the production process for few years
- (c) Which involve depreciation losses
- (d) Both (a) and (c)

ANSWER-(d) Both (a) and (c)

7. Increase in the stock of capital is known as:

- (a) Capital loss
- (b) Capital gain
- (c) Capital formation
- (d) None of these

ANSWER-(c) Capital formation

8. Which of the following leads to depreciation?

- (a) Normal wear and tear
- (b) Damages due to floods
- (c) Damages due to market-crash
- (d) None of these

ANSWER-(a) Normal wear and tear

9. A quantity measured per unit of time period is known as:

- (a) Stock variable
- (b) Flow variable
- (c) Inventory
- (d) None of these

ANSWER-(b) Flow variable

10. Which of the following is a stock variable?

- (a) Interest on capital
- (b) Distance between Delhi and Mumbai
- (c) Expenditure of money
- (d) All of these

ANSWER-(b) Distance between Delhi and Mumbai

11. A car running between Delhi and Agra at a speed of 120 km/h includes:

- (a) Only stock variables
- (b) Only flow variables
- (c) Both a stock and a flow variable
- (d) None of these

ANSWER-(c) Both a stock and a flow variable

12. Net investment is equal to:

- (a) Gross investment + depreciation
- (b) Gross investment - depreciation
- (c) Gross investment x depreciation
- (d) Gross investment + depreciation

ANSWER-(b) Gross investment – depreciation

13. Which of the following is a method to measure the National Income?

- a. Expenditure method
- b. Income method
- c. Product method
- d. All of the above

Answer: d

14. Which of the following is the correct term for calculating National Income at the market prices?

- a. Money income
- b. Non-monetary income
- c. Real income
- d. None of the above

Answer: a

15. Which of the following is the correct term for calculating National Income at constant prices?

- a. Current income
- b. Domestic income
- c. Real income
- d. None of the above

Answer: c

16. Which of the following items are not included while measuring the Gross National Product?

- a. Illegal and leisure activities
- b. Purely financial transactions
- c. Transferring of used goods and non-market goods and services
- d. All of the above

Answer: d

17. Which of the following is the employment theory related to?

- a. Macroeconomics
- b. Static economics
- c. Microeconomics
- d. None of the above

Answer: a

18. Which of the following is the actual definition of transfer payments?

- a. Transfer payments refer to the payments made as compensation to the employees within an organisation
- b. Transfer payments refer to the payments made to workers on transferring from one job to another
- c. Transfer payments refer to the payments made without any exchange of goods and services
- d. None of the above

Answer: c

19. The difference between the National Income and the Net National Product at market price is known as _____.

- a. National debt transfer
- b. Current transfers from the rest of the world
- c. Net indirect taxes
- d. All of the above

Answer: c

20. Which of the following is not a part of the National Income?

- a. Undistributed profits
- b. Income from government expenditure
- c. The interest amount on the unproductive national debt
- d. The payments made by a household to a firm for purchasing goods and services

Answer: c

21. Which of the following is another term for the Net National Product at factor cost?

- a. Personal Income
- b. National Income
- c. Gross National Product
- d. Net Domestic Product

Answer: b

22. Which of the following is true for Disposable Income?

- a. Disposable Income is the difference between Private Income and Indirect Taxes
- b. Disposable Income is the difference between Personal Income and Indirect Taxes
- c. Disposable Income is the difference between Private Income and Direct Taxes
- d. Disposable Income is the difference between Personal Income and Direct Taxes

Answer: d

23. Which of the following organisations calculate the Gross Domestic Product in India?

- a. Reserve Bank of India
- b. Indian Statistical Institute
- c. National Statistical Office
- d. None of the above

Answer: c

24. Which of the following is the correct definition for the Gross Domestic Product (GDP) of a country?

- a. The Gross Domestic Product is the total monetary value of the economic transactions within a country in a given year
- b. The Gross Domestic Product is the total value of both monetary and non-monetary goods and services in a country within a given year
- c. The Gross Domestic Product is the total value of tradable goods produced in a country within a given year
- d. None of the above

Answer: d

25. Which of the following is true for Inflation?

- a. The value of money increases during Inflation
- b. The value of money decreases during Inflation
- c. The value of money stays the same during Inflation
- d. None of the above

Answer: b

26. Which of the following is true for Net National Income?

- a. The Net National Income is the total of Gross National Product and Depreciation
- b. The Net National Income is the difference between Gross National Product and Depreciation
- c. The Net National Income is the difference between Gross Domestic Product and Depreciation
- d. The Net National Income is the difference between Net Domestic Product and Depreciation

Answer: b

27. Which of the following is true for the National Income of a country?

- a. If the savings exceed the investment within a country, the National Income will rise
- b. If the savings exceed the investment within a country, the National Income will fall
- c. If the savings exceed the investment within a country, the National Income will fluctuate
- d. If the savings exceed the investment within a country, the National Income will remain constant

Answer: d

28. Which of the following is the definition of a closed economy?

- a. A closed economy is a type of economy where the money supply is totally controlled by the government
- b. A closed economy is a type of economy where neither exports nor imports take place
- c. A closed economy is a type of economy where deficit financing takes place
- d. A closed economy is a type of economy where there are no exports to other countries

Answer: b

29. Which of the following is not needed while considering the Gross National Product?

- a. The net investment made by foreigners within a given period
- b. The total of private investments made within a given period
- c. The total purchase of goods made by the government within a given period
- d. The total per capita income of the citizens of a country within a given period

Answer: d

30. The primary sector within a country for the calculation of National Income includes _____.

- a. Small scale industries
- b. Retail trading
- c. Agriculture
- d. All of the above

Answer: d

31. Which of the following is included in the National Income of a country?

- a. Rent
- b. Interest
- c. Wages
- d. Rent, Interest, Wages, Salary, Profits

Answer: d

32. What is the consumption of Fixed Capital known as?

- a. Depreciation
- b. Capital Formation
- c. Investment
- d. All of the above

Answer: a

Fill in the blanks

1. ----- goods are those goods which have crossed the boundary line of production and are ready for use by their final users. **ANSWER-Final**

2. ----- is the year during which production of goods and services is estimated in the domestic economy. **ANSWER-Accounting year**

3. Only ----- obsolescence is considered for the estimation of depreciation. **ANSWER-expected**

4. A stock is a variable measured ----- of time. **ANSWER- at a point)**

5. ----- refers to the production of capital goods during the year. **ANSWER- Gross investment**

State whether the following statements are True or False- (18-21)

1. Expenditure on final producer goods by the producers is called investment expenditure.

ANSWER- True

2. Stock impacts the flow: greater the stock of capital, greater is the flow of goods and services.

ANSWER- True

3. Inventory investment raises the production capacity of the producers. ANSWER-False

4. The stock of raw material is significant because it ensures uninterrupted supply of raw materials to the producers.

ANSWER- True

1. Salary paid to worker is an example of :

(a) Transfer Income (b) Govt. revenue (c) Factor payment (d) none of the above

Ans: (c)

2. Aggregate used for domestic income :

(a) NDP FC (b) NNP FC (c) GNP MP (d) NNP MP

Ans: (a)

3. ----- is an example of transfer income:

(a) Dearness allowance (b) Old age pension (c) Retirement pension (d) Bonus

Ans: (b)

4. A part of profits :

(a) Corporate tax (b) Royalty (c) Fee uniform (d) Interest

Ans: (a)

5. Undistributed profits are also known as :

(A) Retained earnings (b) Corporate savings

(c) General reserve (d) All of these

Ans: (d)

6. Brokerage paid to the broker for sale and purchase of shares is included in national income because:

(A) It is operating surplus (b) It is C.O.E

(c) It is mixed income of self employed (d) Broker is rendering productive services

Ans: (d)

7. Purely financial transactions, not included in national income:

(A) Sale of shares and bonds (B) Govt. transfer payments

(C) Old age pension (D) All of these

Ans: (d)

8. Which one out of the following is the best indicator of economic growth?

- (A) Increase in GNP (B) Increase in GDP
(C) Increase in real per capita GDP (D) Increase in per capita GDP

Ans: (c)

9. With a rise in real national income, welfare of the people:

- (A) Rises (B) Falls (C) Remains unchanged (D) None of these

Ans: (a)

10. GDP deflator is same as

- (A) Nominal GDP (B) Real GDP (C) Price index (D) None of these

Ans: (c)

11. When Nominal GDP is ₹840 crore and price index is 120, then the real GDP will be _____.

- (A) ₹700 Cr (B) ₹900 Cr (C) ₹500 Cr (D) ₹800 Cr

Ans: (a)

12. National income = COE + OS + MI + _____.

Ans: NFIA

13. NDP FC is known as _____ (national/domestic) income.

Ans: domestic

14. NNP MP and GNP FC are _____ (national/domestic) income.

Ans: National

15. $NNPFC = GNPmp - \text{_____} - NIT$

Ans: Depreciation

16. $GVO MP = Sales + \text{_____} + \text{Goods produced for self consumption}$

Ans: change in stock

17. $Profit = Dividends + Corporate Tax + Corporate + \text{_____}$

Ans: savings

18. $NNP FC = NDP MP + NFIA - \text{_____}$

Ans: NIT

19. $Real GDP = Nominal GDP / \text{_____} \times 100$

Ans: price index

20. $Rent + Interest + Profit = \text{_____}$.

Ans: operating Surplus

21. " All producer goods are not capital goods." (True/False)

Ans: True

22. Increase in per capita real income is increase in per capita availability of goods and services. Does it necessarily mean rise in the welfare of the people of the country .
(True/False)

Ans: False

23. Gross domestic capital formation (GDCF) is always greater than Gross domestic fixed capital formation (GDFCF). (True/False)

Ans: False

24. National income is affected by transfer incomes. (True/False)

Ans: False

25. Expenditure on advertisement by a firm is not included in national income. (True/False)

Ans: True

26. Match the following items given in Column A with those in Column B.

COLUMN A	COLUMN B
(1) Value added	(a) Indirect tax
(2) Mixed income	(b) Corporate tax
(3) Tax on profits	(c) Value of output - Intermediate consumption
(4) Tax on production	(d) Income of own account workers

(A) (1)-(d) ; (2)-(a) ; (3)-(b) ; (4)-(c)

(B) (1)-(c) ; (2)-(a) ; (3)-(d) ; (4)-(b)

(C) (1)-(b) ; (2)-(c) ; (3)-(a) ; (4)-(d)

(D) (1)-(c) ; (2)-(d) ; (3)-(b) ; (4)-(a)

Ans: (d)

27. Read the following statements-Assertion (A) and Reason (R) . Choose one of the correct alternatives given below :

Assertion (A). Sale and purchase of shares , bonds and debentures is not included in the estimation of national income.

Reason (R). Financial assets are mere paper claims which do not add to the flow of goods and services, hence not included in the estimation of National Income.

Alternatives:

(A) Both (A) and (R) are true and (R) is the correct explanation of (A)

(B) Both (A) and (R) are true and (R) is not the correct explanation of (A)

(C) (A) is true but (R) is false

(D) (A) is false but (R) is true

Ans: (a)

28.Read the following statements-Assertion (A) and Reason (R) . Choose one of the correct alternatives given below :

Assertion (A).Gross domestic capital formation refers to investment expenditure by the producing sector in a country.

Reason (R).Business fixed investment is the amount which producing units spend on purchase of second hand equipments and machines in the domestic territory of the country.

Alternatives:

- (A) Both (A) and (R) are true and (R) is the correct explanation of (A)
- (B) Both (A) and (R) are true and (R) is not the correct explanation of (A)
- (C) (A) is true but (R) is false
- (D) (A) is false but (R) is true

Ans: (c)

29.Read the following statements-Assertion (A) and Reason (R) . Choose one of the correct alternatives given below :

Assertion (A).Operating surplus is income from property (rent,royalty and interest)and income from entrepreneurship.i.e,Profits (Dividends + Corporation Tax + Corporate Savings).

Reason (R).Operating Surplus does not originate in general government sector as there is no income from property and entrepreneurship.

Alternatives:

- (A) Both (A) and (R) are true and (R) is the correct explanation of (A)
- (B) Both (A) and (R) are true and (R) is not the correct explanation of (A)
- (C) (A) is true but (R) is false
- (D) (A) is false but (R) is true

Ans: (b)

Case study

New Delhi. The centre an eased norms to offer 50% of salary for three months as unemployment allowance to lakhs of workers who are members of the employees state insurance corporation and lost their jobs due to the coronavirus panademic .The move comes as a major relief for industrial workers, who have lost jobs or are on the verge of losing jobs due to the impact of the pandemic and the lockdown, which had stalled economic activity. There have been demands from several sections to provide wage relief to workers his hard by the pandemic

30.The demand for wage relief to workers has been due to loss of jobs because of (pandemic/voluntary retirement).

Ans: Pandemics

31.Benefit of unemployment allowance would be available to workers

- (a) who have lost job due to pandemic
- (b) who are on the verge of losing job due to pandemic
- (c) both (i) and (ii)
- (d) neither (i) nor (ii)

Ans: (c)

32.Unemployment allowance is a(factor/transfer) income.

Ans: transfer

33. Transfer payment are(included/not included) in the estimation of national income.

Ans: not included

Case study

Read the following article and answer the question given below :

The Budget Estimate of total spending for 2021-22 is ₹34.83 lakh crore. The Revised Estimate (RE) for total central spending in 2020-21 is ₹34.5 lakh crore. The Gross Domestic Product (GDP) deflator __ if one takes 14.4% nominal GDP growth projection for 2021-22 given in the budget and 11% real GDP forecast given in the latest Economic Survey __ comes to 3.4%. This means that central spending should have increased to at least ₹35.7 lakh crore to keep it unchanged in real terms. The fact that it has not happened implies that the 2021-22 budget entails a negative fiscal stimulus to the economy. To be sure, one could argue that 2020-21 was an abnormal year— and, therefore, the government is justified in rolling back its welfare spending push, as the economy gets unlocked and vaccination gains momentum

34. With the rise national income, the economic welfare of the people———— (rises/ falls).

Ans: rises

35. If GDP deflator =125, Nominal GDP=₹15000 Crs then Real GDP is equal to ₹————.

Ans: ₹12000 cr

36. Read the following statement -Assertion (A) and Reason (R)

Assertion (A). Real GDP is always equal to Nominal GDP.

Reason (R) . Real GDP is a better measure to make Periodic comparison in the physical output of goods and services over different years.

Select the correct alternative from the following :

(i) Assertion (A) is true and Reason (R) is false.

(ii) Assertion (A) is false and Reason (R) is true.

Ans: (ii)

37.State the significance of GDP Deflator.

Ans: It is a tool that shows changes in the Price level of the economy over a given period of time.

38. .when Nominal Gross Domestic Product (GDP) is ₹840 crore and price Index is 120, then the Real Gross Domestic product (GDP) will be————.

(a) ₹700 crore (b) ₹900 crore (C) ₹800 crore (d) ₹500 crore

Ans: (a)

39. A firm produces ₹100 worth of goods per year, ₹20 is the value of intermediate goods used by it during the year and ₹10 is the value of capital consumption. The net value added will be.

(a) ₹100 (b) ₹80 (C) ₹70 (d) ₹130

Ans: (a)

40. Market price include:

- (a) Subsidies (b) Indirect taxes (c) Intermediate consumption (d) Depreciation

Ans: (b)

41. Indirect taxes are deducted from NNP at market prices to calculate national income because— — —

Ans: Indirect Taxes accrue to the government. It is a transfer payment, Not a Factor payment.

42. The part of NNP which actually accrues to the owners of factors of production is called— — —.

Ans: Net National Product at Factor Cost or National Income.

43. If the nominal GDP of the current year is double the nominal GDP of the base year, the volume of production of the country must have doubled. (True/False)

Ans: False

44. Suppose a country produces bread only. In the year 2018-19 it had produced 1,000 units of bread, price was ₹10 per bread. In 2019-20, it produced 1100 unit of bread at price of ₹12 per bread. In 2019-20, the nominal and real GDP are:

- (a) ₹10,000 and ₹10,000
(b) ₹10,000 and ₹11,000
(c) ₹13,200 and 10,000
(d) ₹13,200 and ₹11,000

Ans: (d)

45. If the GDP deflator is 150% and real GDP is ₹1,100 the nominal GDP will be.

- (a) ₹ 733 (b) ₹1,650 (c) ₹1,100 (d) ₹2,750

Ans: (b)

46. A representative consumer had to spend ₹1,400 on purchases of a given basket of commodities in the year 2015-16. Due to inflation, CPI of the year 2019-20 (taking 2015-16 as base year) was 120. How much amount the consumer had to spend on purchase of the same basket of commodities in the year 2019-20?

- (a) ₹1,167 (b) ₹1,680 (c) ₹1,520 (d) ₹1,280

Ans: (b)

47. Which of the following is a flow concept?

- (a) Foreign exchange reserves
(b) Inventory
(c) Capital
(d) Exports

Ans: (d)

48. Which of following will be included in national income?

- (a) Money receipt from sale of old car
(b) Scholarship received by students
(c) Remittances from abroad
(d) Free services of owner occupied building

Ans: (d)

49. Which one of the following is not a part of a country's Net Domestic product at market price?

- (a) Depreciation
- (b) Indirect tax
- (c) Net exports
- (d) Net change in stocks

Ans: (a)

50. Net value added at factor cost = ₹100 crore, Depreciation = ₹30 crores, Subsidies = ₹15 crore and Intermediate Consumption = ₹185 crore, then "Gross value of output" is:

- (a) ₹300 crore
- (b) ₹330 crore
- (c) ₹130 crore
- (d) ₹230 crore

Ans: (a)

51. Depreciation is also known as:

- (a) Capital loss
- (b) Unforeseen obsolescence
- (c) Capital allowance
- (d) Both (a) and (b)

Ans: (c)

52. If Net factor income to abroad is (-) ₹120 crores, factor income from abroad is ₹150 crore and domestic income is ₹4,500 crore, National Income will be:

- (a) ₹4,380 crore
- (b) ₹4,620 crore
- (c) ₹4,700 crore
- (d) ₹4,300 crore

Ans: (c)

53. If GDPmp is ₹5,000 crores, intermediate consumption is ₹2,500 and the ratio of sales to change in stock is 2:1, then sales will be:

- (a) ₹4,000
- (b) ₹5000
- (c) ₹3,000
- (d) ₹2,000

Ans: (b)

54. If NDPfc = ₹80 crore, Net indirect tax = (-) ₹10 crore, Net factor income from abroad (NFIA) = (-) ₹10 crore, then NNPmp = ₹70 crore. (True/False)

Ans: False

55. According to a report forwarded by the reserve bank of India, there was a fall in rate of inflation as measured by Consumer Price Index (CPI) on year-on-year basis to 5% from 8% in the previous year.

Which of the following statements represents the situations?

- (a) CPI has fallen.
- (b) CPI has risen at a rate lower than the preceding year.
- (c) CPI is constant.
- (d) None of the above

Ans: (b)

Section - B

56. If Real GDP is ₹ 200 and price index (with base = 100) is 110 , calculate Nominal GDP.

Ans: ₹ 220

57. Distinguish between domestic income and National income. (3)

Ans:

Basis	Domestic Income	National Income
1. Meaning	It is money value of all final goods and services produced within the domestic territory of a country during a period of one year.	It is money value of all final goods and services produced by normal residents of a country during a period of one year.
2. Concept	It is a domestic concept as it does not include net factor income from abroad.	It is a national concept as it includes net factor income earned from abroad.
3. Component	Components of domestic income are : NDPFC=COE+OS+MI	Components of national income are : NNPFC=COE+OS+MI+NFIA

58. Explain how ' distribution of GDP ' is a limitation in taking GDP as an index of welfare.

Ans.: Distribution of GDP. If there is inequality in the distribution of income such that concentration of income is in few hands only resulting in making the rich more richer and poor more poorer, it will reduce economic welfare (of the poor more because for him utility of a rupee of income is more than the rich). If with rise in per capita real income, inequality in the distribution of GDP rises, it may lead to a decline in welfare (on macro level) of the poor.

59. The value of the Nominal Gross National Product (GNP) of an economy was Rs. 2500 cr in a particular year. The value of GNP of that country during the same year, evaluated at the price of base year was Rs. 3000 cr. Calculate the value of GNP deflator of the year in percentage terms. Has the price level risen between the base year and the year under consideration? (3)

Ans : Given that

GNP=₹2500 Cr and real GNP=₹3000 Cr

$$\begin{aligned} \text{GNP deflator} &= \frac{\text{Nominal GNP}}{\text{Real GNP}} \times 100 \\ &= 2500 / 3000 \times 100 \\ &= 83.33 \% \end{aligned}$$

No, the price level has reduced from base year to current year by 16.67 %.

60. If the Nominal GDP is Rs. 600 and price index (base 100) is 120 calculate the real GDP. (3)

Ans: ₹ 500

61. If real income is Rs. 400 and price index is 105 , calculate Nominal income. (3)

Ans: ₹420

62. If the Real Gross Domestic Product is ₹ 200 and the Nominal Gross Domestic Product is ₹ 210 , calculate the price index (base = 100). (3)

Ans: ₹105

Q63. calculate GNP at market price, NDP at factor cost (4 marks)

Items	rupees in crores
GDP at MP	5500
Depreciation	75
Indirect taxes	250
Subsides	120
Net factor income from abroad	400

[Ans. GNP at MP =5900, NDP at FC = 5295]

Q64. Calculate Net factor income To abroad. (4 marks)

Items	₹ in crores
GDP at MP	2020
Depreciation	35
Subsides	25
National Income	1985
Consumption of fixed capital	45

[Ans. - Net factor income to abroad = (-) 20 cr.]

Q65. Calculate Gross value Added at factor cost(GVA at FC). (4 marks)

Items	₹ in crores
Sales	450
Value of output	700
Closing stock	40
Consumption of fixed capital	35
Subsides	25
Purchase of raw material from domestic market	40
Exports	35
Imports	25
Rent	100

[Ans. - GVA at MP = 635 cr. , GVA at FC = 660 cr.]

Q66. Calculate Gross domestic fixed capital formation : (4 marks)

Items	₹ in crores
Private final consumption expenditure	1000
Government final consumption expenditure	500
Net factor income from abroad	20
Net exports	500
GDP at MP	2500
Opening stock	300
Closing stock	200

[Ans. – GDFCF = 600 cr.]

Q67. Calculate net value added at factor cost: (6 marks)

Items	₹ in crores
Domestic sales	950
Net addition to stock	30
Closing stock	25
Depreciation	40
Subsidies	25
Purchase of raw material	300
Exports	35
Imports	40
Excise duties	20

Ans. - GVA at MP = ₹715cr. , NVA at FC = ₹ 680 Cr.

Q68. Calculate national income and GDP at MP: (6 marks)

Items	₹ in crores
Wages and salaries in each	1000
Undistributed profits	35
Dividend	45
Rent	100
Interest	120
Profit	130
Mixed income	300
Employees contribution to social security schemes	100
Consumption of fixed capital	50
Indirect taxes	100
Subsidies	75
Net factor income from abroad	(-)20
Sales	600

[Ans. NDP at FC = 1650 cr., NNP at FC = 1630 Cr. , GDP at MP = 1725 Cr.]

Q.69. Calculate National Income :

Items	Rs. In crores
Private final consumption expenditure	1000
Govt. final consumption expenditure	600
Net domestic capital formation	450
Change in stock	50
Depreciation	100
Exports	150
Imports	170
Net factor income from abroad	(-)40
Indirect taxes	100
Subsidies	75
Operating surplus	200
Sales	150

[Ans. GDP at MP = 2130 Cr. , NNP at FC = 1965 Cr.]

70. Calculate Domestic Income and National Income from the following data

Items	₹ in crores
GDPMP	1000
Indirect taxes	50
Net factor Income to abroad	30
Subsidies	25
Depreciation	60

Ans: (i) NDPFC = ₹ 915 Cr

(ii) NNPFC = ₹ 885 Cr

Assertion and Reasons-

Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternatives given bellow-

1. Assertion (A). Stock variables are those variables whose quantity is measured at a point of time i.e., stocks are defined at a particular point of time.

Reason (R). We can measure a change in a stock over a specified period of time. Such changes in stocks are flows. Flow variables are measured over a specified period of time.

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

2. Assertion (A). Compensation given to victims of Kerala natural disaster is a commendable welfare measure taken by the government, but it is not included in the estimation of national income.

Reason (R). Transfer payments do not lead to corresponding flow of goods and services in the economy, hence are not included in the calculation of national income of the country.

- (a) Both are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both 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.
- (e) ANSWER- (a)Both are true and Reason (R) is the correct explanation of Assertion (A).

3. Will the following be included in gross domestic product / Domestic Income of India? Give reasons for each answer.

- (i) Consultation fee received by a doctor.
- (ii) Purchase of new shares of a domestic firm.
- (iii) Profits earned by a foreign bank from its branches in India.
- (iv) Services charges paid to a dealer (broker) in exchange of second hand goods.

Ans. (i) Yes, It is a factor income. It is his salary.
 (ii) No, It is not included in GDP, because it is a merely financial transaction which does not help directly in production.
 (iii) Yes, It is a factor income in domestic territory.
 (iv) It is included because it is his factor income (salary).

4. How will you treat the following while estimating domestic product of India? Give reasons.

- (i) Rent received by a resident Indian from his property in Singapore.
- (ii) Profits earned by a branch of an American Bank in India.
- (iii) Salaries paid to Koreans working in Indian embassy in Korea.

Ans.

- (i) It will not be included in domestic product of India as this income is earned outside the domestic (economic) territory of India.
- (ii) It will be included in domestic product of India as the branch of American bank is located within the domestic territory of India.
- (iii) It will be a part of domestic product of India because this income is earned within the domestic territory of India. Indian embassy in Korea is treated as located within the domestic territory of India.

5. State whether the following is a stock or flow:

- (a) Wealth
- (b) Cement production
- (c) Saving of a household, and
- (d) Income of household.

Ans. Stock – (a) & (b), since these are variables measurable at a point of time.
Flow – (c) & (d), since these are variables measurable over period of time.

6. State whether the following is a stock or flow:

- (a) National capital,
- (b) Exports,
- (c) Capital formation, and
- (d) Expenditure on food by households.

Ans. Stock – (a), since national capital is a variable measurable at a point of time.
Flow – (b), (c) & (d), since these are variables measurable over period of time.

7. Are the following included in the estimation of National Income a country? Give reasons.

- (i) Bonus received by employees.
- (ii) Government expenditure on defence.
- (iii) Money sent by a worker working abroad to his family.
- (iv) Profit earned by a branch of Indian Bank in London.

ANS.

- (i) It should be included in NI because it is a part of the compensation of employees (salary in cash).
- (ii) It should be included in NI because defence service is considered final service so far as it provides peaceful and secure environment to the citizens.
- (iii) It is included in NI because it is a part of NFIA.
- (iv) It is included in NI of India because it is a part of NFIA.

8. Are the following included in the estimation of National Income a country? Give reasons.

- (i) Rent free house to an employee by an employer.
- (ii) Purchases by foreign tourists.
- (iii) Purchase of a truck to carry goods by a production unit.
- (iv) Payment of wealth tax by a household.

Ans.

- (i) It should be included in NI because it is a part of the compensation of employees (salary in kind).
- (ii) It is included in NI because it is a part of the final consumption expenditure on domestic product.
- (iii) It should be included in NI because it is an addition to the capital stock of the production unit.
- (iv) It should not be included in NI because it is a compulsory transfer payment and paid from past savings of the tax payers.

9. Will the following be included in gross domestic product / Domestic Factor Income of India? Give reasons for each answer.

- (i) Old age pension given by govt.
- (ii) Factor income from abroad.
- (iii) Salaries to Indian residents working in American embassy in India.
- (iv) Compensation of employees given to residents of China working in Indian embassy in China.
- (v) Profit earned by a company in India, which is owned by a non-resident.
- (vi) Profit earned by an Indian company from its branch in Singapore.

Ans.

- (i) No, because pension is paid on account of old age of a pensioner and not for his rendering productive services.
- (ii) No, because factor income is earned not within the domestic territory of a country but from abroad.
- (iii) No, because American embassy is not a part of domestic territory of India.
- (iv) Yes, because Indian embassy in China is a part of domestic territory of India.
- (v) Yes, because the company within India's domestic territory earns profit.
- (vi) No, because the branch is located outside the domestic territory of India.

10 . Are the following included in the estimation of National Income of India? Give reasons

- (i) Profit earned by a foreign company/bank in India.
- (ii) Money received from sale of shares.
- (iii) Salary paid to Americans working in Indian embassy in America.
- (iv) Salary paid to Indians working in Indian embassy in America.
- (v) Scholarship received by a student.
- (vi) Remittances from aboard.

Ans. (i) No, as it is a factor income paid abroad (it is earned by non-residents).

(ii) No, it is only a transfer of paper claims.

(iii) No, this factor income belongs to non-residents.

(iv) Yes, as it is a factor income paid to normal resident of India.

(v) No, it is only a transfer payment.

(vi) No, it is only a transfer payment. No commodity is sent or services rendered return for this.

11. Will the following be included National Income? Give reasons for each answer.

- (i) Services of owner occupied houses.
- (ii) Purchase of new shares of a domestic firm.
- (iii) Purchase of second-hand machine from a domestic firm.
- (iv) Consultancy fee paid to a foreign expert.
- (v) Commission paid to agent for the sale and purchase of shares.
- (vi) Dividend received on shares.

Ans.(i) Yes, Imputed rent of owner occupied houses will be included in NI.

(ii) No, because it is a financial transaction which does not help directly in production.

(iii) No, because it is not related with current flow of goods and services.

(iv) No, as it is a factor income paid abroad (it is earned by non-residents).

(v) Yes, It is included in NI since it is paid for rendering productive services.

(vi) Yes, dividends are a part of corporate profit and therefore, include in NI.

12. Will the following be included National Income? Give reasons for each answer.

- (i) Free Medical facility to employees by the employer.
- (ii) Money received from sale of old house.
- (iii) Government expenditure on street lighting.
- (iv) Interest received by a household from a commercial bank.
- (v) Receipts from sale of land.
- (vi) Interest on public debt.

Ans.(i) Yes, as it is a supplementary income paid in kind and hence a part of compensation of employees.

(ii) No, as it has already been taken into account when the house was constructed.

(iii) Yes, It is a part of Government final consumption expenditure and it adds to flow of services.

(iv) Yes, as it is payment for use of capital.

(v) No, as it does not add to flow of goods & services.

(vi) It should not be included in NI because public debt is a loan taken on to meet consumption expenditure by the government.

13. Are the following included in the estimation of National Income a country? Give reasons.

- (i) Services rendered by family members to each other.
- (ii) Wheat grown by a farmer but used entirely for family's consumption.
- (iii) Expenditure government on providing free education.
- (iv) Payment of fees to a lawyer engaged by a firm.
- (v) Man of the match award to a player of the Indian cricket team.
- (vi) Payment of the match fee to players of Indian cricket team.

Ans.

- (i) Services rendered by family members to each other should not be included in NI because these are not rendered for the purpose of earning income.
- (ii) Imputed value of self-consumed wheat grown by a farmer must be included in NI, because it adds in the flow of goods.
- (iii) It should be included in NI because the government expenditure on the free services is considered as a part of government final consumption expenditure.
- (iv) Yes, as it is factor income against the service of lawyer.
- (v) It should not be included in NI because it is a windfall gain and it does not add in the flow of goods and services.
- (vi) It should be included in NI of India because they render productive services as professionals.

14. Are the following included in the estimation of National Income a country? Give reasons.

- (i) Unemployment allowance under NREGA.
- (ii) Indirect tax (Sale tax/excise duty).
- (iii) Salary received by the workers under NREGA.
- (iv) Income tax.
- (v) Travelling expenses paid to salesman by the employer.
- (vi) Corporation tax

Ans. (i) It is transfer payment received by those persons who are not employed; therefore it should not be included in NI.

(ii) It is not included in NI because it does not add in the flow of goods and services.

(iii) It is included in NI because it is a factor income.

(iv) It is a part of compensation of an employee (income). While calculating NI by income method, compensation of employees is to be included while doing so, income tax to be paid by them should not be included separately.

(v) It is a part of profit of corporate sector. While calculating NI by income method, profit is to be included while doing so, Corporation tax should not be included separately.

(vi) Travel expenses incurred by employees for business purpose which are reimbursed by the employers are excluded because these are a part of intermediate consumption of the employers

15 . Will the following be a part of domestic factor income of India? Give reasons for your answers.

- (i) Old age pensions given by the Government.
- (ii) Factor income from abroad
- (iii) Salaries to Indian residents working in Russian Embassy in India.
- (iv) Profits earned by a company in India, which is owned by a non-resident.

Ans:

- (i) Old age pensions are not a part of domestic income because no factor service is rendered in return.
- (ii) Factor income from abroad is not a part of domestic income because it is earned by the residents from outside the economic (domestic) territory.
- (iii) A salary to Indian residents working in Russian Embassy is not a part of domestic product of India because Russian embassy is a part of Russian economic territory. It is factor income from abroad.
- (iv) Profits earned by a non-residential owned company in India is a part of domestic product of India because the income is created within the economic (domestic) territory of India.

16. Will the following be included in domestic factor income of India? Give reasons for your answer.

- (i) Profit earned by a foreign bank from its branches in India.
- (ii) Scholarships given by Government of India.
- (iii) Profits earned by a resident of India from his company in Singapore.
- (iv) Salaries received by Indians working in American Embassy in India.

Ans:

- (i) Profit earned by a foreign bank is included in domestic product of India because the bank's branches are located in the Indian domestic territory.
- (ii) A scholarship is a transfer payment because no service is provided in return. So, it is not included in domestic income.
- (iii) A profit earned by an Indian company in Singapore is not included in domestic product of India because company is located outside the economic (domestic) territory of India.
- (iv) Salaries received by Indians working in American Embassy in India are not included because the embassy is treated as a part of American domestic territory and not of India.

17. Will the following be included in National Income of India? Give reasons for your answer.

- (i) Financial help given to flood victims.
- (ii) Profits earned by an Indian bank from its branches abroad.
- (iii) Salaries paid to non-resident Indians working in Indian Embassy in America.
- (iv) Interest received by an individual from banks.

Ans:

- (i) Financial help is a transfer payment because no factor service is provided in return. It is, therefore, not included in national income.
- (ii) Profit earned by an Indian bank from its branched abroad is factor income from abroad, and so included in national income.
- (iii) Salaries paid to NRI's working in Indian embassy in America is factor income paid to abroad. It is not include in India's national income.
- (iv) Interest received by an individuals from banks is a factor payment by a productive enterprise. It is included in national income.

18. Will the following factor incomes be included in domestic factor income of India? Give reasons for your answer. (6 marks)

- (i) Compensation of employees to the residents of Japan working in Indian embassy in Japan.
- (ii) Profits earned by a branch of foreign bank in India.
- (iii) Rent received by an Indian resident from Russian embassy in India.
- (iv) Profits earned by a branch of State Bank of Indian in England.

Ans:

- (i) It is a part of domestic factor income of India because the Indian embassy in Japan is a part of domestic territory of India.
- (ii) It is a part of domestic factor income of India because the foreign bank is located in the domestic territory of India.
- (iii) It is not a part of domestic income of India because Russian embassy in India is not a part of domestic territory of India.

19 . Will the following be a part of domestic factor of India? Give reasons for your answers.

- (i) Factor income from abroad.
- (ii) Salaries to Indian residents working in Russian Embassy in India.
- (ii) Profits earned by a company in India, which is owned by a non – resident.

Ans.

- (i) Old age pension is not a part of domestic income because no factor service is rendered in return.
- (ii) Factor income from abroad is not a part of domestic income because it is earned by the residents from outside the economic (domestic) territory.
- (iii) Salaries to Indian residents by the Russian embassy is not a part of domestic product of India because the income is created within the economic (domestic) territory of India.
- (iv) Profits earned by a non-resident owned company in India is a part of domestic product of India because the income is created within the economic (domestic) territory of India.

20. Will the following be included in domestic factor income of India? Give reasons for your answer.

- (i) Profit earned by a foreign bank from its branches in India.
- (ii) Scholarships given by Government of India.
- (iii) Profits earned by a resident of India from his company in Singapore.
- (iv) Salaries received by Indians working in American Embassy in India.

Ans.

- (i) Profit earned by a foreign bank is included in domestic product of India because the bank's branches are located in the Indian domestic territory.
- (ii) Scholarships is a transfer payment because no service is provided in return. So, it is not included in domestic income.
- (iii) Profits earned by an Indian company in Singapore is not included in domestic product of India because the company is located outside the economic (domestic) territory of India.
- (iv) Salaries received by the Indians working in American embassy in India is not included because the embassy is treated as a part of American domestic territory and not of India.

21. Will the following be included in National Income of India? Give reasons for your answer.

- (i) Financial help given to flood victims.
- (ii) Profits earned by an Indian bank from its branches abroad.
- (iii) Salaries paid to non-resident Indians working in Indian Embassy in America.
- (iv) Interest received by an individual from banks.

Ans.

- (i) Financial help is a transfer payment because no factor service is provided in return. It is, therefore, not included in national income.
- (ii) Profit earned by an Indian bank from its branches abroad is factor income from abroad, and so included in national income.
- (iii) Salaries paid to NRI's working in Indian Embassy in America is factor income paid to abroad. It is deducted from India's national income. So it is not included in India's national income.
- (iv) Interest received by an individuals from banks is a factor payment by a productive enterprise. It is included in national income.

22. Will the following factor incomes be included in domestic factor income of India? Give reasons for your answer.

- (i) Compensation of employees to the residents of Japan working in Indian embassy in Japan.
- (ii) Profits earned by a branch of foreign bank in India.
- (iii) Rent received by an Indian resident from Russian embassy in India.
- (iv) Profits earned by a branch of State Bank of Indian in England.

Ans.

- (i) It is a part of domestic factor income of India because the Indian embassy in Japan is a part of domestic territory of India.
- (ii) It is a part of domestic factor income of India because the foreign bank is located in the domestic territory of India.
- (iii) It is not a part of domestic income of India because Russian embassy in India is not a part of domestic territory of India.

23. Will the following factor incomes be a part of domestic factor income of India? Give reasons .

- (i) Profit earned by foreign banks from their branches in India.
- (ii) Salary received by Indian residents, working in American embassy in India.
- (iii) Profits earned by an Indian company from its branch in Singapore.
- (iv) Compensation of employees given to residents of China working in Indian embassy in China.

Ans.

(i) It is a part of domestic product of India because the branches of foreign banks are located within domestic territory of India.

(ii) It is a part of domestic product of India because American embassy in India is not a part of domestic territory of India.

(iii) It is not a part of domestic product of India because the Indian company is located outside the domestic territory of India.

(iv) It is a part of domestic product of India because the Indian embassy in China is part of domestic territory of India.

24. will he following be included in the national income of a country? Give reasons for your answer.

- (i) School fees paid by students.
- (ii) Purchase of new shares of a domestic firm.
- (iii) Gifts received from abroad.
- (iv) Furniture purchased by households.

Ans.

(i) Included because it is a final consumption expenditure.

(ii) Not included because it does not lead to creation of any good or service.

(iii) not included because it is a transfer payment.

(iv) Included because it is a final consumption expenditure.

25 . Whether following items are included in calculation of national income or not and why:

1. A person paying an installment of Rs. 500 per month on account of loan taken from a bank for his marriage.

Ans: It is not included in NI, because

2. Destruction of building and machinery by earthquake.

Ans: Not included, because expenditure on it is a transfer payment and it is expenditure without any productive return.

3. Purchase of cold drinks by a school canteen from the manufacturers.

Ans: Not included, because it is intermediate consumption for the canteen.

4. Purchase of new shares.

Ans: Value of share whether it is new or old is not included in NI, because it is only a transfer of ownership.

5. Wealth tax.

Ans: It should not be included in NI because it is a compulsory transfer payment and paid from past savings of the tax payers.

6. Bonus

Ans: It is included, because it is a part of compensation of employees which is paid cash.

7. Interest on debentures.

Ans: It is not included in national income because it is a reward of savings and does not produce any productive goods and services. It is a transfer payment.

8. Dividend received on shares.

Ans: It is included if profit is not given, because it is a part of profit which shows a new production in economy.

9. Expenditure on feeding beggars.

Ans: It is not included in NI because it is an expenditure without any productive return.

10. Expenditure by govt on providing free education.

Ans: It should be included in NI because the government expenditure on the free services is considered as a part of government final consumption expenditure.

11. Remittances from abroad.

Ans: No, it is only a transfer payment. No commodity is sent or services rendered return for this.

CASE STUDY- 1

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 organisation / formal organisation)

4. What do you mean by MSMEs?

5. A kind of goods used as intermediary goods can never be final goods. Defend or refute.

Ans. The given statement is incorrect. The same good may be a final good or an intermediate good. It all depends on the end-use of the goods. Example: Sugar is a final good when used by households. It is an intermediate good when used by sweet-makers.

6. 'Lower capital formation leads to lower rate of GDP growth.' Comment. 3 Marks

Ans. Lower capital formation implies slower rise in production capacity of the economy. When production capacity rises at a slow rate, output is bound to rise at a slow rate. Slow rise in output implies a slow rise in GDP.

7. All machines are not capital goods. Justify.

Ans. The end-use of the machine determines whether it is a capital good or not. Capital goods are those fixed assets of the producers which are used in the process of production for several years and which are of high value. Therefore, only those machines which are used in the process of production are considered to be capital goods. Those machines which are used by the households are not capital goods. Example: Computer used at home is a durable-use consumer good, but a computer used in the computer coaching class is a capital good.

8. The government asserts that MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) is to be related to asset creation. How do you evaluate this statement?

Ans. MGNREGA is a social welfare scheme launched by the Government of India. It is to provide a guaranteed job for 100 days to the people in the rural areas. It has been observed over time that this scheme has led to huge government expenditure. But most of it has remained unproductive: employment generation has not led to proportionate asset formation or capital formation (in terms of the construction of roads, dams or canals). It is now being emphasised that there must be asset formation along with generation of employment. It implies that net capital formation (in the economy) must also increase along with increase in employment.

9. Distinguish between stocks and flows. Give an example of each.

Stock Variable	Flow Variable
1. Stock is measured at point of time.	1. Flow is measured during a period of time. Like per hour, per day, per year.
2. Stock is static concept.	2. It is dynamic concept.
3. It does not have a time dimension	3. It has time dimension
4. Example : Wealth, capital	4. Example : Investment, income

10. Classify the following goods into intermediate goods and final goods:

- (i) Milk purchased by a household.
- (ii) Purchase of rice by a grocery shop.
- (iii) Purchase of an air conditioner for use in shop.
- (iv) Cloth used for making a sofa-set by the carpenter.

Ans.

- (i) final good because milk directly satisfies the wants of the household(s) or the consumer(s).
- (ii) intermediate good because rice is purchased for resale to its final users.
- (iii) final good because air conditioner is investment expenditure as it adds to the capita stock
- (iv) Cloth used for making a sofa-set by the carpenter is an intermediate good as it is used as a raw material.

11. Explain (i) how income is a flow, and (ii) how the flow of income is circular?

ANSWER- Income is a flow concept because it is measured per unit of time period, viz., and income per month or per annum. Flow of income is circular because, stemming from the production of goods and services by the producing units, it translates into income of the households (as rewards for their factor services to the producing units), and income translates into expenditure on the goods and services produced in the economy. Thus, production (value addition), income generation and expenditure propel each other to form a circularity, which is called 'Circularity of Income'.

Unit 2 Money and Banking (6 Marks)

Money : Money is something which is generally accepted as a medium of exchange, measure of value and store of value.

Supply of money : Total stock of money held by the people of a country at a point of time.

Component of supply of money :

$$M1 = C + DD + OD$$

C = currency held by the people (coins and paper notes)

DD = Demand deposits of the people with the commercial banks.

OD = (i) Demand deposits with RBI of domestic financial institutions like IDBI , LIC

(ii) Demand deposits with RBI of foreign financial institutions like IMF , World Bank

(iii) Demand deposits with RBI of foreign Central Banks and Governments.

Functions of money :

(1) Medium of exchange : It means that money act as a medium for the sale and purchase of goods and services. In the absence of money goods were exchanged for goods. Use of money as medium of exchange has removed the major difficulty of 'double coincidence of wants' of the barter system.

Exchange is now become much simpler. It save lot of time and labour. Seller and consumer can sell or purchase the goods and services whenever they desire. It facilitate multilateral trade and gives the economic freedom to the people.

2) Measure of value OR Unit of value : It means each goods and services is measured by money.

Measurement of value of any commodity is difficult in barter system. One good was valued in term of other good. There was no common unit of value.

Introduction of money has removed this difficulty. Now each good is value in term of money. Price of car , house , computer , mobile are expressed in term of money.

By money we are able to construct development plans, we can calculate cost , revenue , profit , national income , PCI etc.

3)Store of value : Store of value means storing of purchasing power for future use. Individual s try to save a part of their income for their future requirement.

It was not possible to store value in barter system. In barter system purchasing power was stored in form of goods or livestock. Goods might depreciate and livestock may die.

Money is good standard for store of value as long as its value remain constant.

4) Standard deferred payment: Deferred payment refers to those payments which are made sometimes in the future. Payment of loans also refers to the deferred payments.

When we borrow money from somebody, we have to return both the principal as well as interest amount. It is difficult to make such transactions in term of goods and services.

Suppose, you have taken loan from somebody in term of wheat. At the time of return of the loan, it may not be possible to return wheat of the same quality. Therefore the lender has to face the loss for the giving loan. But in monetary system it is easy to return the loan amount. Money is accepted as standard of deferred payments because its price remains stable.

Process of Credit Creation of Commercial Bank

Credit creation is a process of creating new deposits from initial deposits.

This process depends on amount of Initial Deposits and Legal Reserve Ratio(LRR).

LRR is that part of deposits which are legally required to be kept by banks as Cash Reserve.

If LRR is 20% than 80% of deposits can be given on loan.

How many times Initial Deposits get converted into New Deposits is determined by LRR. The multiple (how many times) is called money multiplier.

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

If LRR = 20% than Money Multiplier will be 5 and. If LRR = 10% than Money Multiplier will be 10

It means that Lower the LRR , Higher the Money Multiplier and more the Money Creation.

Assumption for money creation : (1)All banks are interlinked (2) All transactions are completed by using Cheques

Deposit Creation by Commercial Banks

Round	Deposits (₹)	Loans (₹)	Cash Reserves (LRR=20%)
Initial	100	80	20
Round I	80	64	16
Round II	64	51.20	12.80
--	--	--	--
--	--	--	--
Total	500	400	100

As per above schedule suppose the initial deposit in bank is ₹100 and the LRR is 20% than banks can keep ₹20 as cash reserve and remaining ₹80 can give as a loan. The bank opens the deposit account in the name of borrowers and deposits the loan amount of ₹80 in that account.

The people who receive ₹80 as loans they will issue Cheques for making their payments. Those who receive these Cheques will deposit the cheques in their account. The deposits will increases by ₹80 with banks.

The LRR is 20% therefore banks can keep ₹16 as cash reserve and remaining ₹64 can give as a loan.

The process of deposit creation comes to an end when : Total of LRR = Initial Deposit

Money Multiplier = 5 (MM = $1 \div \text{LRR}$, MM= $1 \div 20\% = 5$)

Money Creation(New Deposits) = ₹500 (MC = Initial Deposit \div LRR , MC = $100 \div 20\%$)

So, the banks will create New Deposits of ₹500 from initial deposit of ₹100 if LRR is 20%.

Functions of Central Bank (RBI) :

Central bank : It is the apex institution of a country's monetary system.

(1) Banker to the Government : Central Bank is a Banker, Agent and Financial Advisor to the Government.

As a Banker it makes payment and receive payment for the Government. It advances loan to the Government.

As an Agent to the Government it buys and sells securities on behalf of the Government.

As an Advisor to the Government it helps the Government in making policies to regulate money market.

Central Bank also has responsibility of managing the public debt.

2) Banker's Bank : As the Banker to the bank the Central Bank holds a part of the cash reserves of banks and give them short term loan. The banks have to deposit a fix ratio of their total deposits with the Central Bank. The purpose of this policy is to control the supply of money in the market.

The Central Bank keeps changing CRR , SLR , and Repo Rate to maintain stability in the money market. The Central Bank supervises, regulates and controls the commercial banks. The regulation of banks may be related to their licensing , branch expansion , merging with other banks etc.

3) Lender of the last resort : Many times Commercial banks create liabilities more than their cash reserve. Sometimes when bank suffer the crises of money and fails to meet their financial requirements they approach to Central Bank.

Central Bank offers loan to the commercial bank and also stands as a guarantor of saving solvency. This function of Central Bank is known as Lender to last resort.

4) Bank of issue : The Central Bank is the sole authority for the issue of currency in the country. All the currency issued by the Central Bank is its monetary liability. This means that the Central Bank is obliged to back the currency with assets of equal value. These assets usually consists of gold coin , foreign securities and domestic securities.

Measures of credit control by RBI

1) Bank Rate: The rate of interest at which the Central Bank gives loan to commercial banks.

On the basis of bank rate commercial banks determine the rate of interest on loan which is required by borrower.

Bank rate affects the demand for loan (credit) by customer.

If **bank rate is High** than demand for loan reduces by customers therefore **supply of money decreases** in the market. This policy is used by Central bank when there is **Excess demand** in the economy

If **bank rate is Less** than demand for loan rises by customer therefore **supply of money increases** in the market. This policy is used by Central bank when there is **Deficient demand** in the economy.

(Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

2) CRR(Cash Reserve Ratio) : It refers to the minimum percentage of a bank's total deposits that commercial bank have to keep with central bank.

This CRR is fixed by Central Bank. It changes time to time to control the supply of money in the market.

CRR specifies the maximum limit of loan that commercial banks are able to give to their customer₹

CRR is decreased to increase the supply of money in the market **during the situation of Deficient demand** in the economy. Now the bank has more money with them to give more amount of loan to their customer.

CRR is increased to decrease the supply of money in the market **during the situation of Excess demand** in the economy. Now the bank has less money with them to provide loan to their customer.

(Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

3) SLR(Statutory Liquidity Ratio) : It refers to the minimum percentage of a bank's total deposits that commercial bank have to keep with themselves in the form of cash or liquid assest.

This SLR is fixed by Central Bank. It changes time to time to control the supply of money in the market.

SLR specifies the maximum limit of loan that commercial banks are able to give to their customer₹

SLR is decreased to increase the supply of money in the market **during the situation of Deficient demand** in the economy. Now the bank has more money with them to give more amount of loan to their customer.

SLR is increased to decrease the supply of money in the market **during the situation of Excess demand** in the economy. Now the bank has less money with them to provide loan to their customer.
(Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

4) Open market operations : Open market operation means buying and selling of government securities by Reserve Bank of India in open market.

Buying and selling of securities by Central Bank affect the supply of money in the market. Buying of securities by the Central Bank increases the supply of money in the economy. Selling of securities by the Central Bank decreases the supply of money in the economy.

Buying of securities leads to increase in the supply of money with Public and Commercial Banks. **During the situation of Deficient Demand the Central Bank buys securities.**

Selling of securities leads to decrease in the supply of money with Public and Commercial Banks. **During the situation of Excess Demand the Central Bank sells securities.**

5) Margin requirement : It is the difference between value of securities and the loan granted by the bank against this security.

Example : When $MR = 20\%$

If a person produces securities of ₹1,0000 to bank than bank gives him loan of ₹80,000

This MR is fixed by Central Bank. It changes time to time to control the supply of money in the market.

MR specifies the maximum limit of loan that commercial banks are able to give to their customer ₹

MR is decreased to increase the supply of money in the market **during the situation of Deficient demand** in the economy. Now the bank has more money with them to give more amount of loan to their customer.

MR is increased to decrease the supply of money in the market **during the situation of Excess demand** in the economy. Now the bank has less money with them to provide loan to their customer.

(Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

Repo rate: The rate of interest at which the commercial bank borrow the loan from central bank against securities for short term.

Reverse repo rate: The rate of interest at which the central bank borrow the loan from commercial bank.

MONEY CHAPTER QUESTIONS

Read the para given below and answer the questions that follow:

“If Odisha Industrial Infrastructure Development Corporation (IDCO) provides 100 acre land, decision to set up currency printing press at two places will be changed. If government land will not be available for the project, we would go for private land acquisition and start the project.”The team first visited Kasaba area under Sadar tehsil and then they visited Naraharipur, Baunsamunha and Padagaon villages under Remuna tehsil for the project.”

It is learnt that India has four currency printing presses — in Nasik (Maharashtra), Dewas (Madhya Pradesh), Mysore (Karnataka) and the latest in Salboni (West Bengal). India started printing currency notes back in 1928 with the establishment of India Security Press at Nasik. The second currency note printing press was established in Dewas in 1975. At present, India prints currency notes using paper substrates made from 100% cotton.

Q.1 What kind of monetary system does India have?

- (a) Gold standard
- (b) Paper standard
- (c) Silver standard
- (d) commodity standard

Q.2 Issue of currency notes _____ the money supply

- (a) Increases (b) decreases
(c) restricts (d) checks

[Ans. (a) Increases]

Q.3 Fiat money includes.

- (a) Currency notes (b) saving deposits at banks
(c) currency notes and coins (d) all of them

[Ans. (c) currency notes and coins]

Q.4 In India, coins are issued by:

- (a) State bank of India (b) Reserve bank of India
(c) Ministry of finance (d) Ministry of urban development

Ans. (c) Ministry of finance

Q.5 Which of the following system is followed by RBI for issuing currency?

- (a) Simple deposit system (b) proportionate system
(c) minimum reserve system (d) fixed fiduciary issue system

[Ans: (c) minimum reserve system]

(2) Read the para given below and answer the questions that follow:

The money supply is all the currency and other liquid instruments in a country's economy on the date measured. The money supply roughly includes both cash and deposits that can be used almost as easily as cash. Government's issue paper currency and coins through some combination of their central banks and treasuries. Bank regulators influence money supply available to the public through the requirements placed on banks to hold reserves, how to extend credit and other regulations.

Economists analyse the money supply and develop policies revolving around it through controlling interest rates and increasing or decreasing the amount of money flowing in the economy. An increase in the supply of money typically lowers interest rates, which in turn, generates more investment and inputs more money in spending. Businesses respond by ordering more raw materials and increasing production. The increased business activity raises the demand for labour. The opposite can occur if the money supply falls or when its growth rate declines.

Q.1 Which of the following statement is not true regarding money supply?

- (a) It is a stock variable.
(b) It does not include money held by government and the banking system.
(c) It includes term deposits with the banks.
(d) It includes currency held with the public. [Ans. (b) It includes term deposits with the banks]

Q.2 Who regulates money supply in India?

- (a) Government of India
(b) Reserve Bank of India
(c) Commercial banks
(d) Planning Commission [Ans. (b) Reserve Bank of India]

Q.3 In a hypothetical economy, Ms. Stuti 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

[Ans. b) ₹ 100]

Q.4 Which is the least liquid measure of the money supply?

- (a) M4 (b) M3
(c) M2 (d) M1

[Ans. (a) M4]

Assertion and reason-based questions

Read the following statement Assertion (A) and reason (R). choose one of the correct alternatives given below:

Q.1 Assertion (A): Fiat money also called legal tenders.

Reason(R): They cannot be refused by any citizen of the country for settlement of any kind of transaction.

- 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

[Ans-(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)]

Q.2 Assertion (A): demand deposits are not legal tenders.

Reason(R): They are with the banks, so only can be used as a legal tender when cheques are issued for the transfer.

- 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

[Ans-(C) Assertion (A) is true but Reason (R) is false.]

Q.3 Assertion (A): Supply of money is a flow variable.

Reason(R) : It is measured at a point of time.

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

Ans. (d) Assertion (A) is false but Reason (R) is true. (Supply of money is a stock variable.)

Q.4 Assertion(A): Coins are limited legal tender money.

Reason(R): Coins represent money which is accepted by the people to an unlimited extent.

- 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

Ans. (c) Assertion(A) is true but Reason(R) is false. (No person can be forced to accept beyond a certain limit.)

Q.5 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 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

Ans. (a) Assertion (A) and reason (R) both are correct statements and reason is correct explanation for assertion.

Q.6 Assertion (A): Currency notes and coins are called fiat money.

Reason (R): RBI is responsible for giving the bearer of the currency equal purchasing power.

(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 but 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.

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

Q.7 Assertion (A): Demand Deposits are considered as a convenient mode of payment for execution of even the high value transactions.

Reason(R): Demand Deposits are non-withdrawable in nature and cannot be withdrawn against issue of cheques and other similar instruments of payment.

(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

[Ans (c) Assertion(A) is true but Reason(R) is false]

Q.8 Assertion (A): Indian Monetary System is based on Paper currency Standard.

Reason(R):currency -notes issue system is based on minimum Reserve system in India.

(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

[Ans. (b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A).]

Q.10 Assertion (A): Demand deposits are a liability for the bank.

Reason(R): the depositor cannot withdraw funds on demand from an account at any time and the bank is obligated to pay.

(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

[Ans. (c) Assertion(A) is true but Reason(R) is false]

Q.11 Assertion (A): Raghav has surplus money so he opens a bank account and deposits in it. Whenever he needs money. he can go to his bank and withdraw from there.

Reason(R): This kind of deposit with the banks are known as Demand Deposit.

(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

[Ans. (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)]

Q.12 Assertion (A): The currency notes do not carry as much value in them as is denominated, still have general acceptance.

Reason (R): Currency notes are backed by a legal promise from the central bank and central government of the country.

(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.

[Ans : a) Both assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).]

Q.13 Assertion(A): Cheques are fiduciary money.

Reason(R): It is issued by the government.

(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.

[Ans. (c) Assertion(A) is true but Reason(R) is false.]

Q.14 Assertion (A): Paper Money is becoming more popular these days.

Reason (R): It is generally acceptable and convenient to carry.

(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.

[Ans: (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A).]

Q.15 Assertion (A): In a modern economy, money comprises cash and bank deposits.

Reason (R): Money supply includes currency held by the public and net demand deposits held 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.

Ans:(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A).

Q.16 Assertion (A): Money is a good servant but a bad master .

Reason (R)- Without the additional supply of goods and services, the purchasing power of money falls.

(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.

[Ans: (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A).]

Q.17 Assertion(A) . Demand deposits are created by commercial bank and are called bank money.

Reason(R) . Demand deposits are the deposits which can be withdrawn on demand by the depositors from 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.

[Ans. (b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A).]

Q.18 Assertion (A): Inconvertible paper money made legal tender by a government decree is called fiat money .

Reason (R): Notes issued by government are fiat money.

(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.

[Ans. (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A).]

Q.19 Assertion (A): M1 is the least liquid measure of money supply.

Reason (R): M1 includes the currency in circulation, demand deposits with the bank and other deposits with the RBI.

(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.

[Ans. (b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A).]

Q.20 Assertion (A): M4 is the least liquid measure of money supply.

Reason (R): M4 is inclusive of all the money supply included in M3 as well as the Total Deposits with the Post Office.

(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.

[Ans. (a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A).]

MULTIPLE CHOICE QUESTIONS

Q.1 Which of the following statements is not correct.

(a) Currency notes and coins are therefore called fiat money.

(b) Fiat money do not have intrinsic value like a gold or silver coin.

(c) Fiat money are also legal tenders.

(d) Demand Deposit are also legal tenders

[Ans.(d) Demand Deposit are also legal tenders]

Q.2 What is the function of money according to Keynesian economics?

(a) Medium of exchange

(b) Unit of account

(c) Store of value

(d) Standard of deferred payment.

[Ans. (c) Store of value]

Q.3 Measuring the value of goods and services refers to which the following functions of money ?

(a) Store of value

(b) Unit of value

(c) Standard of deferred payments

(d) Medium of exchange

[Ans. (b) Unit of value]

Q.4 Which of the following functions of money simplifies the process of borrowing and lending?

(a) Store of value

(b) Medium of exchange

(c) Standard of deferred payments

(d) Unit of value

[Ans.(c) Standard of deferred payments]

Q.5 What is basic distinction between narrow and broad money .

(a) treatment of post office deposits

(b) treatment of time deposits of banks

(c) treatment of savings deposits of banks

(d) treatment of currency

[Ans.(b) treatment of time deposits of banks]

Q.6 M1 measure of money supply is defined as follows:

M1= CU +DD where, CU is Currency (notes plus coins) held by the public and DD is 'net' demand deposits held by commercial banks. What does word 'net' imply here?

- (a) Only deposits of the public held by the banks are to be included in money supply.
- (b) The interbank deposits, which a commercial bank holds in other commercial banks, are not to be regarded as part of money supply.
- (c) Both (a) and (b)
- (d) It implies aggregate monetary resources.

[Ans. (c) Both (a) and (b)]

Q.7 Read the following dialogue between two people.

Ram: I want 1 kg of tomato.

Suraj: What will you give in exchange?

Ram: I can give you two litters of milk in return for the tomato.

Suraj: I don't need milk. I want a pair of shoes.

Which of the following problem is being faced by Ram and Suraj in their exchange process?

- (a) Lack of double coincidence of wants
- (b) Absence of common unit of value
- (c) Lack of store of value
- (d) Lack of standard of deferred payment

[Ans. (a) Lack of double coincidence of wants]

Q.8 M1 of money supply does not include.

- (a) Currency held by public
- (b) Net time deposits with banks
- (c) Demand deposits with the Commercial Banks
- (d) Other deposits in RBI

[Ans. (b) Net time deposits with banks]

Q.9 Which one of the following deposits can be withdrawn from the bank at any time by the account holder?

- (a) Time deposit
- (b) Recurring deposit
- (c) Demand deposit
- (d) Term deposit

[Ans (c) Demand deposit]

Q.10 Which out of the following is not included in the money supply of the country.

- (a) stock of gold held with the Central bank
- (b) Coins and currency
- (c) Demand deposits
- (d) Time deposits

[Ans (a) stock of gold held with the Central bank]

Q.11 Money under law to be accepted for all debts.

- (a) Bank money
- (b) credit money
- (c) Fiat money (legal tender)
- (d) paper money

[Ans (c) Fiat money (legal tender)]

Q.12 High powered money is equal to:

- (a) Money supplied by the RBI ONLY
- (b) Total supply of money in the economy
- (c) Notes and coins held by the people
- (d) Money (notes and coins) held by the public, vault cash of the commercial banks as well as cash reserves of the commercial banks with the RBI

[Ans. (d) Money (notes and coins) held by the public, vault cash of the commercial banks as well as cash reserves of the commercial banks with the RBI. [it is called “high power money” because it can bring fluctuations in economy.

Q.13 Demand deposits include .

- (a) Saving account deposits and fixed deposits
- (b) Current account deposits and fixed deposits
- (c) Saving account deposits and current account deposits
- (d) All types of deposits

[Ans:(c) Saving account deposits and current account deposits]

Q. 14 Consider the following statements:

I. M1 is a broad concept of money.

II. M2 is a narrow concept of money.

III. M3 includes both M1 and time deposit of public with bank.

Which of the following is true with respect to the concept of money supply?

- (a) I and II
- (b) III only
- (c) II and III
- (d) I , II and III

[Ans :(c) II and III]

Q. 15 When face value of money is equal to intrinsic value of money, it is called

- (a) credit money
- (b) full-bodied money
- (c) fiat money
- (d) fiduciary money

[Ans (b) full-bodied money]

Q.16 Currency issued by the Central Bank is called.

- (a) Fiat money
- (b) legal tenders
- (c) high-powered money
- (d) all of the above.

Ans (d) all of the above.

Q.17 Money is the most liquid of all assets because .

- (a) It has portability
- (b) It can be easily stored
- (c) It is readily convertible into other assets
- (d) It is generally acceptable

[Ans:(c) It is readily convertible into other assets]

Q.18 Which is the most liquid measure of the money supply?

- (a) M4
- (b) M3
- (c) M2
- (d) M1

[Ans. (d) M1]

Q.19 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

[Ans. (c) currency held by the public and demand deposits with the commercial banks]

Q. 20 Who is the main source of money supply in an economy.

- (a) Central Bank
- (b) Commercial Banks

(c) Government (d) Both (a) and (b)

[Ans. (d) Both (a) and (b)]

Q.21 A person can withdraw money by issuing a cheque. What is a cheque?

- (a) Loan taken by the bank.
- (b) Loan taken by the depositor from the bank.
- (c) Paper instructing the bank to pay a specific amount.
- (d) Paper valid to withdraw money

[Ans : (c) Paper instructing the bank to pay a specific amount.]

Q.22 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.

[Ans. (b) Inter-bank-deposits]

State, whether the following statement is true or false:

1 'Demand deposits are created by the commercial banks are called Bank Money.

Ans. True

2 Metallic coins are easily portable than paper notes.

Ans. False

3. Token coins are such coins whose face value is greater than their intrinsic value.

Ans. True

4. Fiat Money as 'non-interest-bearing debt'

Ans. true

5. M3 measure is the best indicator of cash flow in the economy.

Ans. True

6. M4 is also known as – aggregate monetary resources of the society.

Ans. False

Fill in the blanks

Q.1 The interest rate paid by the banks to depositors is lower than the rate charged from the borrowers. This difference of interest rates is called----- (spread/ Bank rate)

Ans. spread

Q.2 When the banks lend to any person, a new deposit is opened in that person's name. Thus, money supply in the economy increases to old deposits plus new deposits plus Currency held by.....(The RBI/ The public)

Ans. The public

Q.3 Signature of----- (Secretary, Ministry of Finance/Governor of RBI) appears on a 'One Rupees note.

Ans. Secretary, Ministry of Finance

Q.4 Supply of money refers to quantity of money.....(point / period)of time.

Ans. any point of time

Ans. Secretary, Ministry of Finance

LONG QUESTION TYPE ANSWERS

Q.1 “Money is a liquid store of value “comment.

Ans: - Money is considered as a liquid store of value it means sifting of purchasing power from its present to future. By acting as a store of value, money provide security to individual to meet unpredictable emergency and to pay debts that are fixed in terms of money. It also provides assurance that attractive future buying opportunities can be exploited. In this way money act as a liquid store of value facilitates its possessor to purchase any others asset at any time.

Q.2 “Money makes non-transferring wealth mobile “. discuss.

Ans yes, its credit goes to money that it has made non-transferring wealth like land, building, mines and garden etc. mobile. One can sell his property at a place, getting money from it, can purchase the similar property at another place. Such a transfer is not possible without money similar it can help in transferring heavy machinery and industry from one place to another.

Q.3 How far money helps in promoting additional value? discusses.

Ans. Money is the great invention of modern age. It speeds up the wheel of industry and volume of trade. It helps in creating additional value in following manner:

- (i) It injects liquidity into economic system which speeds up the volume of transactions.
- (ii) It provides sufficient credit Facilities to agriculture and industry which can promote its growth.
- (iii) It Provides speed to domestic and international trade.
- (iv) It is a Fundamental source of capital formation which becomes an accelerator of economic growth.

Q.4 Why do all the Compensation in the form of money more convenient than toys to an employee working in toy manufacturing company?

Ans. Toys have lack of ‘general acceptability’ Whereas money is commonly accepted as a medium of exchange. With the use of money, the employees can purchase any good and service at any point of time. Moreover, money solve the barter’s problem of lack of double coincidence of wants. That is why employees want compensation in cash not in toys.

Q.5 Being a proper source of medium of exchange, money accelerates the volume of transaction’. Comment

Ans. Money is most acceptable to everybody; therefore, it separates the act of buying and selling the goods. It solves the problems of double coincidence of wants, storage problem of goods, divisibility of goods, difficulty of deferred payment etc. It is gladly accepted by the sellers and confidently paid by the buyers. It smoothens every small and big transaction, thus raises overall volume of economic transactions.

Q. 6 What is money supply? (3M)

A. It refers to total stock of money held by the people of a country at a point of time. It is a stock concept. Measurement of money supply in India: -

$$M1 = C + DD + OD$$

Where C=Coins & paper notes held by the public

DD=Demand Deposits of the people with the commercial banks.

OD=other deposits held with the RBI.

Q.7 money is a common denomination, in which values of all goods and services are expressed". Explain the function of money which is most involved in the statement.

Ans. Money as measure of value means that money works as a common denomination, in which values of all goods and services are expressed.

1. By reducing the value of all goods and services to a single unit (i.e. price), it becomes very easy to find out the exchange ratios between them and comparing their prices.
2. This function facilitates maintenance of business accounts, which would be otherwise impossible.
3. Money helps in calculating relative prices of goods and services. Due to this reason, it is regarded as a Unit of Account'. For instance, 'Rupee' is the unit of account in India

Q.9 Money separates the act of sales and purchase of goods and services". Explain the functions of money which is most involved in the statement.

Ans. Money as a medium of exchange enables a person to buy or sell at different points of time.

- (1) It has separated the acts of sale and purchase.
- (2) A buyer can buy goods through money, and the seller can sell goods for money.
- (3) Thus, buyers and sellers of goods/ services can solve their purposes with the help of money by using it as a medium of exchange.

Q.10 "Money as a store of value helps to shift purchasing power from present to the future". Explain

Ans. Money has a general acceptability, and its value remains stable.

- (1) It can be easily stored for future use.
- (2) It is the most convenient and economical means to store earnings and wealth.
- (3) Hence, it helps to shift the purchasing power from the present to the future.

Q.11 how broad money is different from narrow money in India.

Ans. Narrow money (M1 & M2) in India includes all notes and coins in circulation and all demand deposit components. Broad Money (M3 & M4) in India includes all components in narrow money and commercial banks net time deposits, term deposits and term borrowings.

BANKING CHAPTER QUESTIONS

OBJECTIVE TYPES QUESTIONS

1. Which of the following agency is responsible for issuing Rs. 1 Currency note in India?

- | | |
|---------------------------|--------------------------|
| (a) Reserve Bank of India | (b) Ministry of Commerce |
| (c) Ministry of Finance | (d) NITI Aayog |

Ans: (c) Ministry of Finance

2. RBI has the sole right to issue currency notes other than:

- | | |
|----------------|-------------------|
| (a) Rs. 5 note | (b) Rs. 10 note |
| (c) Rs. 1 note | (d) None of these |

Ans: (c) Rs. 1 note

3. Bank money is the money which is:

- | | |
|-------------------|------------------------------|
| (a) Issued by RBI | (b) Issued by the government |
|-------------------|------------------------------|

c) Created by commercial bank (d) None of these

Ans: c) Created by commercial bank

4. Who regulates money supply?

- (a) Government of India (b) Reserve Bank of India
(c) Commercial Bank (d) Planning Commission

Ans: (b) Reserve Bank of India

5. Which bank operates in public interest without any profit motive?

- (a) Reserve Bank of India (b) State Bank of India
(c) Punjab National Bank (d) Bank of India

Ans: (a) Reserve Bank of India

6. Quantitative instrument of monetary policy is:

- (a) Bank Rate (b) Cash Reserve Ratio
(c) Statutory Liquidity Ratio (d) All the above

Ans: (d) All the above

7. Which of the following is a qualitative method of credit control?

- (a) Variation in cash reserve ratio (b) Restriction on consumer credit
(c) Open market operation (d) Variation in bank rate

Ans: (b) Restriction on consumer credit*

8. Which if the following interest rate is applicable to short period lending?

- (a) Repo Rate (b) Bank Rate
(c) Reverse Repo Rate (d) Both (a) and (c)

Ans: (d) Both (a) and (c)

9. Lowering of CRR by the central bank has the following impact on the credit creation capacity of the commercial banks:

- (a) Fall (b) Increase
(c) Can be fall or can be increase (d) No effect

Ans: (b) Increase

10. If legal reserve ratio is 20% the value of money multiplier would be.....

- (a) 2 (b) 3 (c) 5 (d) 4

Ans: (c) 5

11. Higher the legal reserve ratio.....will be the credit creation.

- (a) Higher (b) Lower
(c) Constant (d) None of these

Ans: (b) Lower

12. Monetary policy is the policy of

- (a) Government (b) Central Bank
(c) Commercial Bank (d) NABARD

Ans: Central Bank

13. CRR stands for

- a) Credit Reserve Ratio b) Cash Reserve Ratio
c) Commercial Reserve Ratio d) Central Reserve Ratio

Ans: b) Cash Reserve Ratio

14. Bank rate for controlling credit is applicable in the

- a) Very short run
- c) Medium run

- b) Short run
- d) Long run

Ans: d) Long run

15. Open market operation is done by

- a) Commercial bank
- c) World Bank

- b) Rural bank
- d) Central bank

Ans: d) Central bank

16. Which one of the following is used for credit creation?

- a) $K = 1/LRR$
- c) $K = 1/\text{Bank Rate}$

- b) $K = 1/SLP$**
- d) $K = 1/\text{Repo Rate}$

a) $K = 1/LRR$

17. The value of credit multiplier will be high when

- a) Cash reserve ratio is high
- c) Cash reserve ratio is zero

- b) Cash reserve ratio is low
- d) Cash reserve ratio is infinity

Ans : b) Cash reserve ratio is low

18. LRR and money creation has

- a) Positive relation
- c) No relation

- b) Negative relation
- d) Both (a) and (b)

Ans: b) Negative relation

19. What will be the value of multiplier if CRR is 10%.

- a) 5 times
- c) 10 times

- b) 2 times
- d) 100 times

Ans: c) 10 times

20. Total deposits created by commercial banks are Rs. 12,000 crore and LRR is 25%. Calculate the amount of initial deposits.

- a) 6000 crore
- c) 5000 crore

- b) 4000 crore
- d) 3000 crore

Ans: d) 3000 crore

21. What is the value of money multiplier when initial deposits are Rs. 500 crores and LRR is 10%?

- a) 0.1
- c) 10**

- b) 0.2
- d) 20

Ans: c) 10

22. To soak the liquidity from the market, to control inflation

- a) Government securities should be purchased
- b) Government securities should be sold
- c) Repo rate should be decreased
- d) Cash reserve ratio should be decreased

Ans: b) Government securities should be sold

23. Name the credit control method which refers to the difference between the amount of loan and market value of the securities offered by the borrower against the loan?

- a) Selective credit control
- b) Moral suasion
- c) Margin requirement
- d) Legal reserve requirements

Ans: a) Selective credit control

FILL IN THE BLANKS

1. The rate at which RBI gives short term loans to commercial bank is called.....

Ans: Repo Rate

2..... is the main function the central bank.

Ans: (Note issue)

3. If the value of money multiplier is 4, the value of LRR is.....

Ans: 25%

4. Money multiplier is.....related to legal reserve ratio.

Ans: Inversely

5.....refers to that proportion of total deposits that a commercial bank has to keep with itself in form of liquid assets.

Ans: Statutory liquidity ratio

6. A..... in marginal requirements encourages the people to borrow more.

Ans: Reduction

7. The difference between the market value of security offered and the value of amount lent is called.....

Ans: Marginal Requirement

8.The sum of primary deposits and secondary deposits of the commercial banks constitute.....

Ans: total demand deposits or deposit money

9. is the most liquid of all assets which is generally accepted by all.

Ans: Money

10. Signature of appears on Rs. 2000 currency note.

Ans: RBI Governor

ASSERTION/REASON AND CASE BASED QUESTIONS

1. **Assertion (A)** The monetary policy is a policy formulated by the central bank.

Reason(R) The policy involves measures taken 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 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.

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

2. **Assertion (A):** Repo rate is fixed by the Reserve bank of India, while Reverse repo rate is fixed by the commercial bank themselves.

Reason (B): Both repo rate and reverse repo rate is fixed by the Reserve bank of India.

- 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.

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

3. **Assertion (A):** Banks charge a higher interest rate on loans than what they offer on deposits.

Reason (R): The difference between what is charged from borrowers and what is paid to depositors is the main source of 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

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

4. **Assertion (A):** Money Multiplier refers to the process of creation of credit by the commercial Bank.

Reason (R): Money creation by commercial bank raises the National 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

Ans: b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

5. **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 clearing house for 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 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

Ans: b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

6. **Assertion (A):** To curb inflation, the RBI should sell the Government securities.

Reason (R): When RBI will sell Government securities to the people and commercial banks then money will flow to RBI which reduces the lending capacity of commercial banks.

- 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

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

7. Assertion (A): Banks issues currency.

Reason (R): Commercial Bank is an institutions that provides accepting deposits and providing loans to the public

- 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

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

8. 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 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

Ans: b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

Report -1

Reserve Bank of India (RBI) is the central bank of the country. RBI is a statutory body. It is responsible for the printing of currency notes and managing the supply of money in the Indian economy.

It plays multifaceted role by executing multiple functions such as overseeing monetary policy, issuing currency, managing foreign exchange, working as a bank of government and as banker of scheduled commercial banks, among others. It also works for overall economic growth of the country.

Answer the Following Questions:

Q1. Define a central bank.

Ans.: Central bank is an apex body that controls, operates, regulates and directs the entire banking and monetary structure of the country.

Q2. Who issues the one-rupee notes and coins in the country?

Ans.: Ministry of Finance.

Q3. RBI acts as the banker to the central government and commercial banks act as banker to the state governments. (T/F)

Ans.: False

Q4. When commercial banks fail to meet their financial requirements from other sources; the central bank provides them funds through discounting of approved securities and due to this central bank is said to be the _____.

Answer: lender of last resort

Q5. Where is the headquarter of RBI?

Answer: Mumbai

REPORT- 2

The contraction is bound from the earlier quarter of the fiscal year 2020-21. India's economy had contracted by 23.9 percent in the April to June quarter (Q1FY21), which marked the first contraction in more than 40 years as the COVID 19 pandemic majorly impacted consumer demand and private investments. According to the Ministry of Statistics and Programme Implementation, the gross value added (GVA) came in at minus 7 percent during this quarter of FY21

Answer the following questions:

1. Repo rate is the rate at which

- (a) Commercial bank purchases government securities from the central bank
- (b) Commercial bank can take long term loans from central bank
- (c) Commercial bank can keep their deposits with Central bank
- (d) Short term loans are given by commercial bank

Ans.: **(b) Commercial bank can take long term loans from central Bank.**

2. An increase in bank rate is effective to combat inflation in the context of above case study. (True/False) justify.

Ans. False, as in present situation, economy is already facing falling purchasing power.

3. To encourage the flow of goods and services, RBI should:

- (a) Increasing bank rate
- (b) Selling government securities by RBI
- (c) Increasing CRR
- (d) None of the above

Ans: **(d) None of the above**

DESCRIPTIVE QUESTIONS

1. What is barter system of exchange?

Ans: Barter system of exchange is a system in which goods are exchanged for goods. Money as a medium of exchange does not exist.

2. Define C-C economy.

Ans: C-C economy refers to that economy in which commodities are exchanged for commodities or in which goods are exchanged for goods.

3. What do you mean by double coincidence of wants?

Ans: Double coincidence of wants means that goods in possession of two different individuals are needed by each other at the same time.

4. What is meant by money?

Ans: Money can be defined as something that is generally accepted as a medium of exchange and acts as a measure and a store of value.

5. What is fiat money?

Ans: Fiat money refers to money backed with order (authority) of the government.

6. What is fiduciary money?

Ans: Fiduciary money is the money backed with mutual trust between the payer and the payee.

7. Define full bodied money.

Ans: Full bodied money refers to money in terms of coins whose commodity value is equal to the moneyvalue as and when these are issued.

8. What is credit money?

Ans: Credit money is the money of which money value (face value) is more than commodity value (intrinsicvalue).

9. What is bank money?

Ans: Bank money is the money created by the commercial banks in the form of demand deposits, over and above cash deposits of the people with the banks.

10. Define high powered money.

Ans: High powered money refers to monetary base or base money in the country. It includes:

(i) Currency held by the people, (ii) vault cash of the commercial banks, and (iii) cash reserves of the commercial banks with the RBI .

11. Define money supply.

Ans: Money supply refers to the total quantity or stock of money available in the economy at a point of time.

12. Write the components of money supply.

Ans: (i) Currency with the people,
(ii) Demand deposits with commercial banks, and
(iii) Other deposits.

13. Who are the suppliers of money in India?

Ans: (i)The government of the country,
(ii) The central bank of the country,and
(iii)The commercial banks.

14. Define demand deposits.

Ans: Demand deposits of commercial banks are those deposits which can be withdrawn from the bank on demand or by writing a cheque any time.

15. Define term deposits.

Ans: Term deposits are those deposits which cannot be withdrawn from the bank as and when needed or by writing a cheque any time. These deposits involve a lock-in period. .

16. Explain the 'bank of issue' function of central bank.

Ans: Central bank is the sole authority of issue currency in the country. Since no other authority is allowed, this ensures uniformity in issue of currency. Since currency with public is a part of money supply, it gives the central bank some control over money supply in the economy.

17 . Explain how 'marginal requirements' are helpful in controlling credit creation?

Ans: Marginal requirements refer to discount fixed by the central bank on the security mortgages by the borrower. Raising marginal requirement reduces the maximum amount a borrower can borrow from commercial banks. In this way it helps in controlling credit creation.

18. Explain how open market operations are helpful in controlling credit creation.

Ans: Open market operations refer to selling and buying of government securities by the central bank by selling securities in the open market money flow out of commercial banks and into central

bank. This reduces demand deposits with the commercial banks and lowers their capacity to create credit, borrowing from banks becomes less, and money supply is reduced.

19. What is 'legal tender'? What is 'fiat money'?

Ans: Money that has a legal sanction by the government behind it is called legal tender or legal tender money. It is money issued by monetary authority or the government which cannot be refused by any person in payment for transaction. Government issues an order describing what money is and that becomes legal tender money. Everybody is bound to accept it in exchange for goods and services and in discharge of debts. No one can refuse to accept it because non-acceptance is an offence.

20. What are the different types of deposits held by the Commercial Banks?

Ans: a) **Current account deposits or Cheque able deposits** which are payable on cheques & the depositors can withdraw their deposits whenever they like. This account is generally maintained by the traders for day to day transactions. The banks pay no interest on this deposit.

b) **Saving Account deposits** are those deposits on which the bank pay interest which is less than the interest paid on the fixed deposits. The bank imposes some restrictions on their withdrawal. The purpose of this deposit is to encourage & mobilize the small savings.

c) **Fixed or Time Deposits** refers to the deposits which are accepted for the specified period & which are not payable on demand before the expiry of the period. The bank pay relatively high rate of interest on this deposit. The variant of this deposit is Recurring Deposit whose purpose is to encourage regular savings by the people. This deposit is based upon the installment payment for a fixed period of time on which the interest is paid after maturity of the account.

21. Define the term Central Bank & explain its functions.

Ans: A Central Bank is an apex institution which directs, control, regulates & supervises the monetary system of a country. Central bank is the monetary authority which leads all banking & non – banking institutions. The name of the Central bank in India is Reserve Bank of India (RBI) which is established in 1935. The RBI occupies the highest position in the money & capital market.

Functions

1. It has the monopoly of issuing currency notes. It has the exclusive right to issue the currency notes in the country which leads to the uniformity of the currency throughout the nation. Moreover, this enables it to have a total control over the total money supply of the country which leads to the strengthening of the monetary policy during the crisis time.

2. It act as a banker of the govt. as it accepts the deposits of the govt. & makes payment on behalf of the it, gives financial advices, & advances the loans in the crisis times, remit the surplus funds of Govt., purchase & sell Govt. securities on its behalf.

3. It acts as a banker's banks in the form of lender of last resort, facilitates clearing house facilities & remits the surplus funds, supervise the banking activities & regulates credit deposits of the Banks. Since RBI is the guardian of all the banks, the banks can get the benefit of easy & early credit during their financial requirements. As a facilitator of clearing, the RBI makes early settlement of financial claims & debts of the banks. As a result, the banks don't face any problem of cash liquidity, & thus they need not to remain depended on the bank credit or capital funds of the banks. As a regulator & supervisor, the banks are not in the position of any malpractice & the entire banking system remains transparent & accountable to public.

4. It acts as a custodian of gold reserves & the nation's stock of foreign exchange reserve. The purchase & sale of Gold & foreign exchange at the global level is done by RBI only. As a custodian, RBI is responsible for maintaining the stock of gold & fore reserves & the determination of their prices.

5. It acts as a controller of credit which is one of the most important functions. Since it is an apex institution, therefore can play an effective role to combat or correct the inflationary or deflationary pressures of an economy. The RBI controls credit by using Quantitative (General) & Qualitative (Selective) credit control methods. The tools under quantitative methods are Bank/Repo rate, Reserve repo rate, CRR & SLR, Open market operations. Under selective methods, RBI use Margin, credit quota & rationing, moral suasion & direct action etc.

6. It promote the economic growth & development of the country by erecting the financial institutions in the rural areas, providing direct loans to the farmers, framing the policies in favour of trade & industry, collect the economic information's & publish through its various journals which further helps the govt. & other institutions to adopt the correct policies etc.

22. How, in your opinion, credit creation by the commercial banks accelerates the pace of economic growth? Write two observations.

Ans: Following observations may be noted in this regard:

Observation – 1. Credit creation accelerates the process of growth by expanding the availability of credit for purpose of investment.

Observation -2: Credit creation contributes to the process of growth by expanding size of the market (or aggregate demand), as the availability of credit for the purchase of consumer durables increases.

Q.23. How can 'Jan-DhanYojana' be used as an instrument to increase supply of money by the commercial banks?

Ans: A large section of the population in India does not have their bank accounts. 'Jan-DhanYojana' prompts people to open their bank accounts. When more and more accounts are opened then some of the cash balances with the people (or idle cash lying with the people) is bound to reach the banking system as cash deposits or primary deposits. This increase enables commercial banks to increase their cash reserves with the central bank. If CR (additional cash reserves with the RBI) = Rs. 10,000 and if $\text{CRR} = 4\%$, then the additional demand deposits the banks can create = $25 \times \text{Rs.}10,000 = \text{Rs.} 2,50,000$. This is how 'Jan-Dhan Yojana' may be used as an instrument to increase supply of money by the commercial banks.

Q 24. Explain how a Commercial Bank creates credit (money supply).

Ans: Credit creation by the banks is determined by (i) the amount of initial deposits and
ii) The legal reserve ratio (LRR).

It is assumed that all the money that goes out of banks is redeposit into the banks, and LRR consists of CRR & SLR.

A Commercial Bank accepts deposits from general public & create a primary account deposit. This creates liability for the bank & asset for the depositor. It is also referred to as active deposit. From the active deposits the banks deduct the legal reserves to be kept in Central Bank (RBI), & the rest (excess reserves) are used in loans & investment.

When a bank give loans & advances, it creates another deposit known as derivative deposits or secondary account deposits on the name of debtor. This leads to creation of new primary account, & thus the new primary deposits keeps on increasing until the credit multiplier stops working. Greater the LRR, smaller the amount of total final deposits, & vice versa.

An Illustration to explain the process of credit creation:

Let the LRR be 20% and there is a Fresh/Primary/Initial/Deposit Account of Rs 10000. The banks keep 20% ie Rs 2000 as cash and lend the remaining Rs 8000 to a borrower by opening a new account, called as Loan/Secondary/Derived Account.

ROUNDS	INITIAL DEPOSIT	LRR	SECONDARY DEPOSIT
1	10000	2000	8000
2	8000	1600	6400
TOTAL	50000	10000	40000

Here we assume that all the banking transactions will be through monetary instruments viz cheques etc. As assumed, the amount of Rs 8000 will come back to the banks as fresh deposit from which once again the bank will keep 20% ie Rs.1600 as LRR and rest Rs 6400 will be lend to some other borrower.

The bank now creates another secondary account which will once again become a primary account. This process continues and the money goes on multiplying till the sum of LRR and the fresh deposit amount is same or the new deposit becomes nil.

Finally, when we add the total money creation, we get Rs 50000 as the total deposit creation.
Total credit creation = Initial deposit X $1/LRR$ = $10000 \times 1/20\%$ = $10000 \times 100/20$ = Rs50000

25. Define the terms LRR, CRR, SLR, Repo & Reverse Repo rate, Credit Multiplier.

Ans:

Legal Reserve Ratio: It refers to the minimum portion of total net demand & time deposits of Commercial Banks which have to be maintained with Central Bank & themselves as cash liquid assets. There are two legal reserves viz. CRR & SLR.

Cash reserve Ratio: It refers to that minimum portion of total net deposits of Commercial Banks which have to be maintained with Central Bank. During inflation or deflation, the CRR is regulated by RBI to control inflation or deflation. During inflation, CRR is increased to restrict the credit by making it dearer, while it is reduced during deflation to expand the money supply in the economy by making it cheaper.

Statutory Liquidity Ratio: It refers to that portion of total deposits which have to be maintained by the Banks themselves in the form of liquid cash assets against the securities of Govt. & RBI.

Repo rate ie Repurchase rate of interest refers to the interest paid by the Commercial Banks to RBI against the loans & advances taken by them from RBI to meet the short term needs. By changing Repo rate, RBI can regulate the money supply. It is different to Bank Rate in a way that Bank rate is charged against the loans taken by commercial banks for long term needs.

Reverse Repo Rate refers to the interest received by the Commercial Banks from the Central banks against the parking of funds by the commercial banks. By increasing RRR, the RBI can encourage the Commercial Banks to park more funds so as to restrict the money supply in the economy. By reducing RRR, the RBI discourages the parking of funds which helps to induce more credit in the economy to resolve the issue of deflation.

Credit Multiplier refers to the amount by which the initial deposit multiplies into a larger amount of final deposits. It is equal to $1/LRR$. Thus, credit multiplier is inverse to LRR.

Unit-3 Determination of Income and Employment (12 Marks)

$$AD=C+I+G+(X-M)$$

The main components of AD are-

1. House hold consumption expenditure.
2. Investment expenditure.
3. Government consumption expenditure
4. Net export.

1. Household consumption expenditure is the expenditure incurred by the household on the purchase of goods and services to satisfy their wants.

2. Investment expenditure It refers to the total expenditure incurred by all private firms on capital goods like machinery , buildings etc.

3. Government expenditure It refers to the total expenditure incurred by the government on consumer goods and capital goods to satisfy the common needs of the economy.

4. Net export refers to the difference between export and import.

In a two sector economy $AD = C+I$.

Aggregate supply: It is the sum total of consumption expenditure and saving.

$$AS=C+S$$

Consumption function with the help of schedule and diagram

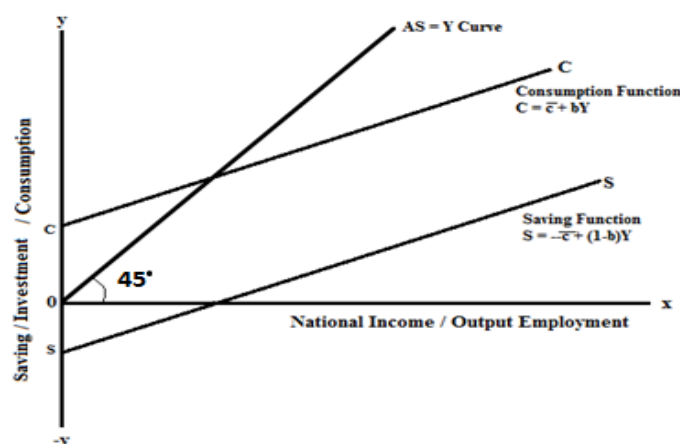
Consumption Function : The functional relationship between consumption and income.

$$C = f(Y)$$

Psychological Law of consumption: It states that when income increases consumption also increases but the rate of increase in consumption is less the rate of increase in income.

Autonomous consumption (C): It denotes the level of consumption at 'zero' level of income.

Y (in ₹)	C (in ₹)
0	50
100	100
200	150
300	200
400	250
500	300



Explanation :

(1) $C = ₹50$ when $Y = 0$

(2) C increases when Y increases. C and Y are positively related.

(3) The rate of increase in consumption is less the rate of increase in income. Y increases by ₹100 and C by ₹50.

Algebraic Presentation $C = \bar{C} + bY$

C = autonomous consumption

$$b = MPC = \frac{\Delta C}{\Delta Y}$$

b denotes the change in consumption due to change in income.

Y refers to income

We can calculate C corresponding to different value of Y.

Propensity to consume

The relationship between consumption and income is called propensity to consume or consumption function.

$$C = f(Y).$$

Consumption function may be represented by an equation.

$$C = a + b(Y)$$

C=consumption, a =consumption at zero level of income

b=MPC (slope of the consumption curve) Y=income.

The consumption equation shows the level of consumption for various level of income. Propensity to consume is of two types

A) Average propensity to consume (APC)

B) Marginal propensity to consume (MPC)

APC= C/Y APC is the ratio of total consumption to total income.

MPC= $\Delta C/\Delta Y$ MPC is the net addition in total consumption due to one more unit(Re.1) income.

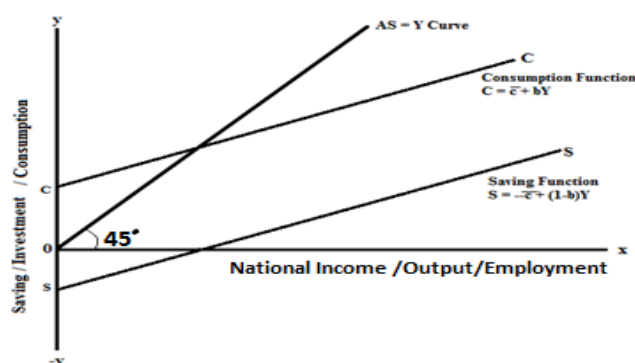
Explain the saving function with the help of schedule and diagram.

Saving Function : The functional relationship between saving and income.

$$S = f(Y)$$

Autonomous consumption (\bar{C}): It denotes the level of saving at 'zero' level of income.

Y (in Rs) Y = C+S	C (in Rs) C = Y - S	S (in Rs) S = Y - C
0	50	-50
100	100	0
200	150	50
300	200	100
400	250	150
500	300	200



Explanation :

(1) S = ₹-50 when Y = 0. This is because C = ₹50 when Y = 0.

(2) S increases when Y increases. S and Y are positively related.

(3) S is never greater than Y it is always remain lower than Y.

Algebraic Presentation $C = \bar{C} + (1-b)Y$

- \bar{C} = autonomous saving

$$(1-b) = \text{MPS} = \frac{\Delta S}{\Delta Y}$$

(1-b) denotes the change in saving due to change in income.

Y refers to income

We can calculate S corresponding to different value of Y

Propensity to save:

Propensity to save indicates the tendency of the households to save at a given level of income. It shows the relation between saving and income.

Propensity to save is also of two types.

A. Average propensity to save (APS)

B. Marginal propensity to save.(MPS)

$APS = S/Y$ APS is the ratio of total saving to total income.

$MPS = \Delta S / \Delta Y$ MPS is the ratio of change in saving to change in income.

There is relationship between APC and APS.

$$APC + APS = 1$$

$$APC = 1 - APS.$$

There is relationship between MPC and MPS.

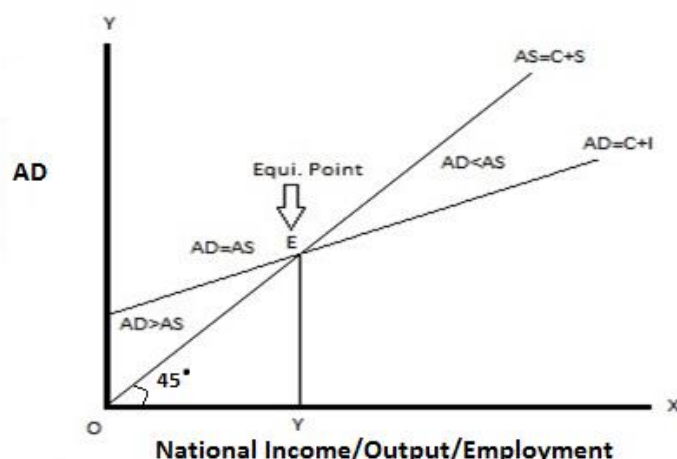
$$MPC + MPS = 1$$

$$1 - MPC = MPS.$$

Explain the determination of Income/Output/Employment by AD and AS approach. Including the situation of $AD > AS$ and $AS > AD$.

The equilibrium level of income is determined at a point when $AD = AS$ OR $S = I$

Y	C	I	S(Y-C)	AD(C+I)	AS(C+S)	Situation
₹ in crore	₹ in crore	₹ in crore	₹ in crore	₹ in crore	₹ in crore	
0	50	100	-50	150	0	$AD > AS$
100	100	100	0	200	100	$AD > AS$
200	150	100	50	250	200	$AD > AS$
300	200	100	100	300	300	AD=AS Equilibrium
400	250	100	150	350	400	$AS > AD$
500	300	100	200	400	500	$AS > AD$



On 'X' axis, we mention national income / output / employment (AS)

On 'Y' axis, we mention aggregate demand (AD)

AS is represented by 45 degree line. This line helps to compare X-axis with Y-axis. Both the axis are equidistance from 45 degree line.

AD and AS curve intersect at point E.

At ON level of output, Economy is in equilibrium because at this level AD = AS (300 crore = 300 crore).

The equilibrium level of income/output/employment is ₹300 crore. Income = Expenditure.

At OL level of output, AD > AS, It means aggregate demand is more than aggregate supply (250 cr > 200 Crore)

AD curve lies above AS curve.

Household and firms are consuming more than what economy producing. Expenditure > Income.

This will result in shortage of goods with the firms.

The firm will respond to this situation by producing more output therefore employment also rises which increases income till AD = AS. At this level economy will be in equilibrium.

At OM level of output, AS > AD, It means aggregate supply is more than aggregate demand

AS curve lies above AD curve (400 crore > 350 Crore)

Household and firms are consuming less than what economy producing. Income > Expenditure.

This will result in unwanted unsold stock of goods with the firms.

The firm will respond to this situation by reducing output therefore employment also reduces which

Y	C	I	S(Y-C)	Situation
₹ in crore	₹ in crore	₹ in crore	₹ in crore	
0	50	100	-50	
100	100	100	0	
200	150	100	50	I > S
300	200	100	100	S = I
400	250	100	150	S > I
500	300	100	200	

decreases income till AD = AS. At this level economy again will be in equilibrium.

Explain the determination of Income/Output/Employment by S and I approach. Including the situation of S > I and S < I.

The equilibrium level of income is determined at a point when S = I OR AD = AS

AD = AS

$C + I = C + S$

I = S

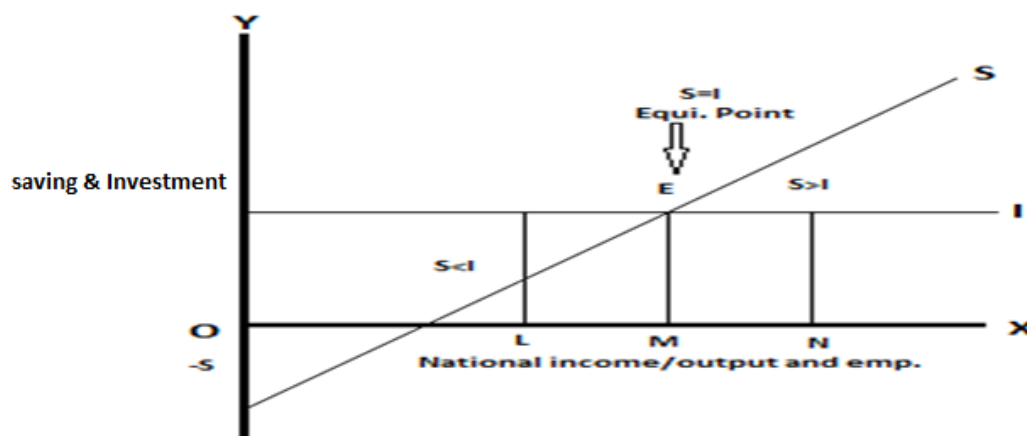


Table shows that the equilibrium level of income is ₹300 crore and at this point S = I (100=100 crore)

On 'X' axis, we mention national income / output / employment

On 'Y' axis, we mention Saving and Investment

S and I curve intersect at point E.

At ON level of output, Economy is in equilibrium because at this level $S = I$ (100 crore = 100 crore).

The equilibrium level of income/output/employment is ₹300 crore. Investment = Saving.

At OL level of output, $I > S$, It means Investment is more than Saving (100 crore > 50 Crore)

I curve lies above S curve.

Firms want to invest more but the saving is less. It means consuming more.

As a result aggregate demand increases. Demand of goods becomes more than supply of goods. $AD > AS$.

This will result in shortage of goods with the firms.

The firm will respond to this situation by producing more output therefore employment also rises which increases income hence saving also increases till $S = I$. At this level economy will be in equilibrium.

At OM level of output, $S > I$, It means Saving is more than Investment (150 crore > 100 Crore)

S curve lies above I curve.

Firms want to invest less but the saving is more. It means consuming less.

As a result aggregate demand decreases. Supply of goods becomes more than demand of goods. $AS > AD$.

This will result in unwanted unsold stock of goods with the firms.

The firm will respond to this situation by reducing output therefore employment also reduces which decreases the income hence saving also decreases till $S = I$. At this level economy will be in equilibrium.

Investment multipliers and its working.

Investment multiplier is the ratio of change in income to change in investment.

$$\text{Multiplier } K = \frac{\Delta y}{\Delta I}$$

Relationship between multiplier and MPC

The value of multiplier depends on the value of marginal propensity to consume (MPC). There is direct relationship between k and MPC.

Since, $K = 1/(1 - MPC)$

Higher the value of MPC, the larger will be the value of multiplier and lower the value of MPC, the smaller will be the value of multiplier.

Relationship between multiplier and MPS

Multiplier also depends on the marginal propensity to save There is inverse relationship between multiplier and MPS.

Since, $K = 1/MPS$

Higher the value of MPS, the smaller will be the value of multiplier and lower the value of MPS the larger will be the value of multiplier.

Employment and Unemployment

Full Employment : It refers to a situation in which all those people who are willing to work and able to work are **getting the work** (job) at prevailing market wage rate.

Involuntary Unemployment : It refers to a situation in which all those who are willing to work and able to work are **not getting the work** (job) at prevailing market wage rate.

Voluntary Unemployment : It refers to a situation in which all those who are able to work are getting the work (job) at prevailing market wage rate but they are not willing to work.

What is 'deficient demand' and 'deflationary gap'? Explain the role of the following to remove it :

Deficient demand refers to the situation when actual aggregate demand (AD_A) less than the planned

aggregate supply (AS_p) or planned aggregate demand (AD_p) at the full employment level.

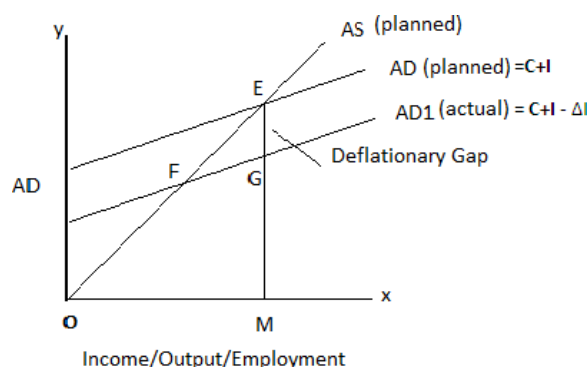
It gives rise to deflationary gap.

Deflationary gap is the gap between actual aggregate demand (AD_A) and planned aggregate demand (AD_p) at the full employment level.

At the full employment level planned aggregate supply (AS_p) is equal to planned aggregate demand (AD_p) say for example both are 300 crore. If actual aggregate demand (AD_A) is of 200 crore. It shows the situation of deficient demand.

Here, Deflationary Gap = $AD_p - AD_A$ 100

crore = 300 crore – 200 crore



The concept of deficient demand and deflationary gap are shown in diagram. As seen in the diagram Income, Output and Employment are measured on the X axis and aggregate demand is measured on OY axis. Planned aggregate demand (AD_p) and planned aggregate supply (AS_p) curves intersect at point E, which indicates the full employment equilibrium. Due to decrease in investment expenditure (ΔI) actual aggregate demand (AD_A) falls from AD to AD_1 . It denotes the situation of deficient demand and the gap between EG is deflationary gap.

Point F shows the underemployment equilibrium.

Measures to remove the deficient demand from the economy

1) Bank Rate:

If **bank rate is Less** than demand for loan rises by customer therefore **supply of money increases** in the market. This policy is used by Central bank when there is **Deficient demand** in the economy.

(Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

2) CRR (Cash Reserve Ratio) :

CRR is decreased to increase the supply of money in the market **during the situation of Deficient demand** in the economy. Now the bank has more money with them to give more amount of loan to their customer.

(Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

3) SLR (Statutory Liquidity Ratio) :

SLR is decreased to increase the supply of money in the market **during the situation of Deficient demand** in the economy. Now the bank has more money with them to give more amount of loan to their customer.

(Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

4) Open market operations :

Buying of securities leads to increase in the supply of money with Public and Commercial Banks. **During the situation of Deficient Demand the Central Bank buys securities.**

5) Margin requirement :

MR is decreased to increase the supply of money in the market **during the situation of Deficient demand** in the economy. Now the bank has more money with them to give more amount of loan to their customer.

(Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

6) Government expenditure, Taxes and Public borrowings

To remove the problem of deficient demand from the economy the Government has to take the steps to raise the level of demand.

Government expenditure is to be increased on construction of schools, hospitals, constructions of dams-roads-bridges etc. So that people will get the employment and earn income. After receiving the income people will increase the demand of goods and services. In this way the problem of deficient demand will be solved.

Government has to reduce the taxes which increase the purchasing power of households and firms. People have more money in their hand to spend more on purchasing goods and services, demand will increase.

What is 'excess demand' and inflationary gap'? Explain the role of the following to remove it :

- a) Bank Rate
- b) Legal Reserve Ratio (CRR & SLR)
- c) Open Market Operations
- d) Margin Requirement
- e) Government expenditure, Taxes and Public borrowings

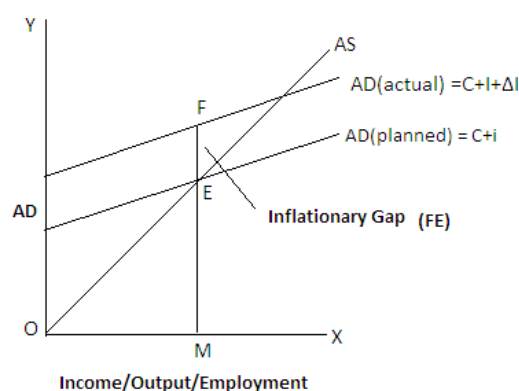
Excess demand refers to the situation when actual aggregate demand (AD_A) more than the planned aggregate supply (AS_P) or planned aggregate demand (AD_P) at the full employment level.

It gives rise to inflationary gap.

Inflationary gap is the gap between actual aggregate demand (AD_A) and planned aggregate demand (AD_P) at the full employment level.

At the full employment level planned aggregate supply (AS_P) is equal to planned aggregate demand (AD_P) say for example both are 300 crore. If actual aggregate demand (AD_A) is of 500 crore. It shows the situation of excess demand.

Here , Inflationary Gap = $AD_A - AD_P = 500 \text{ crore} - 300 \text{ crore} = 200 \text{ crore}$



The concept of excess demand and inflationary gap are shown in diagram. As seen in the diagram Income, Output and Employment are measured on the X axis and aggregate demand is measured on OY axis. Planned aggregate demand (AD_P) and planned aggregate supply (AS_P) curves intersect at point E , which indicates the full employment equilibrium. Due to increase in investment expenditure (ΔI) actual aggregate demand (AD_A) rises from AD to AD_1 . It denotes the situation of excess demand and the gap between EF is inflationary gap.

Measures to remove the excess demand from the economy

1) Bank Rate:

If **bank rate is High** than demand for loan reduces by customers therefore **supply of money decreases** in the market. This policy is used by Central bank when there is **Excess demand** in the economy (Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

2) CRR(Cash Reserve Ratio) :

CRR is increased to decrease the supply of money in the market **during the situation of Excess demand** in the economy. Now the bank has less money with them to provide loan to their customer. (Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

3) SLR(Statutory Liquidity Ratio) :

SLR is increased to decrease the supply of money in the market **during the situation of Excess demand** in the economy. Now the bank has less money with them to provide loan to their customer. (Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

4) Open market operations :

Selling of securities leads to decrease in the supply of money with Public and Commercial Banks. **During the situation of Excess Demand the Central Bank sells securities.**

5) Margin requirement :

MR is increased to decrease the supply of money in the market **during the situation of Excess demand** in the economy. Now the bank has less money with them to provide loan to their customer. (Here Commercial Banks are customers of Central Bank and Borrowers are customers of Commercial Banks)

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To remove the problem of excess demand from the economy the Government has to take the steps to reduce the level of demand.

Government expenditure is to be reduced on construction of schools, hospitals, constructions of dams-roads-bridges etc. So that people will get the less employment and earn lesser income. Therefore, people will decrease the demand of goods and services. In this way the problem of excess demand will be solved.

Government has to raise the taxes which decrease the purchasing power of households and firms. People have lesser money in their hand to spend on purchasing goods and services, demand will decrease.

MULTIPLE CHOICE QUESTIONS

Q1. If entire additional income is saved then MPC is

- A) Zero (B) 1
B) Infinity (D) 2

Ans- A) 0

Q2. At zero level of income, consumption is

- A) Zero (B) positive
(C) Negative (D) All of these

Ans- B) positive

Q3. Induced investment is influenced by

- A) income (B) Profit
C) Both A and B (D) Neither A nor B

Ans-A) profit

Q4. Value of APS is negative when

- A) $Y > C$ (B) $Y < C$
C) $Y = C$ D) $S = Y$

Ans-B) $Y < C$

Q 5. If autonomous consumption is 50 and MPC is 0.75 and national income is 2400 crores, the level consumption will be-

- A) 1250 B) 1550
C) 1650 D) 1850

Ans-D) 1850

Q6. If $AD > AS$ national income will

- A) Increase B) Decrease
C) Not change D) May increase or decrease

Ans-A) increase

Q7. In the consumption function, $200 + 0.6Y$, the value of autonomous saving will be

- a) 200 b) -200
c) 0.6 d) 0.4

Ans-b) -200

Q8. IF MPC is greater than MPS the value of multiplier is

- a) greater than 2 b) less than 2
c) equal to 2 d) equal to 5

Ans- b) greater than 2

Q9. How are both APC and APS associated with National Income?

- 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

Ans- c) APC falls APS rises with increase in national income

Q10. What is the value of MPC, when $S = -100 + 0.4Y$?

- a) 1.5 b) 0.6
c) 2.5 d) 2.05

Ans-b) 0.6

Q11. Which of the following is true for the Classical Theory of Employment?

- (a) State of full employment in the economy
(b) No possibility of over-or under-production in the economy
(c) Both (a) and (b)
(d) None of the above

Answer: (c) Both (a) and (b)

Q12. The relation between consumption and savings are:

- (a) Inverse
(b) Direct
(c) Inverse and direct both
(d) Neither inverse nor direct.

Answer: (a) Inverse

Q13“Supply creates its own demand”. This statement was given by the economist:

- (a) Keynes
- (b) Pigou
- (c) J. B.Say
- (d) Adam Smith

Answer: (c) J. B.Say

Q14. Match the following

column 1	Column 2
A) APS negative	i) =1,<1,>1
B) APC	ii) 0-1
C)MPC	iii) 1-b
D)MPS	iv) $Y < C$

(a)a-iv,b-i,C-ii,D-iii

(b)a-i, b-ii, c-iii, d-iv

(c)a-ii,b-iii,c-iv,d-i

(d)a-iii,b-iv,c-i ,d-ii

Ans- (a)a-iv,b-i,C-ii,D-iii

15. Which of the following can never have negative value

- a. APC b. MPC c. MPS d. APS

Ans. APS

16 . If Marginal Propensity to Save (MPS) is equal to zero, it indicates that the National Income of the economy will

- (a) 0 (b) 1 (c) <1 (d) not defined

17 . If APC=0.6, APS= _____

Ans. 0.4

18 . Average propensity to save is always greater than zero (True /False)

False

19. The value of MPS can never be negative (True /False)

True

20 . APS cannot be negative (True /False)

False

21. _____ refers to actual or realised saving in an economy during a year

- (a) Ex-ante saving (b) APS (c) MPS (d) Ex-post saving

Ans. Ex-post saving

22. Which of the following can have a negative value

- (a) APC(b) APS (c) MPC (d) MPS

Ans APS

23. If $C = 100 + 0.75Y$ then the corresponding saving function will be expressed as

- (a) $S = 100 + 0.5Y$ (b) $S = -100 + 0.75Y$ (c) $S = -100 + 0.25Y$ (d) $S = 75 + 0.25Y$

And (c) $S = -100 + 0.25Y$

24. Sum of average propensity to consume and marginal propensity to save is always equal to 1. (True/False)

Ans False

25. If $APC=1.2$ APS will be zero (True/False)

Ans. False

26. When the consumption function lies below the 45° line , APS will be positive (True/False)

Ans. True

27. The point at which consumption curve intersects income curve, APS is zero. (True /False)

Ans. True

28. The value of APS can never be greater than one.(True /False)

Ans. True

29. Out of following which can have value more than one?

(a) APC (b) APS (c) MPC (d) MPS

Ans APC

30. The value of MPS ranges from ____ to ____

Ans 0 to 1

31. At higher level of MPC , the value of multiplier is

- (a) High
- (b) Low
- (c) Does not change
- (d) All of these

32. Multiplier is the ratio of increase in income to a given increase in

- (a) Supply
- (b) Demand
- (c) Investment
- (d) Capital Stock

33. It changes in investment if Rs 1000 and MPS is 0.2 then income will change by

- (a) Rs 1250
- (b) Rs 2500
- (c) Rs 5000
- (d) Rs 10000

34. If MPC is 0.2 and increase in investment is 10000, national income will increase by

- (a) 50000
- (b) 25000
- (c) 12500
- (d) 100000

35.If MPC is greater than MPS, the value of multiplier will be

- (a) Greater than 2
- (b) Less than 2
- (c) Equal to 2
- (d) Equal to 5

36.If an increase of Rs 10000 in investment in an economy results in an increase in income of Rs 40000, what will be MPS

- (a) 0.4
- (b) 4
- (c) 0.25
- (d) 0.30

37.If $MPC=1$, the value of multiplier is

- (a) 0
- (b) 1
- (c) Between 0 and 1
- (d) Infinity

38.If $MPC=0$, the value of multiplier is

- (a) 0
- (b) 1
- (c) Between 0 and 1
- (d) Infinity

39.The value of multiplier is

- (a) $1/1+MPS$
- (b) $1/1+MPC$
- (c) $1/1-MPC$
- (d) $1/1-MPS$

40.If $MPS=MPC$, then value of multiplier is

- (a) Infinity
- (b) One
- (c) Equal to MPC
- (d) Two

41.Multiplier is related to MPC

- (a) Directly
- (b) Not
- (c) Indirectly
- (d) Rarely

42. $MPC=0.75$ and as result of Multiplier Effect National income increase by Rs300 crores by an additional investment of _____

- (a) Rs 400 crores
- (b) Rs 225 crores
- (c) Rs 1200 crores
- (d) Rs 75 crores

43. If $MPS=0.20$ and investment is increase by Rs 400 crores, then total increase in income will be
- Rs 80 crores
 - Rs 2000 crores
 - Rs 500
 - Rs 3200 crores
44. What is the value of multiplier, when saving function is represented as $S=-60+0.2Y$
- 2
 - 5
 - 4
 - 1.25
45. With increase in National Income by Rs 3000 crores, savings increase by Rs 1200 crores, the value of multiplier
- 2 Times
 - 2.5 Times
 - 4 Times
 - 5 Times
46. If $MPS=0.25$ and initial change in investment is Rs 250 crores then the final change in income would be
- Rs 1000 crores
 - Rs 1200 crores
 - Rs 500 crores
 - Rs 3500 crores
47. The equilibrium level of income is determined where planned aggregate demand is equal to
- Planned consumption
 - Planned aggregate supply
 - Planned investments
 - None of these
48. Equilibrium level of income can be determined at
- Full employment
 - Under full employment
 - Over full employment
 - All of these
49. There exists a positive relation between
- Investment Multiplier and MPC
 - Investment Multiplier and MPS
 - Investment Multiplier and APC
 - Investment Multiplier and APS
50. If saving function of an economy is given as $S=-40+0.4(Y)$
- 1
 - 0.4
 - 0.6
 - All of these

ANSWERS :- 31(A) 32(C) 33(C) 34(C) 35(A) 36(C) 37(D) 38(B) 39(C) 40(D) 41(A) 42(D) 43(B) 44(B) 45(B) 46(A) 47(B) 48(D) 49(A) 50(C)

As income increases APS _____ (increases/decreases)

Ans. Increases

51. In the consumption function $C = 200 + 0.6Y$, the value of dis-savings will be

(a) 200 (b) -200 (c) 0.6 (d) 0.4

Ans. -200

52. Break even point occurs when

(a) $C=Y$ (b) $S=0$ (c) $APC=1$ (d) all of these

Ans. All of these

53. Autonomous investment curve is always

(a) a horizontal straight line (b) a vertical straight line

(c) an upward rising straight line (d) a downward sloping line Ans. (a) a horizontal straight line

54. How are APC and APS related with national income

(a) Both APC and APS falls with increase in national income

(b) Both APC and APS rises with increase in national income

(c) APC falls and APS rises with increase in national income

(d) APC rises and APS falls with increase in national income

Ans. (c) APC falls and APS rises with increase in national income

55. If $MPC=0.4$ and change in income is Rs. 1000 crores, what will be change in saving?

(a) 400 (b) 600 (c) 500 (d) 250

Ans. 600

56. Which of the following can never be zero

(a) consumption expenditure (b) government expenditure

(c) investment expenditure (d) Imports

Ans. Consumption expenditure

57. At what level the value of APC will be equal to 1

(a) $S=0$ (b) $C=Y$ (c) $S=Y$ (d) both a and b

Ans both a and b

Fill in the blanks

Q1. The _____ Propensity to Consume is the proportion of the income, which is spent on consumption. (Marginal/average)

Ans- Average

Q.2 MPC of the lower-income group is _____ than the higher income group (Higher/lower)

Ans-higher

Q.3 MPC lies between _____ and _____ ($0-1/1-\infty$)

Ans 0-1

Q.4 Propensity to consume shows relation between _____ and distributed income.

Ans: Consumption

Q.5 APS before breakeven point will be _____.(Positive/negative)

Ans- negative

Q.6 Autonomous investment changes only in the _____ (long run/short run)

Ans- long run

State true or false:

Q.1. Consumption is the complement of saving.

Ans- True

Q.2 Full employment means the absence of involuntary unemployment.

Ans- True

Q.3 MPC can be negative.

Ans- False

Q.4 MPC of the rich class is higher.

Ans- False

Q.5 MPC can be greater than one under abnormal conditions. Ans- True

Unit 4 Government Budget and the Economy (6 Marks)

Government budget: It is an annual statement that shows estimated government expenditure and government receipt of the coming financial year (1 April to 31 March).

Objective of Government budget:

1.Re-distribution of Income : To reduce inequality of income redistribution of income is one of the major objective of government budget to promote inclusive growth(includes all sections of the society).

Through taxes on the income of rich people their purchasing power is reduced and through expenditure on subsidies, unemployment allowances , old age pension etc. Purchasing power of poor people can be increased. As a result the gap between rich and poor is minimized.

2.Re-allocation of resource : Sometimes demand and supply forces fails to allocate resources efficiently. Budget helps to re allocate the resources. For the welfare of the society government has to allocate resources for the development of roads, dams, education, health energy generation etc. Private sector will allocate their resource where is high profit at low cost. Production of harmful goods like liquor , cigarette can be discouraged through heavy taxation and production of welfare / useful goods like milk, food, khadi can be encouraged through subsidies.

3.Economic Stability : It means absence of fluctuations in prices. Economic stability encourage the investment and increase the growth rate of economy. Through expenditure and revenue policy the government maintains the economic stability.

During Deflation / Deficient demand, taxes and public borrowings are reduced while government expenditure is increased to increase the purchasing power of the people.

During Inflation / Excess demand, taxes and public borrowings are increased while government expenditure is reduced to reduce the purchasing power of the people.

Difference between Capital Expenditure and Revenue Expenditure

Capital Expenditure	Revenue Expenditure
1.It create assets for the government. Eg. Construction of roads, dams, school buildings	1.It do not create assets for the government. Eg. Student's scholarship,Old age pensions,subsidies
2.It reduce liability of the government. Eg. Repayment of loan	2.It do not reduce liability of the government. Eg. Interest payment on loan.

Difference between Capital Receipt and Revenue Receipt

Capital Receipt	Revenue Receipt
1.It create liability for the government. Eg. Loan by the government	1.It do not create liability for the government. Eg. Income Tax
2.It reduce assets of the government. Eg. Selling of the government property, selling of the shares of Hindustan Petroleum.	2.It do not reduce assets of the government. Eg. Income Tax

Difference between direct taxes and indirect taxes

Direct Taxes	Indirect Taxes
1.The burden of direct tax cannot be shifted.	1.The burden of indirect tax can be shifted.
2.Imposition and incidence lies on the same person	2.Imposition and incidence lie on different person
3.Imposed on income and wealth of people. Eg. Income tax , wealth tax	3.Imposed on goods and services. Eg. Sales tax, Service tax
4.It is progressive in nature	4.It is regressive in nature.

What is fiscal deficit ? Explain its implications.

Fiscal deficit is the excess of total expenditure over total receipts other than borrowing

Fiscal deficit = Total budget expenditure(RE + CE) – Total budget receipts(RR + CR other than borrowing)

Fiscal deficit indicates how much total borrowing required by the government (from RBI ,Abroad ,Home). It shows government's dependence on borrowing. When the government borrowing increases ,its liability also increases to repay the loan with interest.

What is Revenue Deficit ? Explain its implications.

Revenue deficit is the excess of revenue expenditure over revenue receipts.

Revenue deficit = Revenue Expenditure(RE) – Revenue Receipts(RR)

What is primary deficit ? Explain its implication.

Primary deficit is equal to the Fiscal deficit minus Interest payments.

Primary Deficit = Fiscal Deficit - Interest Payment

If Primary deficit is zero, means FD = IP

Balanced , Surplus and Deficit Budget

A) Balanced budget : Balanced budget is that budget in which government receipts are equal to government expenditure.

Balanced budget : Government Receipt = Government Expenditure

Merits of balanced budget

- 1) Balanced budget shows that the government is not making any wasteful expenditure.
- 2) A balanced budget shows financial stability, it means absence of inflation and deflation in an economy.

Demerits of balanced budget :

- 1) Balanced budget doesn't give any solution to the problem of unemployment. Specially when unemployment is due to lack of aggregate demand. It happened in most of the European countries during 1930s.
- 2) Balanced budget is not useful for the less developed countries. For the growth of these economies huge investment expenditure is required to be done by the government which leads to deficit budget.

B) Surplus budget : This is a budget in which government receipts are greater than government expenditure.

Surplus budget : Government Receipt > Government Expenditure

Merits of surplus budget :

- 1) Surplus budget is useful when the economy is facing the problem of inflation due to excess of AD (aggregate demand).
- 2) Surplus budget reduces the inflationary gap by reducing the level of AD.
- 3) Surplus budget increases the revenue collection of the government.
- 4) In surplus budget government expenditure reduces.

Demerits of surplus budget :

- 1) Surplus budget is not useful during the period of deflation.
- 2) If continuously surplus budget is adopted by the government it reduces the AD in an economy which causes the unemployment in the economy.

C) Deficit budget : This is a budget in which government expenditure are greater than government receipts.

Deficit budget : Government Receipt < Government Expenditure

Merits of deficit budget :

- 1) Deficit budget is a key instrument to correct the situation of deflation/depression. In the situation of depression the level of instrument is low therefore , output is also low (it means unemployment exists in the economy). Deficit budget can solve the problem of depression and unemployment in the ways.
 - a) By increasing the government expenditure.
 - b) By reducing the government income, by lowering the taxes.

Demerits of deficit budget :

- 1) Deficit budget is not desired during period of inflation.
- 2) It is a period when the AD exceeds at full employment.
- 3) Deficit budget increase the inflationary gap.

QUESTIONS

Competency based questions

1. identify which of the following statements is true
 - a. Fiscal deficit is the difference between plant revenue expenditure and plant revenue receipt
 - b. Fiscal deficit is difference between total planned expenditure and total planned receipts
 - c. Primary deficit is the difference between total planned receipts and interest payments
 - d. Fiscal deficit is the sum of primary deficit and interest payment

Ans: d

2. Dividend received from public sector undertakings are part of the government's

- a. Non tax revenue receipts
- b. Tax receipts
- c. Capital receipts
- d. Capital expenditure

Ans: a

3. Which of the following is a capital receipt in the government budget?

- a. Income tax
- b. Interest received
- c. Sale of shares of a public sector undertaking to x limited (private company)
- d. Dividend from a public sector undertaking

Ans: c

4. Which one of the following is not a capital expenditure?

- a. Loans advanced by world bank
- b. Construction of school buildings
- c. Repayment of loans
- d. Tax receipts

Ans: d

5. Primary deficit in a government budget will be zero when

- a. Revenue deficit is zero
- b. Net interest payment are zero
- c. Fiscal deficit is zero
- d. Fiscal deficit is equal to interest payment

Ans: d

6. Which of the following is is not true about fiscal deficit?

- a. Represents the borrowing of the government
- b. Is the difference between total expenditure and total receipts of the government
- c. Is the difference between total expenditure and total receipts other than borrowing
- d. Increases the future liability of the government

Ans: b

7. Disinvestment of equity in public sector undertaking is a Policy instrument.

- a. Monetary
- b. Fiscal
- c. Both a and b
- d. Neither a nor b

Ans: d

8. Which one of the following statements is true?

- a. Loans from imf is a revenue receipt
- b. Higher revenue deficit necessarily lead to higher fiscal deficit
- c. Borrowings bi a government represents a situation of fiscal deficit
- d. Revenue deficit is the excess of capital receipts over the revenue receipts

Ans: c

9. Which of the following sources of receipts in the government budget increases its liabilities. (choose the correct alternative.)

- a. Direct taxes
- b. Recovery of loans
- c. Borrowings
- d. Dividend from public sector undertakings

Ans: c

10. The government budget of a hypothetical economy presents the following information which of the following value represents budgetary deficit? (all figures are in rupee crore)

- a. Capital receipts= 30000
- b. Capital expenditure= 35000
- c. Revenue receipts = 20000
- d. Interest payments= 10,000
- e. Borrowings= 20000

i) 12000

ii) 10,000

iii) 20000

iv) none of the above

Ans: b

11. Fiscal deficit equals (choose the correct alternative)

- a. Interest payments
- b. Borrowings
- c. Interest payments less borrowing
- d. Borrowings less interest payments

Ans: b

12. Read the extract from economic survey 2020- 21 and answer the questions that follow on the basis of the same.

The government will continue on its path of fiscal consolidation and intends to reach a fiscal deficit of below 4.5 % of gross domestic product by 2025- 2026, finance minister nirmala sitharaman said in her budget speech.

The government expects a fairly steady decline over the years. “ we hope to achieve the consolidation first by increasing the buoyancy of tax revenue through improved compliance and secondly by increased receipts from monetization of assets including public sector enterprises and land.” Sitaraman said as she pegged the physical deficit for the current fiscal year at 89.5 percent of GDP in the revised estimate. The centre has estimated the deficit to be at 6.8 % if the GDP next year and the gross borrowing from the market next year would be around rupee 12 lakh crore.

i) deficit includes interest payment by the government on the past loans. (fill in the blanks with correct answer) (fiscal/ revenue/ primary)

ii) primary deficit in a government budget will be zero when(choose the correct alternative)

- a. Revenue deficit is zero
- b. Net interest payments are zero
- c. Fiscal deficit is zero
- d. Fiscal deficit is equal to interest payment

iii) disinvestment is Receipt of the government. (fill in the blanks with correct answer) (capital/ revenue)

Ans: i) fiscal ii) b iii) capital iv)

13. Read the following statements-assertion (A) and reason (R): . Choose one of the correct alternatives given below.

Assertion (A) : a government budget is an annual financial statement of the actual receipts and expenditure of the government over the fiscal year which runs on 1st april to 31st march.

Reason (R): capital budget contains the details of capital receipts and capital expenditure of the government.

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 true but reason (R): is true

Ans: d

14. Read the following statements-assertion (A) and reason (R): . Choose one of the correct alternatives given below.

Assertion (A): budget can be an effective tool to ensure the economic growth of a country

Reason (R): e expenditure is a major factor that generates demand for different types of goods and services in an economy and promote economic 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 true but reason (R): is true

Ans: a

15. Read the following statements-assertion (A) and reason (R): . Choose one of the correct alternatives given below.

Assertion (A): indirect taxes are imposed on property and income of individuals and companies and the burden cannot be shifted to the other person or entity
reason (R): capital received either creates a liability or cause a reduction in assets of the government.

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 true but reason (R): is true

Ans: b

16. Read the following statements-assertion (A) and reason (R): . Choose one of the correct alternatives given below.

Assertion (A): government tries to establish economic stability by its budgetary policies.

Reason (R): during inflation government can bring down aggregate demand by reducing its own expenditure

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 true but reason (R): is true

Ans: a

17. Read the following statements-assertion (A) and reason (R): . Choose one of the correct alternatives given below.

Assertion (A): fiscal deficit is the difference between the government total expenditure and total receipts excluding borrowing.

Reason (R): a large share of revenue deficit in fiscal deficit indicates that a large part of borrowing is being used to meet its consumption expenditure needs rather than investment.

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 true but reason (R): is true

Ans: a

18. Read the following statements-assertion (A) and reason (R): . Choose one of the correct alternatives given below.

Assertion (A): direct taxes are not shiftable whereas indirect taxes are shiftable

Reason (R): primary deficit is equal to fiscal deficit less of interest payments

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 true but reason (R): is true

Ans: d

19. Read the following extract carefully and answer the questions that follow:

Union finance minister Arun Jaitley presented the central government annual budget for 2018-19 in the Parliament on February 1 2018. It was the fifth and last budget amid subdued economic growth, challenging fiscal situation and farm distress.

Budget 2018-19 reflects the government firm commitment to substantially boost investment in agriculture social sector digital payments infrastructure and employment generation on the one hand and simultaneously stick to the path of fiscal rectitude by aiming for reduction of fiscal deficit by 0.2 % of GDP over RE 2017-18 this is substantiated by increase in expenditure of 224463 crores over RE 2017-18 while simultaneously keeping the fiscal deficit at 3.3 % of GDP.

- a. budget it helps to lower the level of aggregate demand in the economy.(surplus/ deficit)
- b. Primary deficit is equal to
 - i) deficit less interest payment
 - ii) revenue deficit less borrowings
 - iii) borrowings less interest payments
 - iv) borrowings less fiscal deficit
- c. If, in an economy, the estimated receipts of a government during a year are less than the estimated expenditure, the budget would be called Budget (surplus or deficit)
- d. Identify which of the statements is true?
 - i) fiscal deficit is difference between land revenue expenditure and planned revenue receipt
 - ii) fiscal deficit is difference between total planned expenditure and total planned receipt
 - iii) primary deficit is difference between total planned receipt and interest payment
 - iv) fiscal deficit is the sum of primary deficit and interest payment.

Ans: a) surplus b) (A) c) deficit d) d.

20. Read the following statements-assertion (A) and reason (R): . Choose one of the correct alternatives given below.

Assertion (A): the basis of classifying taxes into direct and indirect tax is whether the burden of tax can be shifted to others or not.

Reason (R): a direct tax is a tax whose burden falls on the person on whom it is imposed, that is whose burden cannot be shifted to others. An indirect tax is a tax whose burden can be shifted on others either partly or wholly.

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 true but reason (R): is true

Ans: a

21. Fees, licence fees, fines are examples of receipts.

Ans: revenue

22. State any one objective of a government budget?

Ans.: reallocation of resources

23. Give two examples of non tax revenue receipts.

Ans: interest income and income from public enterprises.

24. State one fiscal measure that can be used to reduce the gap between rich and poor.

Ans: increasing the taxes on rich and using the same amount to benefit the poor.

25. What should the government do to reduce the revenue deficit?

Ans: the government should reduce revenue expenditure and raise the tax rates.

26. What does a low primary deficit indicate?

Ans: it implies that the government is borrowing largely to make interest payments on previous loans.

27. Which one is a correct statement?

- a. Indirect taxes are generally progressive in nature
- b. GST is an indirect tax
- c. Sales tax is a direct tax
- d. Income tax is an indirect tax

Ans: b

28. Which one of the following is a part of capital expenditure?

- a. Salary paid to government employees
- b. Expenditure on construction of roads
- c. Pension paid to retired government employees
- d. Interest paid on national debt

Ans: b

29. Identify capital receipt from the following:

- a. Post office deposits
- b. Recovery of loans
- c. Disinvestment
- d. All of the above

Ans: c

30. The non tax revenue in the following is:

- a. Export duty
- b. Import duty
- c. Dividend
- d. Excise

Ans: c

Objective type questions:

1. What do you mean by non debt creating capital receipts? Give two examples of such receipts.

Answer: Non-debt creating capital receipts include all capital receipts except borrowing which do not give rise to debt.

Examples: Recovery of loans and proceeds from disinvestment.

2. What is public expenditure?

Answer: It is the expenses incurred by the government for the maintenance of the government and to provide social welfare to the society.

3. Give two types of expenditure which can reduce inequalities of income.

Answer: Unemployment allowance and old age pension.

4. State any two items of revenue expenditure in a government budget.

Answer: Payments of salaries of government employees, Interest payment

5. Give two examples of non tax revenue receipts.

Answer: Interest income and income from public enterprises

6. Define fiscal deficit

Answer: It is the excess of total expenditure over the sum of revenue receipts and total capital receipts excluding borrowings

7. What is a tax ?

Answer: Tax is a compulsory payment made by the people to the government to incur public expenditure for common benefit of the people

8. Give two examples of capital receipts which create liability.

Answer: Public borrowing and public provident fund

9. Give two examples of capital receipts which reduce assets of the government.

Answer: Recovery of loans disinvestment of shares of public sector undertakings.

10. In a government budget revenue deficit is 50,000 crores and borrowings are 75000 crore. How much is the fiscal deficit?

Answer: 75000 cr

11. Why is service tax and indirect tax?

Answer: Because it can be shifted on to other persons.

12. What does zero primary deficit mean?

Answer: The government goes to borrowing only to pay interest payments on previous loans

13. Why is interest received on loan a revenue receipt?

Answer: Because it neither creates a liability nor reduces any assets.

14. Why is the recovery of loan a capital receipt?

Answer: Because it leads to a reduction in the assets of the government.

15. Why is the sale of the public undertaking a capital receipt?
Answer: It reduces the assets of a government so it is a capital receipt.
16. Why are borrowings a capital receipt/
Answer: They create a liability in terms of repayment.
17. Why are subsidies treated as revenue expenditure?
Answer: They neither create assets nor reduce government liability.
18. Is a balanced budget always considered an ideal budget?
Answer: Not always. A moderate fiscal deficit is good for growth and the level of investment is low.
19. Why is payment of interest a revenue expenditure?
Answer: It neither creates any asset nor reduces government liability.

Short answer and long answer type questions:

1. Explain how economic slowdown of an economy could lead to revenue deficit.
Answer: It is a situation when low level of aggregate demand leads to low investment and low growth rate of GDP. In such a situation tax revenue of the government is bound to fall which means decrease in revenue receipts of the government. Fall in revenue receipts lead to revenue deficit.
2. Tax rates on higher income groups have been increased. Which economic value does it reflect?
Answer: Higher tax on the rich people will reduce the inequalities of income.
It will also provide more resources to the government to spend on the poor.
3. What would be the likely impact of the GST on a country's GDP?
Answer:
A. It will simplify the ease of doing business in India
B. It would attract foreign direct investment in India
C. It would boost up the manufacturing sector of the country.
4. What is the economic value of the implementation of GST?
Answer
A. There is now a single tax throughout the country
B. There is no tax on tax
C. The tax system has become more transparent.
5. The government of India has introduced the GST across the country. Explain its likely effect on the make in India program which is considered a key program of the government.
Answer: GST will help to create a common national market for India which will improve the business environment in the country. The average tax burden on companies will come down and it will help in reducing prices.
Fall in prices will lead to increased demand for goods and services.
This will boost domestic and foreign investment in India.
6. The government decides to give budgetary incentives to investors for making investments in backward regions. Explain these possible incentives and the reasons for the same.
Answer: Budgetary incentive are concessions in taxation and subsidies to production units which are set up in backward regions
Tax concessions can reduce cost and increase profits
Subsidies are at reducing prices of products to boost sales and earn profits.
7. Are the following statements true or false give reasons
1. Gift tax is a direct tax
 2. Interest income received by the government on loans given is a capital receipt
 3. Expenditure on salaries by the government is capital expenditure
 4. Fiscal deficit is always harmful

5. Fiscal deficit minus interest payments on previous loans is called revenue deficit
6. Disinvestment results in reduction of government assets.

Answer:

1. True because gift tax cannot be shipped to
2. False because it is a current income of the government and a revenue receipt
3. False because it neither creates assets nor reduces liabilities
4. False because fiscal deficit can be advantages if it creates new capital assets
5. False because it represents primary deficit
6. True because when government raises funds from this investment is as assets are reduced

8. Do disinvestment and loan proceeds from abroad constitute revenue receipts of the government? Give reasons.

Answer:

No. Disinvestment and loan proceeds from abroad are capital receipts because disinvestment reduces the assets of the government and loan proceeds from abroad increase the liability of the government.

9. Classify the following statements into revenue receipts and capital receipts give valid reasons in support of your answer.

1. Financial help from a multinational corporation for victims in a flood affected area
2. Sale of shares of a public sector undertaking to a private company
3. Dividend paid to the government by the state bank of India
4. Borrowing from the international monetary fund.

Answer:

1. Revenue receipts as it does not create any assets for the government
2. Capital receipts as it reduces assets of a government
3. Revenue receipts as it does not create any asset for the government
4. Capital receipts as it creates liability for the government.

10. Is deficit financing always beneficial? Comment.

Answer: No, Deficit financing is beneficial if it promotes economic growth by creating new infrastructure. It is harmful when it generates inflationary tendencies in the economy.

11. The government provides essential items of food grains almost free to the families below the poverty line. Which objective the government is trying to fulfill through the government budget and how? Explain.

Answer: By providing essential items of food grains to two families below the poverty line the government is trying to reduce food insecurity among the poor.

The poor should not be deprived of basic necessities of life.

The government is trying to reduce the gap between the rich and the poor.

12. Does public debt impose a burden? Explain

Answer: It can impose a burden in the following cases:

- A. When the government imposes new taxes or increases the existing tax rates to redeem the debt.
- B. When the debt is to be redeemed through printing of new currency it can cause inflation.
- C. When the public debt is taken for what purposes or for any other unproductive purposes.

13. How can the government reduce the deficit?

Answer: The government should take steps to increase its receipts by raising the tax rates or imposing new taxes or sale of shares of public sector undertakings. The government should try to reduce its productive and administrative expenditure.

UNIT 5 Balance of Payments (6 MARKS)

Difference between Balance of Payment and Balance of Trade

Balance of Trade	Balance of Payment
1.It is the difference between value of exports and imports of goods.	1. It is the systematic record of all the transaction between reporting country with the rest of world.
2.It records only visible items.	2.It records visible , invisible , capital transfers, investment , borrowing etc.
3.It is a narrow concept.	3.It is a wider concept.
4.It can be in a deficit , surplus or balanced.	4. It is always in balanced.
5.It is not a true indicator of economic relations with other countries.	5. It is a true indicator of economic relations with other countries

Distinguish between current account and capital account of BOP account

Basis	Current Account	Capital Account
Meaning	The current account records imports and exports of goods and services and unilateral transfe₹	Capital account is that account which records all such transactions between residents of a country and rest of the world which causes a change in the assets or liability status of the residents of a country or its government.
Component	1)Balance of trade(visible trade) 2)Balance of services(invisible trade) 3)Unilateral transfers	1)Borrowing from abroad & lending to abroad 2)Investment to & from abroad a)Foreign Direct Investment b)Portfolio Investment 3)Change in Foreign Exchange Reserves
Deficit	A deficit in current account shows that the outflow of foreign currencies due to Imports are more than inflow of foreign currencies due to Exports	A deficit in capital account shows that the outflow of foreign currencies due to purchase of assets abroad by home country are more than inflow of foreign currencies due to purchase of a assets by foreign country in home country
Surplus	Current Account Surplus (CAS) : arises when credit items are more than debit items. It indicates inflow of foreign exchange is more than outflow of foreign exchange. CAS arises when value of exports of goods and services is more than the value of imports of goods and services. CAS shows that the nation is a lender to the rest of the world.	Surplus of Capital Account: arises when credit items are more than debit items. It indicates inflow of foreign exchange is more than outflow of foreign exchange. Surplus of capital account arises when purchase of assets by foreign country(America) in home country(India) are more than purchase of assets by home country(India) in foreign country(America).
Example	Goods like computers , steel etc. and services like banking , insurance	Purchase of house, land, shares in abroad

Distinguish between autonomous and accommodating transactions of BOP account

Autonomous Items	Accommodating Items
1.It refers to those international economic transactions, which take place due to some economic motive such as profit maximization.	1.It refers to the transactions that are undertaken to cover deficit or surplus in autonomous transactions.
2.Autonomous transactions are independent of the state of BOP account.	2.Accommodating transactions are undertaken to maintain the balance in BOP account.*
3.Autonomous transactions take place on both current and capital accounts.	3.Accommodating transactions take place only on capital account.
4.These items are also known as 'above the line items'.	4.These items are also known as 'below the line items'.
	*(If there is current a/c deficit in the BOP then it is settled by capital inflow from abroad)

Foreign Exchange Rate

Foreign Exchange Rate : The rate at which one currency is exchanged for another.

What is fixed exchange rate system ?

The system exchange rate in which exchange rate is officially declared and fixed by the government is called fixed exchange rate system.

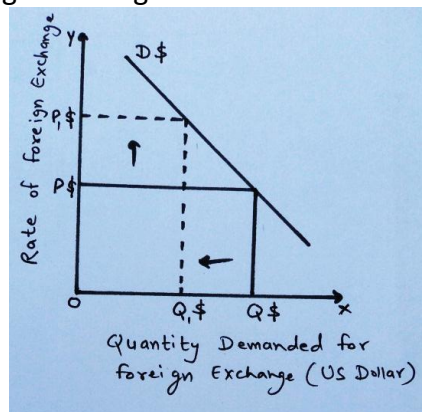
What is flexible exchange rate system ?

The system of exchange rate in which value of a currency is allowed freely as determined by demand for and supply of foreign exchange is called flexible exchange rate system.

Explain the relation between foreign exchange rate and demand for it.

OR When price of foreign currency rises, its demand falls. Explain why ?

Demand curve of foreign exchange is downward sloping due to inverse relationship between demand for foreign exchange and foreign exchange rate.



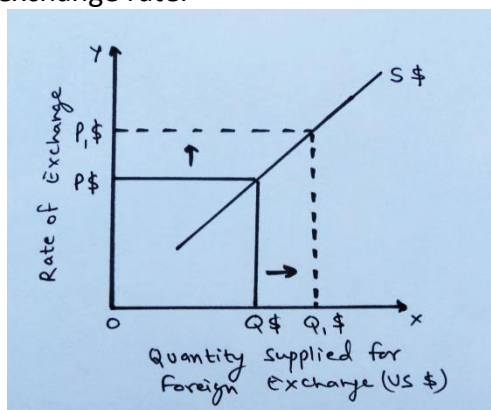
In diagram, on ox axis demand for foreign exchange (US dollar) and on oy axis foreign exchange rate is given. The demand curve ($D_{\$}$) is downward sloping. **This means that when foreign exchange rate increases less foreign exchange is demanded.** Due to the rise in the price of foreign exchange the foreign goods become more costly (for India) as a result import will reduces. Thus the demand for foreign exchange will also decrease.

Sources of Demand for foreign exchange :

1. To make the payment for imports of goods and services.
2. Repayment of international loans.
3. To make investment in rest of the world.
4. For giving gifts and grants to other country.
5. To purchase assets like land , shares , bonds etc. in the foreign countries.

Explain the relation between foreign exchange rate and supply for it. OR When price of foreign currency rises, its supply rises. Explain why ?

Supply curve of foreign exchange is upward sloping due to positive relationship between supply for foreign exchange and foreign exchange rate.



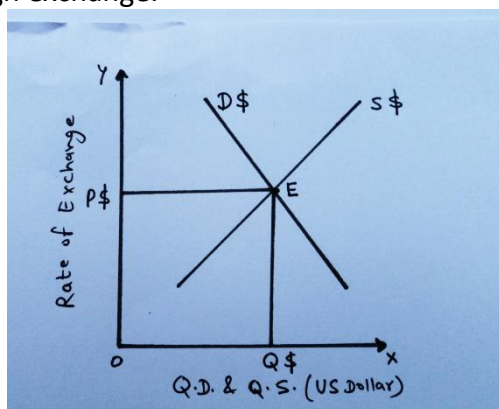
In diagram, on ox axis supply for foreign exchange (US dollar) and on oy axis foreign exchange rate is given. The supply curve (S\$) is upward sloping. **This means that when foreign exchange rate increases than supply for foreign exchange also rises.** Due to the rise in the price of foreign exchange the domestic goods become cheaper (to America) as a result exports will increase. Thus the supply for foreign exchange will also increase.

Sources of Supply for foreign exchange :

1. It comes through exports of goods and services.
2. Recovery of international loans.
3. Through Foreign Direct Investment in domestic market.
4. By receiving gifts and grants from other country.
5. When foreigner purchase assets like land , shares , bonds etc. in domestic market.

How the foreign exchange is determined? Explain with diagram.

Exchange rate in a free exchange market is determined at a point , where demand for foreign exchange is equal to the supply of foreign exchange.



In diagram, on ox axis Quantity demanded and Quantity Supplied of foreign currency (US\$) is given. On oy axis foreign exchange rate is given which shows how many rupees are required of 1 US dollar.

The demand curve (D\$) is downward sloping. **This means that when foreign exchange rate increases less foreign exchange is demanded.**

The supply curve (S\$) is upward sloping. **This means that when foreign exchange rate increases than supply for foreign exchange also rises.**

The demand curve (D\$) intersect the supply curve (S\$) at point E , which determines equilibrium foreign exchange rate OP\$ and equilibrium quantity of foreign exchange OQ\$.

Merits of Fixed exchange rate system

- 1) Market stability : stability of the market is key merit of fixed exchange rate. It promotes investment across nation.
- 2) Stable macroeconomics policies : In fixed exchange rate system government independently frame monetary and fiscal policies.
- 3) Devaluation : In fixed exchange rate system allows devaluation of the currency. It will be helpful for domestic producer to expand foreign market.

Demerits of Fixed exchange rate system

- 1) Large reserve of Foreign exchange is required : To maintain the desired level of exchange rate, the government need to keep a large stock of foreign exchange.
- 2) Inefficient allocation of resources : Fixed exchange rate many time deviate from the equilibrium exchange rate which causes the efficient allocation of resources.
- 3) Small size of forex market : When the foreign exchange is fixed , foreign exchange does not emerge as a trading commodity. Therefore size of forex market remains small.

Merits of flexible exchange rate system:

- 1) Large reserve of Foreign exchange is not required : In flexible exchange rate system government does not require Large reserve of Foreign exchange. Market forces of demand and supply of foreign exchange determine the equilibrium rate of exchange.
- 2) Efficient allocation of resources : Market forces of demand and supply of foreign exchange determine the equilibrium rate of exchange, therefore efficient allocation of resources is achieved.
- 3) Large size of forex market : When the foreign exchange is determined in market , foreign exchange emerge as a trading commodity. Therefore size of forex market becomes large.

Demerits of Flexible exchange rate system :

- 1) Marginalisation of weak currencies : Flexible exchange rate system leads to marginalisation of weak currencies in the international market. Weak currencies (of small economies) often suffers huge depreciation in relation to strong currencies(of big economies). Therefore, big economies gains more benefits than small economies in international trade.
- 2) Uncertainty of the market : In flexible exchange rate system rate of exchange is changing frequently in market, therefore it becomes difficult to formulate stable monetary and fiscal policy in domestic economy.
- 3) External shocks : External changes effects the domestic economy. Eg. When US dollar appreciate (in relation to Indian rupee) the burden of import payments rises because now we have to pay more amount of the Indian currency to pay the same amount of dollars.

Differentiate between Devaluation & Depreciation

Devaluation	Depreciation
1.It means reduction in price of domestic currency in terms of foreign currency.	1.It means fall in market price of domestic currency in terms of foreign currency.
2.It take place due to Government .	2.It take place due to market forces of demand and supply of foreign currency .
3.It take place under fixed exchange rate system .	3.It take place under flexible exchange rate system .

Managed Floating Rate system

It refers to a system in which foreign exchange rate is determined by market forces and central bank influences the exchange rate through intervention in the foreign exchange market.

It is a hybrid of fixed exchange rate and flexible exchange rate system.

In this system, central bank intervenes in the foreign exchange market to restrict the fluctuation in the exchange rate within certain limits. The aim is to keep exchange rate close to desired target values.

For this, central bank maintains reserves of foreign exchange to ensure that the exchange rate stays within the target value.It is known as 'Dirty Floating'.

How does the central bank exercise its influence on the 'float' or market exchange rate?

It is through the sale and purchase of foreign currency in the international money market. When the exchange rate (say of US \$) needs to be reduced, the central bank release the supply of US\$ in the foreign exchange market. Other things remaining constant, higher supply of US\$ would lower the price of US\$, as desired. This would lead to appreciation of domestic currency.

On the other hand, when the exchange rate needs to be raised, the central bank increases its demand for US\$ in the foreign exchange market. Other things remaining constant, higher demand of US\$ would raise the price of US\$, as desired. This would lead to depreciation of the domestic currency.

Briefly, managed floating is an exercise of sale and purchase of foreign currency by the central bank, so the exchange rate is managed within the desired limits.

In an open economy one country has 'economic and trade relationship' with other countries. They exchange goods, services and capital with each other. In this situation some questions arise: -

- Every country wants to maximize his exports and minimize its imports.
- International trade involves two or more countries. It generates Trade related matters.
- In International trade domestic and foreign currency is used. It generates the exchange rate issue.
- In international trade foreign currency is used. It will generate the issue of '**Balance of Payment**'.

Meaning of BoP:- citizen of one country make different international economic behavior or transactions with citizens of other countries. The account of all these transactions is called Balance of payment. So, we can define BoP as a **systematic account of all the economic transactions which are made by residents of country with residents of other countries within a year.**

- In India it is made by RBI for a financial year. BoP is a concept of **short run**. It does not indicate about long term conditions.
- It includes all the transactions made in foreign currency like export and import of visible, export and import of invisible or capital flows.
- It includes all the transactions weather they are made by individuals, business units or government.

Entries of BoP:- in BoP all the international transactions are recorded in 'Credit and Debit' side. Every receipt of international transaction is recorded on Credit side and every payment is recorded on Debit side.

BoP is based on 'Double Entry system'. It means every transaction is recorded on both side (credit and debit sides).

According to accounting rules BoP always remain balanced because BoP is based on 'Double Entry system'. But it means not that all sub accounts will be balanced. Sub accounts may be imbalanced. Any imbalance in BoP indicates that its sub accounts are imbalanced.

Accounts of BoP:- mainly it has 4 accounts.

- 1) Current account
- 2) Capital account
- 3) Error and omissions
- 4) Official reserve account / financial account

Here in this article **BoP is classified in two 2 accounts.** [Official reserve account is shown as a part of 'Capital account'.]

Current Account: - it refers to the account which record all the current transactions of goods, services and unilateral transaction.

Main transactions of this accounts are: -

1. **Export and Imports of goods or visible**
2. **Export and Imports of factor services or income flows** [it includes interest, profit, rent, royalty]
3. **Export and Imports of non-factor services** [it includes banking, insurance, transportation, tourism, purchase by tourists etc.]
4. **Unilateral Transactions** [one sided payments are gifts, grants, donations, aid etc.]

Current account has two parts: -

- Trade account / Visible account: - in this account all the **export and imports of goods or visible** is recorded.
Balance of Trade = Export of Goods – Import of Goods
- Invisible account: - in this account **export and imports of factor services and non-factor services and unilateral transactions** are recorded.
Balance of Invisible = Receipts of [factor services + non-factor services +unilateral transactions]
– Payments of [factor services + non-factor services +unilateral transactions]

[Visible are those which can be recorded at port during export and imports. Invisibles are those which cannot be recorded at port]

Credit Entries (+)	Debit Entries (-)
<ol style="list-style-type: none"> 1. exports of goods 2. transportation, insurance, banking etc. non-factor services exported by domestic companies 3. Factor services exported by doctor, engineer, scientist etc. 4. expenditure by foreign governments on embassies and staff 5. dividend, interest and profit received by domestic residents 6. donation, gifts, remittance etc. received by domestic residents 	<ol style="list-style-type: none"> 1. imports of goods 2. transportation, insurance, banking etc. non-factor services imported by domestic companies 3. Factor services imported by doctor, engineer, scientist etc. 4. expenditure by domestic governments on its foreign embassies and staff 5. dividend, interest and profit received by foreign residents 6. donation, gifts, remittance etc. paid by domestic residents

Balance of Current Account = Balance of Visible/ Trade + Balance of Invisible

Positive current account indicates that country can purchase assets and reduce its liability and vice versa.

Capital Account: - it refers to the account which shows the changes in assets and liability of a country. It means capital account record the flow of debts and investments received and paid.

Main transaction of this accounts are: -

1. Foreign Investments [foreign direct investment + foreign indirect investment]
2. Borrowings [external commercial borrowings + external assistance or concessional loan]
3. Flow of banking capital
4. NRI deposits
5. Short term debt

Credit Entries (+)	Debit Entries (-)
<ol style="list-style-type: none"> 1. Loans received from foreign government 2. Loans received from international institutions like World bank, IMF etc. 3. Foreign investment received 4. Inflow of banking capital 	<ol style="list-style-type: none"> 1. Loans given to foreign government 2. Repayment of Loans taken from international institutions like World Bank, IMF etc. 3. Investment made in foreign 4. Outflow of banking capital

Balance of Capital Account = Receipts in capital account – Payments from current account

Balance of Payment = Current Account Balance + Capital Account Balance +

Error and omissions

Official Reserve Account: - it refers to the foreign exchange reserves held with central bank. Every transaction in official reserve account is to create balance / equilibrium in BoP.

Every transaction in current account and capital account will generate foreign exchange or decrease foreign exchange. So finally, **every transaction will cause a change in foreign exchange reserves.**

Many countries show official reserve account as a separate account but it can be shown as a part of Capital account.

Equilibrium of Balance of Payment: - according to accounting rules BoP always remain balanced but in actuality it may be imbalanced and imbalance will be generated from current account and it will be counter balanced by capital account and official reserve account.

When the sum of Current Account, Capital Account and error and omissions is ZERO then BoP is called balanced or in equilibrium.

But if sum of above is not ZERO then 'Official Reserve Account' is used to make it balanced.

- ❖ **If BoP is in disequilibrium and Positive /surplus:** - it shows that there will be increase in official reserves and inflow of foreign currency.
- ❖ **If BoP is in disequilibrium and negative / deficit:** - it shows that there will be decrease in official reserves and outflow of foreign currency.

Autonomous and Accommodating Transactions/ items: -

Autonomous transactions are those transactions which **take place with the purpose of profit**. They have no meaning with equilibrium of BoP. They are also called '**above the line items**'. All the transactions of 'Current account and Capital account' are Autonomous transactions.

Accommodation Transactions are those transactions which take place to **make BoP in equilibrium**. They are directly related with deficit or surplus of BoP. They are called '**below the line items**'. All the transactions related to use of 'Official Reserve account' are the Accommodating transactions.

Autonomous Transactions	Accommodating Transactions
1. These transactions take place for profit purpose	1. These transactions take place for managing BoP equilibrium.
2. These transactions are responsible for deficit or surplus in BoP.	2. These transactions are responsible for correction deficit or surplus in BoP.
3. These involve movement of goods across the countries.	3. These do not involve movement of goods across the countries.
4. Above the line items.	4. Below the line items.

Balance of Trade	Balance of Payment
1. Export of goods – Import of goods	1. All Receipts in foreign currency – All Payments in foreign currency
2. Smaller/ narrow concept	2. Broad concept[it includes balance of trade]
3. It does not include services, investment, debt etc.	3. It includes all transactions [goods, services, debt, investment]

Case / Source Based Questions: -

I. The balance of payments (BoP) records all economic transactions in goods, services, and assets of the country with the rest of the world for a specified time period, usually a year. In simple terms, it is a systematic accounting balance sheet of the country and includes both debit and credit transactions. BoP is used to monitor all international monetary transactions. All trades conducted by both the private and public sectors are accounted for in the BoP in order to determine how much money is going in and out of the country.

The basic purpose of BoP accounting is to know the strength and weaknesses of the economy. By analysing the BoP accounts of the previous year, you can know the overall gains and losses from international trade.

There are two main accounts in the BoP – the current account and the capital account. The current account records exports and imports in goods, trade in services and transfer payments. The capital account records all international purchases and sales of assets such as money, stocks, bonds, etc. It also includes foreign investments and loans.

The country is said to be in balance of payments equilibrium when the sum of its current account and its non-reserve capital account equals zero so that the current account balance is financed entirely by international lending. The balance of payments deficit or surplus is obtained after adding the current and capital account balances. The decrease in official reserves is called the overall BoP deficit and the increase in reserves is BoP surplus.

Countries with current account deficits can run into difficulties. If the deficit is large and the economy is not able to attract enough foreign investment inflows, the country's currency reserves dwindle. In 1991, India found itself in its worst BoP crisis ever. The inflow of foreign borrowing had increased at a rapid rate during the late 1980s. Coupled with this, high oil prices and excessive domestic spending ballooned into a crisis. India was on the verge of defaulting on its international commitments and was denied access to external credit. The only way out for India was to borrow against the security of its gold reserves. The crisis paved way for the much-needed and long-overdue reforms in the industry and trade policy.

1. Balance of payment account records: -

- a) transactions in goods of the country with the rest of the world
- b) transactions in services of the country with the rest of the world
- c) transactions in assets of the country with the rest of the world
- d) all of above

Ans:- d

2. current account records: -

- a) transactions of goods
- b) lending and borrowings
- c) transactions in assets
- d) all of above

Ans:-a

3. BoP deficit indicates: -

- a) Decrease in official reserves
- b) Increase in official reserves
- c) No change in official reserves

d) None of above

Ans:-a

4. If current account is imbalanced then how it could be balanced: -

- a) Through borrowings and lending
- b) Through imports and exports of factor services
- c) Through remittance
- d) Through imports and exports of goods

Ans:-a

5. Capital account does not include: -

- a) Foreign investments
- b) Borrowings
- c) Exports
- d) NRI deposits

Ans:-c

II. India's [Balance of Payments](#) (BoP) slipped into a deficit of \$16 billion in the January-March quarter of FY22. In the preceding quarter, however, there was a surplus of \$0.47 billion and there was a surplus of \$3.4 billion in the fourth quarter of FY21. The previous time India's BoP was in the deficit was 13 quarters back i.e. the December quarter of FY19 with \$4.3 billion. Also known as the balance of international payments, BoP is a statement of all transactions between entities in one country and the rest of the world over a period of time.

The CAD is the shortfall between the money received by selling products to other countries and spent to buy goods and services from other nations.

For the fourth quarter of FY22, India's [current account deficit](#) (CAD) declined to \$13.4 billion from \$22 billion in the previous quarter. But it jumped more than 60 percent from \$8.1 billion in the fourth quarter of FY21.

A widening [CAD](#) can be inferred as an imbalance in the economy, leading to implications on the domestic currency. For FY22, India's CAD stood at \$38 billion, the highest since FY19 of \$57 billion. The rise was owing to a strong inflationary environment, which led to a rise in the value of imported goods of \$189 billion, the highest since FY13 of \$196 billion when crude oil prices were at \$108 per barrel, similar levels as today.

6. CAD stands for: -

- a) Shortfall in receipts and payments of non-factor services
- b) Shortfall in receipts and payments of factor services
- c) Shortfall in receipts and payments of factor and non-factor services
- d) Shortfall in receipts and payments of current account

Ans:-d

7. Increasing current account deficit can lead rupee: -

- a) Weaken
- b) Stronger
- c) Not affecting value of rupee
- d) None of above

Ans:-a

8. How inflationary conditions can affect CAD: -

- a) Reduces the CAD
- b) increases the CAD
- c) not affecting the CAD
- d) none of above

Ans:-b

9. If prices of crude oil increase, then: -

- a) increases the import bill of the country
- b) reduces the import bill of country
- c) reduces the CAD
- d) reduces the inflation rate

Ans:-a

10. Surplus of current account is: -

- a) Excess of imports over exports
- b) Excess of exports over imports
- c) Excess of current account receipt over payments
- d) Shortfall of current account receipts over payments

Ans:-c

III. Under a floating exchange rate system, the government of a county has no responsibility to peg the foreign exchange rate. The fact that the current and capital account balances do not sum to zero will automatically (in theory) alter the exchange rate in the direction necessary to obtain a

BOP near zero. For example, a country running a sizable current account deficit with the capital and financial accounts balance of zero will have a net BOP deficit. An excess supply of the domestic currency will appear on world markets. As is the case with all goods in excess supply, the market will rid itself of the imbalance by lowering the price. Thus, the domestic currency will fall in value, and the BOP will move back toward zero. Exchange rate markets do not always follow this theory, particularly in the short-to-intermediate term.

countries operating with managed floats often find it necessary to take actions to maintain their desired exchange rate values. They therefore seek to alter the market's valuation of a specific exchange rate by influencing the motivations of market activity, rather than through direct intervention in the foreign exchange markets. The primary action taken by such governments is to change relative interest rates, thus influencing the economic fundamentals of exchange rate determination. A change in domestic interest rates is an attempt to alter capital account balance, especially the short-term portfolio component of these capital flows, in order to restore an imbalance caused by the deficit in current account. The power of interest rate changes on international capital and exchange rate movements can be substantial. A country with a managed float that wishes to defend its currency may choose to raise domestic interest rates to attract additional capital from abroad. This will alter market forces and create additional market demand for domestic currency. In this process, the government signals exchange market participants that it intends to take measures to preserve the currency's value within certain ranges. The process also raises the cost of local borrowing for businesses, however, and so the policy is seldom without domestic critics. For managed-float countries, business managers use BOP trends to help forecast changes in the government policies on domestic interest rates.

11. If BoP is in surplus for a country the exchange rate would: -

- a) Reduce
- b) Increase
- c) Not affect
- d) None of above

Ans:-b

12. If interest rates are increased in domestic market, then how it will affect BoP: -

- a) Increase in foreign exchange inflow and improve BoP
- b) decrease in foreign exchange inflow and improve BoP
- c) Increase in foreign exchange inflow and worse BoP
- d) Decrease in foreign exchange inflow and improve BoP

Ans:-a

13. If a country has BoP deficit, then how it would affect value of domestic currency: -

- a) Depreciate
- b) Appreciate
- c) Not affected
- d) None of above

Ans:-a

14. Change in interest rate in domestic market by government would affect: -

- a) Current account
- b) Capital account
- c) Imports
- d) Exports

Ans:-b

15. Managed floating refers to

- a) Determination of exchange rate by govt.
- b) Determination of exchange rate by market forces
- c) Determination of exchange rate by govt. but interference market forces
- d) Determination of exchange rate by market forces but interference by govt. according to need

Ans:-d

Competency Based Questions: -

16. Disequilibrium in balance of payments leads to:

- a) increase in official reserves with RBI
- b) decrease in official reserves with RBI
- c) both (a) and (b)
- d) none of these

Ans:-c

17. 'Use of official reserve account' is what type of transaction: -

- a) Autonomous transaction
- b) Accommodating transaction
- c) None of above
- d) Both of above

Ans:-b

18. Balance of trade involves: -

- a) All type of transaction in BoP

- b) All type of transactions in current account
- c) All type of transactions in capital account
- d) Export and import of all goods and services

Ans:-d

19. Balance of payments is in disequilibrium when:

- a) current account balance + capital account balance is not equal to zero
- b) current account balance + capital account balance is some positive number
- c) current account balance + capital account balance is some negative number
- d) all of these

Ans:-d

20. The measurement of Balance of Payments deficit is based on: -

- a) Autonomous transaction
- b) Accommodating transaction
- c) Capital account transaction
- d) Current account transaction

Ans:-a

21. Choose the correct statement from given below:

- a) Balance of trade records the exports and imports of invisible items.
- b) A surplus in BoT can rectify the deficit in Bop.
- c) Accommodating items are only recorded in the capital account of the BOP.
- d) Import of machinery will be recorded in the capital account of BoP.

Ans:-c

22. Current account records all payments to rest of the world as _____ and all receipts from rest of the world as _____

- a) Credit, Debit
- b) Debit, Credit
- c) Debit, Debit
- d) Credit, Credit

Ans:-b

23. An Indian real estate company received rent from google in New York. This transaction would be recorded on _____ side of _____ account.

- a) credit, current
- b) debit, capital
- c) credit, capital
- d) debit, current

Ans:-a

24. Calculate the value of current account balance from the following data:

- (i) Export of visible items 125
 - (ii) Import of invisible items 50
 - (iii) Gifts received from rest of the world 75
 - (iv) Transfers paid to rest of the world 100
- a) 50 crore
 - b) 100 crore
 - c) 75 crore
 - d) 80 crore

Ans:-a

25. _____ is the record of inflow and outflow of foreign exchange.

- a) Balance of Payment
- b) Current Account
- c) Capital Account
- d) None of these

Ans:-a

26. Ms. Nikita, an economics teacher was discussing the concepts of following with the students.

“Make in India programme will cause rise in _____ of foreign exchange and hence _____ in the balance of payment situation of the country.”

- a) Supply, degradation
- b) Demand, improvement
- c) Supply, improvement
- d) Demand, degradation.

Ans:-c

27. Calculate the balance of current account from the following data:- (in crores)

- (i) Import of visible items 150
- (ii) Export of invisible items 120
- (iii) Transfers received from rest of the world 50
- (iv) Gifts paid to rest of the world 75
- (v) Export of visible items 200

- a) 95 crores
- b) 145 crores
- c) 200 crores
- d) 150 crores

Ans:-b

28. Find out the value of imports if balance of trade is (-) 1,000 crores and the value of exports is 400 crores.

- a) 1,400 crores
- b) 1,500 crores

- c) 2,000 crores
- d) 2,200 crores

Ans:-a

29. Identify the correctly Matched Pair of items in Column A to that of Column B:

Column A	Column B
1. Investment made by Apple in India	(a)Accommodating Transaction
2. Payment of Loan from IMF	(b)Assimilating Transaction
3. Issuing Bonds to recapitalise banks	(c) Accommodating Transaction
4. Borrowing from World Bank	(d)Autonomous Transaction

- a) 1 – (a)
- b) 2 – (b)
- c) 3 – (c)
- d) 4 – (d)

Ans:-b

30. Identify the correctly Matched Pair of items in Column A to that of Column B:

Column A	Column B
1.Loan from Asian Development Bank	(a) Current Account
2. Investment done in Maldives	(b)Capital Account
3.Remittances given by foreigners	(c) Autonomous Item
4.Selling of Defence Equipment to Vietnam	(d)Accommodating Transaction

- a) 1–(a), 2–(d), 3–(c), 4–(a)
- b) 1–(c), 2–(d), 3–(a), 4–(b)
- c) 1–(a), 2–(c), 3–(b), 4–(d)
- d) 1–(b), 2–(d), 3–(a), 4–(c)

Ans:-d

Objective Type Questions: -

31. Identify which of the following will be included in the Current Account of the Balance of Payments transactions.

- a) Purchase of shares of Tata by Microsoft
- b) Imports of computer spare parts from Australia
- c) Borrowings from World Bank
- d) Purchase of Land in Germany

Ans:-b

32. Invisibles balance refers to:

- a) Exports - Imports
- b) Trade balance + Balance of non-factor services
- c) Balance of non-factor services + Balance of income + Balance of transfers
- d) Exports - Imports + Balance of factor services

Ans:-c

33. Autonomous items are related to those transactions which:

- a) are determined by motive of profit
- b) are not concerned with the equilibrium status of BoP
- c) both (a) and (b)
- d) none of these

Ans:-c

34. Accommodating items are those items of BoP which:

- a) are not determined by considerations of profit
- b) are conditioned by the positive or negative BoP status
- c) lead to increase or decrease in official reserves with RBI
- d) all of these

Ans:-d

35. Which of the following are not included in balance of trade?

- a) Payment of interest and dividend
- b) Expenditure by the tourists
- c) Borrowing from rest of the world
- d) All of these

Ans:-d

36. If the value of visible exports exceeds the value of visible imports, the balance relates to:

- a) current account BoP
- b) capital account BoP
- c) balance of trade
- d) none of these

Ans:-c

37. Unilateral transfers are:

- a) one-sided payments
- b) factor incomes
- c) reciprocal payments
- d) both (a) and (c)

Ans:-a

38. Surplus in BoP occurs when:

- a) receipts = payments
- b) receipts > payments
- c) receipts < payments
- d) all of these

Ans:-b

39. An Indian receives rent from a company in New York. This transaction would be recorded on _____ side of _____ account.

- a) credit, current
- b) debit, capital
- c) credit, capital
- d) debit, current

Ans:-a

40. Balance of Payment records the transactions in goods only between residents of a country with rest of the world for a specified time period.

- a) The above statement is true.
- b) The above statement is false as it should be balance of trade instead of balance of payment.
- c) The above statement is false as Balance of Payment records the transactions in goods and services.
- d) The above statement is false as the Balance of Payment records the transactions in goods, services and assets

Ans:-b

41. Aid provided by a country to another country will come in which of the following accounts of the second country?

- a) Official reserves account
- b) Errors and omissions
- c) Capital account
- d) Current account

Ans:-d

42. The teacher was discussing in the class with students "Foreign exchange transactions which are independent of other transactions in the balance of payment account." Identify the above statement about which type of foreign exchange transactions the teacher is talking about?

- a) Current transactions
- b) Capital transactions
- c) Autonomous transactions
- d) Accommodating transaction

Ans:-c

Short and Long Answer Questions: -

1. Name the broad categories of transactions recorded in the 'current account' of the balance of payments accounts.
- it refers to the account which record all the current transactions of goods, services and unilateral transaction.

Main transactions of this accounts are: -

5. Export and Imports of goods or visible
 6. Export and Imports of factor services or income flows [it includes interest, profit, rent, royalty]
 7. Export and Imports of non-factor services [it includes banking, insurance, transportation, tourism, purchase by tourists etc.]
 8. Unilateral Transactions [one sided payments are gifts, grants, donations, aid etc.]
2. Give the meanings of 'autonomous' transactions and 'accommodating' transactions in the balance of payments accounts.

- **Autonomous transactions** are those transactions which take place with the purpose of profit. They have no meaning with equilibrium of BoP. They are also called 'above the line items'. All the transactions of 'Current account and Capital account' are Autonomous transactions.

Accommodation Transactions are those transactions which take place to make BoP in equilibrium. They are directly related with deficit or surplus of BoP. They are called 'below the line items'. All the transactions related to use of 'Official Reserve account' are the Accommodating transactions.

3. (a) In which sub-account and on which side of balance of payments account will foreign investments in India be recorded? Give reasons. (b) What will be the effect of foreign investments in India on exchange rate? Explain.

- Foreign investments in India will be recorded in the capital account and credit side of the balance of payments account. It impacts the asset-liability status of a country. It will increase supply of foreign currency. Accordingly, supply curve shifts to the right. This causes a fall in equilibrium exchange rate.

4. Distinguish between autonomous transactions and accommodating transactions of balance of payments account.

-

Autonomous Transactions	Accommodating Transactions
5. These transactions take place for profit purpose	5. These transactions take place for managing BoP equilibrium.

6. These transactions are responsible for deficit or surplus in BoP.	6. These transactions are responsible for correction deficit or surplus in BoP.
7. These involve movement of goods across the countries.	7. These do not involve movement of goods across the countries.
8. Above the line items.	8. Below the line items.

9. Distinguish between balance of trade and balance of payment.

Balance of Trade	Balance of Payment
4. Export of goods – Import of goods	4. All Receipts in foreign currency – All Payments in foreign currency
5. Smaller/ narrow concept	5. Broad concept[it includes balance of trade]
6. It does not include services, investment, debt etc.	6. It includes all transactions [goods, services, debt, investment]

10. "A country with trade deficit cannot have current account surplus in its Balance of Payments." Do you agree with the given statement? Discuss with reason.

➤ No. Surplus in current account can arise when the deficit on trade account is less than the surplus on account of invisibles. It means when balance of invisibles is in surplus and greater than the deficit of visible or trade, we will have current account surplus.

11. Name the broad categories of transactions recorded in the 'capital account' of the balance of payments accounts.

➤ it refers to the account which shows the changes in assets and liability of a country. It means capital account records the flow of debts and investments received and paid.

Main transactions of these accounts are: -

6. Foreign Investments [foreign direct investment + foreign indirect investment]

7. Borrowings [external commercial borrowings + external assistance or concessional loan]

8. Flow of banking capital

9. NRI deposits

10. Short term debt

12. What is official reserve account? How does official reserve account is used to create equilibrium in BoP?

➤ it refers to the foreign exchange reserves held with central bank. Every transaction in official reserve account is to create balance / equilibrium in BoP. Every transaction in current account and capital account will generate foreign exchange or decrease foreign exchange. So finally, every transaction will cause a change in foreign exchange

reserves. Many countries show official reserve account as a separate account but it can be shown as a part of Capital account.

according to accounting rules BoP always remain balanced but in actuality it may be imbalanced and imbalance will be generated from current account and it will be counter balanced by capital account and official reserve account.

When the sum of Current Account, Capital Account and error and omissions is ZERO then BoP is called balanced or in equilibrium.

But if sum of above is not ZERO then 'Official Reserve Account' is used to make it balanced.

If BoP is in disequilibrium and Positive /surplus: - it shows that there will be increase in official reserves and inflow of foreign currency.

If BoP is in disequilibrium and negative / deficit: - it shows that there will be decrease in official reserves and outflow of foreign currency.

13. State on which side of capital account/current account will the following transactions be recorded and why: (i) Interest on loan received from Nepal. (ii) Import of mobile phones from China.

- (i) Interest on loan received from Nepal will be recorded in the credit side of current account as it causes inflow of the foreign currency to the home country.
- (ii) Import of mobile phones from China will be recorded in the debit side of current account as it causes outflow of the foreign currency through visible imports.

14. Is improvement in exchange rate of the country's currency always beneficial for BoP?

- Improvement in the exchange rate of a country's currency implies that less rupees are to be paid for a dollar. It points to the relative strength of the Indian rupee in the international market. However, for a developing country like India it is not always desired. It would mean that one US dollar now can buy less Indian goods for a dollar than before, which might cause a cut US demand for the Indian goods. In simple words Indian goods will be expensive in international market. Accordingly, our exports may slide down, adding to BoP deficit.

PART-B INDIAN ECONOMIC DEVELOPMENT

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

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

CH.1 Indian economy on the eve of independence

The sole purpose of the British colonial rule in India was to reduce the country to being a raw material supplier for Great Britain's own rapidly expanding modern industrial base.

The economic policies pursued by the colonial government in India

- ★ Were concerned more with the protection and promotion of the economic interests of their home country
- ★ Such policies brought a fundamental change in the structure of the Indian economy — transforming the country into supplier of raw materials and consumer of finished industrial products from Britain.

Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai estimated India's per capita income during the colonial period

Main causes of India's agricultural stagnation during the colonial period:

- ★ Stagnation in the agricultural sector was caused due to land settlement system
- ★ The main interest of the zamindars was only to collect rent
- ★ Dates for depositing specified sums of revenue were fixed, failing which the zamindars were to lose their rights.
- ★ Low levels of technology, lack of irrigation facilities and negligible use of fertilizers
- ★ India's agriculture was starved of investment in terracing, flood-control, drainage and desalinisation of soil

Some modern industries which were in operation in our country at the time of independence:

- ★ The Tata Iron and Steel Company (TISCO) was incorporated in 1907.
- ★ A few other industries in the fields of sugar, cement, paper

Traditional handicrafts industries were ruined under the British rule

- ★ No corresponding modern industrial base was allowed
- ★ The primary motive of the colonial government behind this policy of systematically industrialisation India was twofold.

1. Reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain.
 2. Turn India into a sprawling market for the finished products of those industries
- ★ Decline of the indigenous handicraft industries created not only massive unemployment in India

British objectives behind the policies of infrastructure development in India / positive contributions made by the British in India:

- ★ Railways fostered commercialisation of Indian agriculture which adversely affected the self-sufficiency of the village economies in India
- ★ Roads and Railways were used to mobilise the military to control the country and to exploit the resources
- ★ The introduction of the electric telegraph in India served the purpose of maintaining law and order.
- ★ The postal services remained inadequate.

Shortfalls of the industrial policy pursued by the British colonial administration

- ★ No modern industrial base was allowed
- ★ There was hardly any capital goods industry to help promote further industrialisation in India
- ★ There was no substitute to the near wholesale 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) or Gross Value Added remained very small
- ★ Very limited area of operation of the public sector

The drain of Indian wealth during the colonial period: The concept given by Dadabhai Naoroji

- ★ The most important characteristic of India's foreign trade throughout the colonial period was the generation of a large export surplus.
- ★ This 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, again fought by the British government, and the import of invisible items, all of which led to the drain of Indian wealth.

The defining year to mark the demographic transition from its first to the second decisive stage: 1921.

India's demographic profile during the colonial period:

- ★ First official census of India was conducted in 1881
- ★ The overall literacy level was less than 16 per cent. The female literacy level was at a negligible low of about seven per cent.
- ★ The overall mortality rate was very high and the infant mortality rate was about 218 per thousand in contrast to the present infant mortality rate of 33 per thousand.
- ★ Life expectancy was also very low—32 years in contrast to the present 69 years.

India's pre-independence occupational structure:

- ★ The agricultural sector accounted for 70-75 percent while the manufacturing and the services sectors accounted for only 10 and 15-20 per cent respectively.

India's most crucial economic challenges at the time of independence:

- ★ The agricultural sector was saddled with surplus labour and extremely low productivity.
- ★ The industrial sector was crying for modernisation, diversification, capacity building and increased public investment.
- ★ Foreign trade was oriented to feed the Industrial Revolution in Britain.
- ★ Infrastructure facilities, including the famed railway network, needed upgradation, expansion and public orientation.
- ★ Prevalence of rampant poverty and unemployment required welfare orientation of public economic policy.

The volume and direction of trade at the time of independence:

- ★ More than half of India's foreign trade was restricted to Britain while the rest was allowed with a few other countries like China, Ceylon (Sri Lanka) and Persia (Iran).
- ★ India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute etc. and an importer of finished consumer goods like cotton, silk and woollen clothes and capital goods like light machinery produced in the factories of Britain.

Competency based questions

Read the given Article carefully and answer the following answers carefully

The British East India Company whose political power gradually expanded in India from 1757 onwards, used huge revenue generated by the provinces under its rule for purchasing Indian raw materials, spices and goods. Thus, the continuous inflow of bullion that used to come into India on account of foreign trade stopped altogether. The Colonial government used land revenue for waging wars in India and Europe leaving little for development of India. In short span of 80 years (1780-1860 AD) under colonial rule, India changed from being an exporter of processed goods for which it received payment in bullion, to being an exporter of raw materials and a buyer of manufactured goods. More specifically, in the 1750s, mostly fine cotton and silk was exported from India to markets in Europe, Asia, and Africa; by 1850s raw materials, which chiefly consisted of raw cotton, opium, and indigo, accounted for most of India's exports. The ruthless exploitation under British colonial rule completely devastated India's economy. India's population was subject to frequent famines, had one of the world's lowest life expectancies, suffered from pervasive malnutrition and was largely illiterate. As per British economist, Angus Maddison India's share of the world income went from 27% in 1700 AD (compared to Europe's share of 23%) to 3% in 1950

Q.1 Name the fine cotton imported from India which gained worldwide fame due to its fine quality.

Ans-Malmal or Malmal shahi

Q.2 What was the two-fold motive behind the systematic deindustrialisation effected by the British in pre-independent India?

The two-fold motive behind systematic deindustrialisation was-

- (a) to an exporter of raw materials
- (b) a buyer of manufactured goods.

Q.3 What was literacy rate and life expectancy during the British period in India?

Ans-16% and 32 years

Q.4 What led to drain of Indian wealth?

The Colonial government used land revenue for waging wars in India and Europe leaving little for development of India. This led to drain of Indian wealth. The drain of wealth theory has been described as the constant flow of national wealth from India to England for which India did not get adequate economic, commercial or material return.



Q.1 What are the two water bodies connected by Suez Canal?

Ans-Red Sea and Mediterranean Sea

Q.2 When did Suez Canal start working?

Ans-1869

Q.3 what was strategic importance of opening of Suez Canal?

Strategically and economically, it is one of the most important waterways in the world. Its opening in 1869 reduced the cost of transportation

Q.4 how did opening of Suez canal benefit British in India?

Ans- The opening of the Suez Canal made access easy and cheap to the Indian market further intensified British control over India's foreign trade.

Reason -assertion based questions

Read the following statements: Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Q1. Assertion (A): India became an exporter of primary products and an importer of finished consumer and capital goods produced in Britain.

Reason (R): 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.

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).

Q2. Assertion (A): India became an exporter of primary products and an importer of finished consumer and capital goods produced in Britain.

Reason (R): 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.

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).

Q3. Assertion (A): The economic condition of farmers under British rule improved a lot.

Reason (R): Commercialization of agriculture took place under British rule.

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-(D) Assertion (A) is False but Reason (R) is true

Q4. Assertion (A): Britishers destroyed the indigenous handicraft market in India.

Reason (R): India was made market for British manufactured 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).

Q5. Assertion (A): During British rule, the production of cash crops improved the economic condition of farmers.

Reason (R): Farmers were given higher prices to produce cash crops.

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 - D Assertion (A) is False but Reason (R) is true

Q6. Assertion (A): During British rule, India saw a huge drain of wealth.

Reason (R): India generated a large export surplus during the period.

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

Q7. Assertion (A): Indian was an export deficit country under British rule.

Reason (R): India's foreign exchange earning was used by Britishers.

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 -D) Assertion (A) is False but Reason (R) is true.

Q8. Assertion (A): During the British colonial rule in India, Britishers built roads extensively to cover the nation.

Reason (R): Roads were built by Britishers primarily to mobilise army.

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 -D) Assertion (A) is False but Reason (R) is true.

Q9. Assertion (A): Decline of Handicraft Industry led to increase in import of manufactured goods to India.

Reason (R): The Indian-made goods could not withstand the foreign competition of machine-made cheap goods.

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).

Q10. Assertion (A): The infrastructure facilities during British rule were highly developed.

Reason (R): The main aim motive behind infrastructural development was to serve various colonial interests.

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 - d) Assertion (A) is False but Reason (R) is true

Q11. Assertion (A): Nearly 85 percent of the workforce was engaged in the agriculture sector under British rule.

Reason (R): Bombay and Bengal witnessed a decline in the workforce dependent on agriculture.

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).

Q12. Assertion (A): The commercialization of agriculture helped farmers in improving their economic condition.

Reason (R): Instead of producing food crops, now they were producing cash crops which were to be ultimately used by British industries back home.

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 -D) Assertion (A) is False but Reason (R) is true

Q13. Assertion (A): The agricultural sector accounted for the largest share of the workforce with approximately 85%.

Reason (R): All the states witnessed an increase in the dependence of the workforce on the agricultural sector.

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) Assertion (A) is true but Reason (R) is False

Q14. Assertion (A): India developed a sound industrial base under colonial rule.

Reason (R): The country's world-famous handicraft industries declined.

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 -D) Assertion (A) is False but Reason (R) is true.

Q15. Assertion (A): Per capita income is national income divided by the total population of the country

Reason (R): India's per capita income was very low at the time of independence.

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).

Q16. Assertion (A): During the second half of the 19th century, the modern industry began to take root in India.

Reason (R): Initially, this development was confined to the setting up of cotton and jute textile mills. Subsequently, the iron and steel industries began coming up at the beginning of the 20th century. A few other industries in the fields of sugar, cement, paper, etc. came up after the Second World War.

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).

Q17. Assertion (A): The opening of the Suez Canal in 1869 reduced the cost of transportation.

Reason (R): Suez Canal provided a direct trade route for ships operating between Britain and India.

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).

Q 18. Assertion (A): The restrictive policies of commodity production, trade, and tariff pursued by the colonial government adversely affected the structure and composition of India's foreign trade.

Reason (R): India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute, etc, and an importer of finished consumer goods like cotton, silk, and woollen clothes and capital goods like light machinery produced in the factories of Britain.

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).

Q19. Assertion (A): Dadabhai Naroji was the first who, estimated national income under British rule.

Reason (R): Per capita output increases meagre half percent per year.

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).

Q 20. Assertion (A): India's foreign trade during the colonial period generated a large export surplus. But it came at a huge cost to the country's economy.

Reason (R): The essential commodities like food grains, clothes, kerosene, etc. were scarcely available in the domestic market. Secondly, the export surplus did not result in any flow of gold or silver into India. Rather, this was used to meet war expenses, payment for imports of invisible items, etc. by the British Government (leading to the drain of India's wealth)

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).

Multiple choice questions

Q.1 Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I

Column – I	Column – II
i) Motive of the British de-industrialization	a) To serve various colonial interests, like mobilizing the army shifting raw materials
ii) Motive of British behind infrastructural development	b) To use export surplus to make payments for expenses incurred by an office set up by the colonial government in Britain, to meet expenses on war fought by the British government and to import invisible items.
iii) Motive of the British behind monopoly control over India's exports and imports	c) To get raw materials from India at cheap rates and to sell finished British products in India at higher prices.

a) i) – a), ii) – b), iii) – c)

b) i) – b), ii) – a), iii) – c)

c) i) – c), ii) – c), iii) – b)

d) i) – c), ii) – a), iii) – b)

answer-d

Q,2 Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column i.

Column – I	Column – II
a) Opening of Suez Canal	i) 1757
b) First Railway Bridge linking Bombay with Thane	ii) 1869
c) Battle of Plassey	iii) 1907
d) Setting up of TISCO	iv) 1853

Options

a) i), ii), iii), iv)

b) ii), iv), i), iii)

c) ii), iii), iv), i)

d) i), iv), ii), iii)

Ans – b)

Q.3 Identify the correct pair from Column I and Column II and choose the correct alternative:

Column (A)	Column (B)
A – Tata Iron and Steel Industry	i) Established in 1907
B – Land settlements	ii) Introduced by the money lenders
C – Suez Canal	iii) Artificial waterway running from south to north
D – Introduction of railways in India	iv) 1850

Options

a) A – i)

b) B – (ii)

c) C – (iii)

d) D – (iv)

Ans-d

Q.4 Identify the correct pair from Column I and Column II and choose the correct alternative:

Column – I	Column – II
A – British rule in India	i) Almost one and a half century
B – Growth was low under British rule	ii) Only half percent increase in GDP
C – First to estimate GDP under British rule	iii) Dadabhai Naoroji
D – French traveller describe about	iv) Punjab

Options

- a) A – i) b) B – ii)
 c) C – iii) d) D – iv)

Answer-c

Q.5 Identify the correct pair from Column I and Column II and choose the correct alternative:

Column – I	Column – II
A – Some progress in the agriculture sector	i) Under irrigation
B – Low productivity	ii) Commercialization of agriculture
C – Sound base under colonial rule	iii) Industrial sector
D – Suez Canal UK to India	iv) Through Bay of Bengal

Options

- a) A – (i) b) B – (ii)
 c) C – (iii) D) d – (iv)

Ans – a

Q.6 Identify the correct pair from Column I and Column II and choose the correct alternative:

Column – I	Column – II
A – Infant mortality rate under British rule	i) 175 per thousand
B – Public sector role under British rule in the industrial sector	ii) Limited
C – Public health facilities	iii) Sufficient
D – Overall mortality rate	iv) Higher than infant mortality rate

Options

- a) A – (i) b) B – (ii)
 c) C – (iii) d) D – (iv)

Ans – b)

Q.7 identify the correct pair from Column I and Column II and choose the correct alternative:

Column – I	Column – II
A – Backward	i) Having all the resources
B – Depleted	ii) Devoid of resources
C – Stagnant	iii) Increase in per capita income
D – Mortality Rate	iv) Death of infants per thousand

Options

- a) A – (i) b) B – (ii)
 c) C – (iii) d) D – (iv)

Ans – b)

Q.8 What was the growth rate of per capita income in India on the eve of Independence?

- (A) 0.9%
 (B) 0.5%
 (C) 1.2%
 (D) 3%

Ans- B

Q.9 Where was the first iron and steel company established?

- (A) Kolkata
- (B) Jamshedpur
- (C) Patna
- (D) Ranchi

Ans-b

Fill in the blanks: -

Q.1 The country's growth of aggregate real output was less than _____ during the first half of the twentieth century.

Ans-2%

Q.2 The Indian economy was a/an _____ economy at the time of independence

Ans-Agrarian

Q.3 _____ of agriculture increased the burden of revenue on farmers

Ans-commercialisation

Q. 4 The distribution of the working population in different sectors of the economy offers a glimpse of _____ structure.

Answer: occupational

Q.5 The second stage of demographic transition began after _____ in India.

Ans-1921

Q.6 _____ were developed by the British raj as a means to enlarge the size of the market for the British goods.

Ans Railways

Q.7 The British introduced the railways in India in _____

Ans-1850

Q.8 The _____ sector accounted for 17.2 percent of the working population on the eve of Independence.

Ans-services sector

Q.9 India's first official census was undertaken in _____

Ans-1881

True /false

State whether the following statements are true or false.

Q.1 India was a prosperous and wealthy economy prior to the advent of British rule

Ans-true

Q.2.The colonial rule destroyed India's traditional handicraft industry.

Ans- true

Q.3.The economic policies pursued by the colonial government in India were concerned more with the protection and promotion of the economic interests of India.

Ans-false

Q. 4. India was reduced to an importer of primary products.

Ans-true

Q.5.Land settlement introduced by the colonial government resulted in stagnation in the agricultural sector.

Ans-true

Q.6.The contribution of the new industrial sector to the Gross Domestic Product (GDP) expanded significantly during British rule

False

Q.7.The secondary sector accounted for only 10.1 percent of the working population on the eve of independence.

Ans-true

Q.8. British colonial rule positively affected the structure, composition, and volume of India's foreign trade.

Ans- false

Q.9. Before 1921, India was in the second stage of demographic transition.

false

Q.10. The aim of developing postal and telegraph was to enhance the efficiency of British administration

Ans- true

Long type question answer

Answer the following questions

Q.1 What was the basic objective of developing various infrastructure facilities by British government in India?

Under the colonial regime, basic infrastructure such as railways, ports, water transport, posts and telegraphs did develop. However, the real motive behind this development was not to provide basic amenities to the people but to subserve various colonial interests.

Q.2 Explain some of the infrastructural developments by British government in India and how did it affect Indian people and economy?

Following infrastructural development were done by British in India: -

- (1) Roads constructed in India prior to the advent of the British rule were not fit for modern transport. The roads that were built primarily served the purposes of mobilising the army within India and drawing out raw materials from the countryside to the nearest railway station or the port
- (2) There always remained an acute shortage of all-weather roads to reach out to the rural areas during the rainy season. Naturally, therefore, people mostly living in these areas suffered grievously during natural calamities and famines.
- (3) The British introduced the railways in India in 1850 and it is considered as one of their most important contributions. It affected India in two ways: -
 - (a). **On the one hand** it enabled people to undertake long distance travel and thereby break geographical and cultural barriers
 - (b) **On the other hand**, it fostered commercialisation of Indian agriculture which adversely affected the self-sufficiency of the village economies in India. The volume of India's exports undoubtedly expanded but its benefits rarely accrued to the Indian people. The social benefits, which the Indian people gained owing to the introduction of the railways, were thus outweighed by the country's huge economic loss.
- (3) The inland waterways, at times, also proved **uneconomical** as in the case of the Coast Canal on the Orissa coast. Though the canal was built at a huge cost to the government exchequer, yet, it failed to compete with the railways, and had to be ultimately abandoned.
- (4) The introduction of the expensive system of electric telegraph in India, similarly, served the purpose of maintaining law and order.
- (5) The postal services, on the other hand, despite serving a useful public purpose, remained all through inadequate.

Q.3 what was the state of Indian agriculture during the British period? How did various land settlement systems affect agriculture?

Despite being the occupation of a large population (about 85 per cent), the agricultural sector continued to experience **stagnation**. This stagnation in the agricultural sector was caused mainly because of the various systems of **land settlement** that were introduced by the colonial government. These land settlement systems affected Indian agriculture in following ways: -

- (1) the profit accruing out of the agriculture sector went to the zamindars instead of the cultivators. However, the colonial government, did nothing to improve the condition of agriculture.
- (2) The main interest of the zamindars was only to collect rent regardless of the economic condition of the cultivators; this caused **immense misery** and social tension among the latter.
- (3) the **terms of the revenue settlement** were also responsible for the zamindars adopting such an attitude; dates for depositing specified sums of revenue were fixed, failing which the **zamindars were to lose their rights**.

Q.5 What do you mean by export surplus? how was it generated during British period? what was its effect on Indian economy?

Ans- When exports of a country are more than its imports it is known as **Export Surplus**. During the British period this surplus came at a huge cost to the country's economy. Several essential commodities—food grains, clothes, kerosene etc were scarcely available in the domestic market. this export surplus did not result in **any flow of gold or silver into India**. it was used to make payments for: -

- (a) the expenses incurred by an office set up by the colonial government in Britain
- (b) expenses on war fought by the British government
- (c) the import of invisible items, all of which led to the **drain of Indian wealth**.

Q.6 What do you mean by commercialisation of agriculture? did it really benefit Indian farmers during the colonial rule?

Ans growing of cash crops is known as instead of food crops is known as commercialisation of agriculture. But it didn't really benefit Indian farmers because: -

- (1) this could hardly help farmers in improving their economic condition as, instead of producing food crops, they started producing cash crops which were ultimately used by British industries.
- (2) Despite some progress made in irrigation, India's agriculture was starved of investment in terracing, flood-control, drainage and desalinisation of soil.
- (3) though a small section of farmers changed their cropping pattern from food crops to commercial crops, a large section of tenants, small farmers and sharecroppers neither had resources and technology nor had incentive to invest in agriculture.

Q.6 Mention some of the regional variations on account of structural composition of Indian economy?

Ans- 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.

- (1) There was growing regional variation in some parts of India as there had been an increase in the share of workforce in agriculture in states such as Orissa, Rajasthan and Punjab.

(2) On the other hand, the then Madras Presidency, 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.

Q.7 What was the impact of industrial revolution of Great Britain on Indian handicraft industry?

Prior to the industrial revolution, India had an internationally acclaimed cotton textile industry which was exported to different parts of the world including Europe, Middle East and the Americas among others. After the Industrial Revolution, Britain started producing machine-made goods and textiles that were much cheaper than the Indian goods. They were also often better in quality. Indian handicrafts slowly died because they could not compete against the cheaper products from Britain that were flooding the Indian markets.

Q.8 What is capital goods industry? How was capital goods industry developed during the British period?

Ans-Capital goods industry means industries which can produce machine tools which are used for producing articles for current consumption. There was hardly any capital goods industry in India during colonial period to help promote further industrialisation in India.

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. The growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small.

One of the significant drawbacks 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.

Q.9) Discuss three principal causes of backwardness of the Indian economy at the time of independence.

Ans) Principal causes of backwardness of the Indian economy at the time of independence are:

- (1) India was treated as a colony which served as a source of raw material to British industry and their finished goods. Apart from this the British had no interest in development of the country.
- (2) Destruction of Indian handicrafts by the British proved detrimental to the Indian economy
- (3) Land revenue policy followed by the British exploited the farmers which led to their object poverty and backwardness.

Q.10 Explain the effects of decline of Indian handicraft industry on Indian economy.

- (1) **Massive unemployment-** competition with machine made cheap, decreased supply of locally made goods. the decline of the indigenous handicraft industries created massive unemployment among Indian handicraft workers.
- (2) **burden on agriculture-**handicraft workers who lost their work due to decline in demand of their product, were forced to become landless labours and this increased pressure on Indian agriculture.
- (3) **encouragement to import of cheap manufactured goods-** presence of cheap machine-made goods created new demand in the Indian consumer market This demand of machine-made cheap goods was profitably met by the increasing imports of cheap manufactured goods from Britain.

CH.2 INDIAN ECONOMY 1950–1990

Nehru, and many other leaders and thinkers of the newly independent India combined the best features of socialism with a strong public sector but also with private property and democracy. The economy with the private sector being encouraged to be part of the plan effort.

The 'Industrial Policy Resolution' of 1948: the first one.

In 1950, the Planning Commission was set up with the Prime Minister as its Chairperson.

On 13 August 2014, the Union Cabinet scrapped the Planning Commission.

Formation of NITI Aayog on 1 January 2015 With the Prime Minister as the Chairperson

GOALS OF FIVE YEAR PLANS

Growth:

- ★ It refers to increase in the country's capacity to produce the goods and services.
- ★ It implies a larger stock of productive capital, larger size of supporting services like transport and banking etc.
- ★ It also means an increase in the efficiency of productive capital and services.
- ★ A good indicator of economic growth is steady increase in the Gross Domestic Product (GDP).
- ★ It is necessary to produce more goods and services if the people of India are to enjoy a more rich and varied life.

Modernisation :

- ★ To increase the production of goods and services the producers have to adopt new technology.
- ★ Adoption of new technology is called modernisation.
- ★ Modernisation does not refer only to the use of new technology but also to changes in social outlook such as the recognition that women should have the same rights as men.
- ★ A modern society makes use of the talents of women in the work place — in banks, factories, schools etc. — and such a society in most occasions is also prosperous.

Self-reliance:

- ★ It means a nation can promote economic growth and modernisation by using its own resources.
- ★ It also means avoiding imports of those goods which could be produced in India itself.
- ★ This policy was considered a necessity in order to reduce our dependence on foreign countries, especially for food.
- ★ It is understandable that people should give importance to self-reliance.
- ★ It was feared that dependence on imported food supplies, foreign technology and foreign capital may make India's sovereignty vulnerable to foreign interference in our policies.

Equity:

- ★ A country can have high growth, the most modern technology developed in the country itself, and also have most of its people living in poverty.
- ★ It is important to ensure that the benefits of economic prosperity reach the poor sections
- ★ So, in addition to growth, modernisation and self-reliance, equity is also important.

- ★ Every Indian should be able to meet his or her basic needs in the distribution of wealth should be reduced.

Need and type of land reforms implemented in the agriculture sector

Need: The low productivity of the agricultural sector because of Low levels of technology, lack of irrigation facilities and negligible use of fertilizers and land settlement system forced India to adopt land reforms.

Type: land reforms primarily refer to change in the ownership of landholdings. It includes:

- ★ Abolition of intermediaries and to make the tillers the owners of land
- ★ Land ceiling to promote equity in the agricultural sector. This means fixing the maximum size of land which could be owned by an individual
- ★ Consolidation of land holdings
- ★ Tenancy reforms: regulation of rent, provide security of tenure and conferring ownership to tenants

The Green Revolution: (1966-67) 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. It includes the use of fertiliser and pesticide in the correct quantities as well as regular supply of water.

Drawbacks of green revolution:

- ★ The use of HYV seeds was restricted to the more affluent states such as Punjab, Andhra Pradesh and Tamil Nadu.
- ★ Further, the use of HYV seeds primarily benefited the wheat growing regions only.
- ★ It increased the disparities between small and big farmers—since only the big farmers could afford the required inputs
- ★ The HYV crops were also more prone to attack by pests

Benefits of green revolution:

- ★ Large amounts of agricultural produce sold in the market by the farmers. (The portion of agricultural produce which is sold in the market by the farmers is called marketed surplus).
- ★ The price of food grains declined
- ★ The low income groups, who spend a large percentage of their income on food, benefited
- ★ The government procured food grains to build a buffer stock which ensured food security

NEW AGRICULTURAL STRATEGY:

- ★ GREEN REVOLUTION
- ★ CROP ROTATION AND MULTI CROPPING
- ★ EXTENDED IRRIGATION
- ★ MODERN FARM MACHINERY
- ★ MSP POLICIES
- ★ AGRICULTURAL RESEARCH AND INSTITUTIONS
- ★ FARM PROTECTION AND INSURANCE SCHEMES

Industry:

Sectoral Composition: Share of Primary, Secondary and Tertiary sector in the GDP.

Leading role to public sector and IPR- 1956

Why Public Sector:

- ★ Private sector was not big enough to meet the investment requirements of the country.
- ★ The market was not so big to encourage the private sector to invest in big projects.
- ★ Government wanted to control the economy.

IPR- 1956 (three categories of industries)

- ★ Fully state owned (Schedule A).
- ★ Private sector permitted as a supplementary role (Schedule B).
- ★ For the private sector but under a compulsory license system even for expansions and product diversification (Schedule C).

INDUSTRIAL LICENSING (private sector regulated under the IPR 1956)

- ★ Category of industries left to the private sector (Schedule C):
- ★ The sector was kept under state control through a system of licenses.
- ★ To open new industry or to expand production, a license from the government was necessary.
- ★ Opening new industries in backward areas were promoted through easy licensing and subsidization of electricity and water.
- ★ Licenses to increase the production were issued only if the government was convinced that the economy required more of the goods

Increasing share of service sector in GDP:

As the economy develops the need for different types of services such as transportation, banking, insurance, education, medical and health, telecommunication etc. increases.

FOREIGN TRADE

- ★ **1952 to 1957:** exports were encouraged by removal or relaxation of some export restrictions. Liberalisation of imports led to a tremendous increase in imports.
- ★ **1956-57 to 1965-66:** shortage of foreign exchange and deficit trade balance. Import substitution policy suffered fundamental drawbacks.
- ★ **1965-66 to 1975-76:** increased allocation of raw materials to export-oriented industries, income tax relief on export earnings, export promotion through import entitlement.
- ★ **1975- 76 to 1990-91:** adoption of liberal import policy and balancing import liberalisation with export promotion

CASE STUDY

Read the following passage and answer the questions (1 to 4)

Industrial policy resolution 1956 was the clear declaration of the government on the leading role of public sector in the process of industrialization. This resolution laid the roadmap of second five-year plan also. In IPR-1956, industries were classified into three categories. Public sector was given primary role in the industrial development of the country. Industries in the private sector could be established only through a license from the government. Main idea of industrial licensing was to encourage industries in the backward regions of the country. Private sector was offered many types of industrial concessions for establishing industries in backward regions like tax holidays and subsidized power supply. Karve committee (1955) also focused on the role of small-scale industries to achieve the goal of industrial

development. As far as possible, domestic industries were protected from the foreign competition. Protection was provided through: heavy imports tariffs and by fixing import quotas.

Questions:

1. Rapid industrialization was the objective of which five-year plan?

Ans. Rapid industrialization was the objective of second five year plan.

2. Which sector was given primary role on the process of industrial development of the country?

Ans. Public sector

3. What is the objective of licensing policy?

Ans. Main objective of industrial licensing was to encourage industries in backward regions.

4. How domestic industries were protected from foreign competition?

Ans. Protection to domestic industries was provided by increasing tariff rates and fixing import quotas

CASE STUDY

Read the following passage and answer the questions (5 to 8)

For overall economic development of the country government needs to focus on the development of agriculture sector as 49% of the population is engaged in primary sector. Green revolution was one such initiative taken by the government which has increased the production of food grains like wheat and rice. Green revolution was possible due to the use of HYV seeds, irrigation facilities and fertilizers. This made India not only self-reliant but also helped it to become an exporter of food grains. But effects of Green Revolution were more prominent in few states like Punjab, Haryana and Tamil Nadu. It widened the gap between rich and poor in the ruler India.

Questions:

5. Identify the element which is not related with green revolution.

a) Improved seeds c) New strategy for agriculture b) Fertilizers d) Increase in population

Ans. increase in population

6. Use of (HYV/HVY/Organic) seeds were promoted in green revolution. *Ans.* HYV seeds

7. Green revolution was comparatively more successful in which states?

Ans. Punjab, Haryana and Tamil Nadu

8. Indian economy is marching towards progress but there is a need of improvement in

(primary/secondary/tertiary) sector. *Ans.* Primary sector

Read the following statements-Assertion (A) and Reason(R) . Choose one of the correct alternatives given below.

a) Both Assertion and Reason are true and Reason is correct explanation of the Assertion.

b) Both Assertion and Reason are true but Reason is not correct explanation of the Assertion.

c) Assertion is true but Reason is false.

d) Assertion is false but reason is true.

9. **Assertion (A)** During the British rule, India saw huge drain of wealth.

Reason (R) India generated large export surplus during colonial period. *Ans. b*

10. **Assertion (A)** The major policy initiatives like land reforms and green revolution helped India to become self-reliant in food grains productions

Reason (R) The proportion of people depending on agriculture did not decline as expected. *Ans. b*

11. **Assertion (A)** Planning was seen as a way to give Indian economy a boost of investment and growth.

Reason (R) The British rule had left the Indian economy in a stagnant economy. *Ans. a*

12. **Assertion (A):** To increase foreign trade, government should resort to reducing tariff rates, giving credit facilities to the exporters and provide them better infrastructural facilities.

Reason (R): Foreign Trade boost economy of the country. *Ans. a*

CASE STUDY

Read the following case study and answer the given questions (13 to 16)

The performance of Indian economy during the period of first seven five year plans (1950-1990) was satisfactory if not very impressive. On the eve of independence, India was an industrially backward country, but during this period of first seven plans our industries became far more diversified, with the stress being laid on the public investments in the industrial sector. The policy of import substitution led to protection of the domestic industries against the foreign producers but we failed to promote a strong export surplus. Although public sector expanded to a large extent but it could not bring desired level of improvement in the secondary sector. Excessive government regulations prevented the natural trajectory of growth of entrepreneurship as there was no competition, no innovation and no modernisation on the front of the industrial sector. Many Public Sector Undertakings (PSUs) incurred huge losses due to operational inefficiencies, red tapism, poor technology and other similar reasons. These PSU's even continued to function because it was difficult to close a government undertaking even if it is a drain on country's limited resources. On the agricultural front, due to the measures taken under the Green Revolution, India more or less became self-sufficient in the production of food grains. So the need for reforms of economic policy was widely felt in the context of changing global economic scenario to achieve desired growth in the country.

Questions:

13. Which of the following was not a reason for the public sector to play a major role in the initial phase of Indian economic planning?

- (a) lack of sufficient capital for investment with Private entrepreneurs
- (b) Government aimed for social welfare
- (c) **The market was big enough to encourage private industrialists for investment**
- (d) The government wanted to protect the domestic producers from foreign competition

Ans. C

14. Inward looking trade policy aimed at :

- (a) Substituting imports with domestic production
- (b) Substituting exports of consumer goods with capital goods
- (c) Follow an open economy model
- (d) Restrictions on movement of currency flows Ans. a

15. Mechanisation of the Indian agriculture was one of the cause of Green Revolution in India. The given statement is

- (a) True (b) False
- (c) Partially true (d) Partially false Ans. a

16. **Assertion (A)** Many public sector undertakings incurred huge losses due to operational inefficiencies.

Reason R) Red tapism was one of the reasons for continuation of such enterprises. 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, but 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

Ans. a

17. Select the correct combination between the following columns.

Column A

- A. Tariff
- B. Quota
- C. Make in India
- D. Trade policy

Column B

- (i) Increase manufacturing sector growth
- (ii) Policy governing international trade
- (iii) Tax on imported goods
- (iv) Quantitative restriction on imports

A B C D

(a) (iv) (iii) (ii) (i)

(c) (iv) (ii) (iii) (i)

A B C D

(b) (iii) (iv) (i) (ii)

(d) (iii) (iv) (ii) (i) Ans. b

18. -----refers to the designing and shaping the socio-economic processes in such a way so as to achieve an objective.

- (a) Economic Growth
- (b) Economic Development
- (c) **Economic Planning**
- (d) Economic Process

Ans. c

19. -----implies setting up an upper limit of the land that could be owned by a land owner.

- (a) **Land ceiling**
- (b) Land fragmentation
- (c) Land quota
- (d) Land restriction

Ans. a

20. Make the correct combination between the following columns

Column A	Column B
A. Land ceiling	(i) Increase in the production of food gains using high yielding variety seeds.
B. Land reforms	(ii) Portion of agricultural produce sold in the market.
C. Green revolution	(iii) Fixing the maximum limit of land holding for an individual.
D. Marketed surplus	(iv) Change in the ownership of land (land to tillers)

A	B	C	D	A	B	C	D			
a	(iii)	(iv)	(i)	(ii)	b	(i)	(ii)	(iii)	(iv)	
c	(iv)	(ii)	(iii)	(i)	d	(ii)	(i)	(iv)	(iii)	Ans. a

21. Which sector received top most priority in the first five year plan in India?

- (a) Secondary (b) Service (c) Agriculture (d) All sectors *Ans. c*

22. After independence many political leaders favoured capitalism for India. The given statement is

- (a) True (b) False
(c) Partially true (d) Can't comment *Ans. b*

23. Which one is the primary objective of economic planning in context of India?

- (a) Balanced regional development (b) Reduction in poverty
(c) Growth with social justice (d) Reducing inflation *Ans. c*

24. Post-independence, India has always focused to become a self-sufficient or a self-reliant nation. In the present era this goal has been termed as

- (a) Safal Bharat (b) Kaushal Bharat (c) Atmanirbhar Bharat (d) Apna Bharat *Ans. c*

25. Which of the following is incorrect with regard to the goals of five year plans in India?

- (a) An increase in the country's production capacity
(b) Change in the socio-economic outlook
(c) Building an industrial economy with widening wage-parities
(d) Ensuring the fruits of development is reaped by all *Ans. c*

26. Land reform measures were successful in which of the given states?

- (a) Punjab and Haryana (b) Maharashtra and West Bengal
(c) Uttar Pradesh and Madhya Pradesh (d) Kerala and West Bengal *Ans. d*

27. Arrange the following events in chronological order in context on Indian Economy

- (i) Introduction of second phase of green revolution
(ii) Setting up of Karve Committee for encouraging rural development
(iii) Setting up of Planning Commission
(iv) Introduction of the New Economic Policy

a	(iii)	(iv)	(i)	(ii)	b	(i)	(ii)	(iii)	(iv)	
c	(iv)	(ii)	(iii)	(i)	d	(iii)	(ii)	(i)	(iv)	<i>Ans. d</i>

28. Achieved growth rate has always been higher than the expected growth rate during 1950-1990. The given statement is

- (a) True (b) False (c) Partially true (d) Can't say. *Ans. b*

29. 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) Terrace cropping *Ans. c*

30. Which of the given statements explain the major hurdles faced by the land reform and the land ceiling legislation?

38. Protection from foreign competition enabled the establishment of which particular indigenous industry?

- (a) Electronics and Petrochemicals (b) Electronics and Telecommunications
(c) Electronics and Automobiles (d) Electronics and Chemicals *Ans. c*

39. Which were the major industrial concessions as provided by the government in order to bring about balanced regional development?

- (i) Tax holiday for the newly established units in backward regions.
(ii) Supply of power at concessional rates
(iii) Provision of cheap labour and technology
(iv) Support from the government towards using more capital intensive techniques
(a) (ii) and (iii) (b) (i) and (iv)
(c) (i) and (ii) (d) (iii) and (iv) *Ans. c*

40. In 1955, Karve committee was constituted for aiming the

- (a) Promotion of rural development using small scale industries
(b) Promotion of agriculture using modern inputs
(c) Promotion of banking services through higher infrastructural support
(d) Promotion of land settlement system with modifications in the existing norms *Ans. a*

CASE STUDY

Read the following case study and answer the given questions(41 to 44)

The Green Revolution started in 1965 with the first introduction of HYV seeds in Indian agriculture. This was coupled with better and efficient irrigation and the correct use of fertilizers to boost the crop. The end result of the Green Revolution was to make India self sufficient when it came to food grains.

After 1947 India had to rebuild its economy. Over three-quarters of the population depended on agriculture in some way. But agriculture in India was faced with several problems. Firstly, the productivity of grains was very low. And India was still monsoon dependent because of lack of irrigation and other infrastructure.

There was also an absence of modern technology. And India had previously faced severe famines during the British Raj, who had only promoted cash crops instead of food crops. The idea was to never depend on any other country for food sufficiency. So in 1965, the government with the help of Indian geneticists M.S. Swaminathan, known as the father of Green Revolution, launched the Green Revolution. The movement lasted from 1967 to 1978 and was a great success.

- 41.** The share of agriculture in India's national income has _____ over the years.
a. remained constant. **b. decreased.** c. increased. d. first decreased and then increased.
- 42.** The green revolution is also known as
a. wheat revolution. b. rice revolution. c. maize revolution. d. forest revolution.
- 43.** Which of the following is incorrect?
a. Special schemes have been started to promote export of agro-products.
b. India has been a big importer of food grains especially since 1990s.
c. High yielding varieties programme has resulted in improvement in production and productivity of food grains in India.
d. None of the above.
- 44.** In absolute terms, the number of people engaged in agricultural activities over the planning period has
a. remained constant. b. increased. c. decreased. d. first increased and then decreased.
- 45.** Mahalanobis model stressed upon the establishment of
a. consumer goods industries. b. export oriented industries.
c. agro-based industries. **d. capital and basic goods industries.**
- 46.** Three steel plants in Bhilai, Rourkela and Durgapur were set up in the

- a. First plan. **b. Second plan.** c. Third plan. d. Fourth plan.

47. Which of the following statements is correct?

- a. Under zamindari system, farmers directly paid land revenue to the state.
b. At present, income tax revenues from the agriculture sector are negligible.
c. Commercial banks are providing loans to the agriculture sector at zero interest rate.
d. None of the above.

48. Abolition of intermediaries and tenancy reforms are both parts of

- a. industrial reforms in India. b. external sector reforms in India.
c. land reforms in India. d. banking reforms in India.

49. Which of the following has resulted in failure to achieve targets of industrial production?

- a. Poor planning .b. Power, finance and labour problems.
c. Technical complications. **d. All of the above.**

50. Which of the following statements is correct?

- a. A large number of industries face under utilization of production-capacity.**
b. The incremental capital -output ratio has been falling over the planning period.
c. In terms of regions, industrial development is quite balanced.
d. None of the above

51. Why did India opt for mixed economy?

52. Discuss the role of small-scale industries in the generation of employment?

53. State the meaning of import substitution. Explain how import substitution can protect the domestic industries.

54. Why there was a need for protection of small-scale industries? State the steps undertaken by the government for their growth.

55. How did government ensure that the small farmers also benefit from the Green Revolution?

56. Green Revolution experienced the success in two phases." Comment.

57. Discuss any three achievements of Green Revolution.

58. How were the industries classified according to the Industrial Policy Resolution 1956?

59. Define the following terms: (a) Import Substitution; (b) Quota.

Long Answer Type

60. "Subsidies put a huge burden on the government's finances, but are necessary for poor and marginal farmers." Comment.

61. Discuss the risks involved under green revolution. Also state the steps taken by the Government to overcome these risks.

62. Critically appraise the development of agriculture between 1950 and 1990.

63. Briefly discuss the policy of industrial licensing.

64. Critically evaluate the industrial development during the period of 1950 to 1990.

65. Briefly discuss the progress of Indian economy during the first seven plans in the agriculture, industrial and trade sector.

CH. 3 Economic Reforms since 1991

Why reforms???

- ★ Government was not able to repay its borrowing from abroad.
- ★ Foreign exchange reserves were very less and not enough to pay import bill for even a fortnight.
- ★ Inflation rate was very high and remained in double digits (12.5%)
- ★ Most of the public sector undertakings were in huge losses.

LIBERALISATION

To put an end to the restrictions and rules and regulations which were imposed on different sectors of the economy

Industrial sector reforms

- ★ Private sector was allowed in almost all industries. Now only two industries (atomic energy and railway) are completely under public sector.
- ★ Compulsory licensing system is completely abolished except for 5 industries:(a) alcohol, (b)cigarettes, (c) hazardous chemicals, (d) industrial explosive, (e) aerospace, electronics and defense
- ★ Goods are now dereserved from small scale industries
- ★ Government does not interfere on prices.

Financial Sector Reforms

- ★ Financial sector may be allowed to take decisions on many matters without consulting the RBI.
- ★ Private sector banks, Indian as well as foreign. Foreign investment limit in banks was raised to 100 per cent
- ★ Banks have been given permission to generate resources from India and abroad
- ★ Foreign Institutional Investors (FII) are now allowed to invest in Indian financial markets
- ★ Banks are set free to decide their own interest rates.
- ★ CRR and SLR is reduced from 11.5% and 39.5% to 4.5% and 23.5% respectively.

Tax Reforms

- ★ Many procedures have been simplified and the rates also substantially lowered.
- ★ Corporate tax rate is now 25% which was 50% before 1991
- ★ Goods and Services Tax Act 2016, to simplify and introduce a unified indirect tax system in India. This law came into effect in July 2017.

Foreign Exchange Reforms

- ★ In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies.
- ★ Flexible exchange rate is introduced. Markets determine exchange rates based on the demand and supply of foreign exchange.
- ★ FERA is replaced by FEMA

Trade and Investment Policy Reforms

- ★ (i) dismantling of quantitative restrictions on imports and exports (ii) reduction of tariff rates and (iii) removal of licensing procedures for imports.
- ★ Import licensing was abolished except in case of hazardous and environmentally sensitive industries.
- ★ Quantitative restrictions on imports of manufactured consumer goods and agricultural products were also fully removed from April 2001.
- ★ Export duties have been removed to increase the competitive position of Indian goods in the international markets.

Tariff and non-tariff barriers

Tariff:

- ★ Tax on imports which results in the price rise of imported goods.
- ★ This is done to protect domestic industries from stiff competition from MNCs.
- ★ Average tariff rate was 87% and maximum tariff was 355%. Now the top rate of the tariff is 20%

Non tariff barriers:

- ★ Barriers other than tariff such as import licensing, quota restrictions (quantity of imported goods are restricted).

Privatisation

- ★ Transfer of the ownership or management of public sector undertakings.
- ★ If only a part of equity of PSUs are sold – disinvestment.
- ★ **Why???**
- ★ To improve financial discipline and performance among PSUs
- ★ To adopt modernisation
- ★ To get managerial skills and capital from private sector

GLOBALISATION

- ★ GLOBALISATION: Not a policy but an outcome of the policies of liberalisation and privatisation.
- ★ The integration of the domestic economy with the world economy so the whole world becomes a global village.

OUTSOURCING

- ★ When a company hires regular services from external sources mainly from outside the country. These services include legal, computer software, advertisements, medical, accounting film editing etc.
- ★ India is a global hub: cheaper cost of services, skilled and reasonably accurate technicians, low wage rates are main reasons.
- ★ Developed countries are opposing outsourcing as it is adversely affecting their own employment generation.

Appraisals of liberalisation, globalisation and privatisation (LPG policy)

- ★ Agriculture: due to fall in public sector investment in the field of rural infrastructure, irrigation, power, roads, market linkages etc., the performance has fallen. Removal of fertilizer subsidies is adversely affecting marginal farmers.
- ★ Industry: did not perform well because of cheaper imports, weak infrastructure, stiff competition from MNCs, lack of access to the market of developed countries.
- ★ Social justice: increase in income inequalities, much of the income is concentrated in few hands, vital areas of the economy such as agriculture and industries didn't benefit which provides employment to millions.

Growth of GDP and Major Sectors (in %)

Sector	1980-91	1992-2001	2002-07	2007-12	2012-13	2013-14	2014-15
Agriculture	3.6	3.3	2.3	3.2	1.5	4.2	- 0.2*
Industry	7.1	6.5	9.4	7.4	3.6	5	7.0*
Services	6.7	8.2	7.8	10	8.1	7.8	9.8*
Total	5.6	6.4	7.8	8.2	5.6	6.6	7.4

Source: Economic Survey for various years, Ministry of Finance, Government of India.

Note: *Data pertaining to Gross Value Added (GVA). The GVA is estimated from GDP by adding subsidies on production and subtracting indirect taxes.

GOODS AND SERVICES TAX

- ★ AN INDIRECT TAX LEVIED ON THE SUPPLY OF GOODS AND SERVICES.
- ★ **GST IS A COMPREHENSIVE, MULTI-STAGE, DESTINATION-BASED TAX THAT IS LEVIED ON EVERY VALUE ADDITION.**
- ★ **Destination-Based:** Consider goods manufactured in Maharashtra and are sold to the final consumer in Karnataka. Since Goods & Service Tax is levied at the point of consumption. So, the entire tax revenue will go to Karnataka and not Maharashtra.

Components

- ★ **CGST:** Collected by the Central Government on an intra-state sale (Eg: transaction happening within Maharashtra)
- ★ **SGST:** Collected by the State Government on an intra-state sale (Eg: transaction happening within Maharashtra)
- ★ **IGST:** Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

DEMONETIZATION

THE WITHDRAWAL OF A COIN, NOTE, OR PRECIOUS METAL FROM USE AS LEGAL TENDER.

Currency notes were demonetized on three occasions in India:

- ★ In 1946, when the RBI demonetized Rs, 1,000 and Rs, 10,000 notes
- ★ In 1978, when the Government demonetized Rs, 1,000, Rs. 5,000, and Rs. 10,000 notes
- ★ Finally in 2016, when the Government demonetized Rs. 500 and Rs. 1,000 notes.

BENEFITS

- ★ **Increased Savings** – people tend to deposit their cash with a bank and store less at home. This helps them save more.
- ★ **Lower lending rates** – money moves from people to banks and financial institutions. Banks and financial institutions have a lower cost of funds which translates into lower lending rates.

- ★ **Better economy** – people deposit their cash with the banks which is used in development projects.
- ★ **Curbing anti-social activities** – Usually, anti-social elements like smugglers or terrorists use cash as a mode of transaction. Demonetization allowed the government an opportunity to get a better control over the unaccounted money in the economy and curb anti-social activities.
- ★ **Reducing counterfeit currency notes** and promotes cashless economy.

COMPETANCY AND SOURCE BASED QUESTIONS

Read the following -Assertion(A) and 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 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) New Economic Policy introduced in 1991 initiated liberalization of the Indian Economy.

Reason (R) Industrial Growth was very slow before 1991

2.Assertion (A) India has become a favorable destination of outsourcing for most of the MNCs.

Reason (R) India has vast skilled and cheap manpower which enhances the faith of MNCs for investment in India.

3.Assertion (A) After the New Economic Policy announced in 1991, domestic competition has increased.

Reason (R) Industrial sector reforms abolished industrial licensing for all the projects, except for a short list of industries.

4.Assertion (A) Under the Financial Sector Reforms, financial sector was allowed to take decisions on after consulting RBO.

Reason (R) The Role of RBI was reduced from regulator to facilitator of financial sector.

5.Assertion (A) Devaluation of the Indian rupee in 1991 resulted in the inflow of foreign exchange.

Reason (R) Devaluation of the Indian rupee was a step to get more foreign investments.

6.Assertion (A) Every year, government fixes a target for disinvestment of Public Sector Enterprises.

Reason (R) Disinvestment is an excellent tool for discarding the loss incurring Public Sector Enterprises.

7.Assertion (A) To overcome economic crisis and accelerate the growth rate of Indian economy. New Economic Policy was adopted by the government in July 1991 with elements of Liberalization, Privatization and Globalization.

Reason (R) In 1991 India met with an economic crisis relation of its external debt. The government was not able to make repayments on its borrowings from abroad. Foreign exchange reserves dropped to levels that were not sufficient for even a fortnight.

8.Assertion (A) Globalization is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration. It involves creation of networks and activities transcending economic, social and geographical boundaries.

Reason (R) Globalization is a strategy of the developed countries to expand their markets in other countries.

9.Assertion (A) the objective of goods and services tax is to reduce tax evasion and create one nation, one tax and one market in India.

Reason (R) The Parliament passed a law, goods and service tax act 2016 to simplify and introduce a unified direct tax system in India.

Read the following statement and choose one of the correct alternatives given below:

- (a) Both the statement is true.**
- (b) Both the statement is false.**
- (c) Statement (1) is true but Statement (2) is false**
- (d) Statement (1) is false but Statement (2) is true**

10.Statement 1: Over the years, Indian Government has increased its stake in several public enterprises

Statement 2: Privatization implies greater role of the private sector in the economic activities of the country

11.Statement 1: Goods and Services Tax is a direct tax

Statement 2: GST is levied on goods and service

12.Statement 1: Outsourcing is one of the important outcomes of the globalization process

Statement 2: India has become a favorable destination of outsourcing for most of the MNCs

13.Statement 1: The new education policy has neglected the agricultural sector as compared to other two sector

Statement 2: The new economic policy has discouraged consumerism.

14.Statement 1: India is often called as the 'outsourcing hub 'of the world

Statement 2: Availability of skilled manpower is one of the prime factors responsible for the status gained by India at the international platform.

15.Statement 1: under the financial sector reforms, the role of RBI was reduced from regulator to facilitator of financial sector

Statement 2: The financial sector reforms led to the establishment of Indian as well as foreign private sector banks.

16.Statement 1: Demonetization was the step taken by the Government of India in order to tackle the problems of corruption, black money, terrorism and circulation of fake currency

Statement 2: Demonetization has ensured improved tax compliance in India over the period of time.

17.Statement 1: The Process of Globalization has produced only positive results for India.

Statement 2: Market-driven globalization reduces the economic disparities among nations and people.

18.Statement 1: Under the New Economic Policy, quantitative restrictions on imports and exports were greatly reduced

Statement 2: Import duties were considerably increased in the New Economic Policy to improve the competitiveness of domestic industries.

19.Which of the following statements correctly represents actions taken by the government towards liberalization

P: Levying high tariffs to discourage import and promoting the consumption of domestic goods and services.

Q: Devaluation of the rupees to encourage inflow of foreign exchange.

R: Allowing for private banks to make decisions independent of the RBI restrictions

S: Fixing prices of certain industrial goods in order to support increased consumption of these goods to boost the manufacturing industry.

- (a) P and Q only
- (b) P and R only
- (c) Q and R only
- (d) Q and S only

20.Match with items given under A with the suitable statements under B

s.no	A	s.no.	B
1	Reforms in indirect tax	A	Industrial Sector Reforms
2	Devaluation of Rupee	B	Financial Sector Reforms
3	Decrease in role of Public Sector	C	Tax Reforms
4	Removal of Export Duties	D	Foreign Exchange Reforms
5	Origin of Private Banks	E	Trade and investment policy Reforms

Read the following News report and answer the following questions on the basis of some:

Foreign Portfolio Investors have stepped up purchase of India stocks in the past six trading sessions following a meeting between Prime Minister Narendra Modi and top overseas funds on November 5. These investors have pumped in close to Rs 30200 crore since the meeting where the government showcased recent reforms -as against Rs 21826 crore in the whole of October.

In November so far, FFIs have invested Rs 32777 crore in domestics stocks, driving the Sensex and Nifty to record highs recently,

“Lot of investors appreciated the reforms undertaken in agriculture and labour markets and appreciated the opportunities India offered” said a government official. Modi told the fund managers in the interaction that the he is open to any feedback the investors may have according to the official.

Modi’s pitch to global investors comes amidst loose monetary policy followed by global central banks that has led to a chunk of that liquidity entering emerging market.

21.Reforms undertaken in agriculture and _____ (Industry/Labour) markets have promoted foreign investments.

22.Inflow of liquidity in emerging market is due to _____ (strict/loose) monetary policy.

23. Foreign Portfolio Investors have stepped up purchase of _____ (India/China) stocks in the past six trading sessions

24.Financial sector includes:

- (a) Investment banks
- (b) Stock exchange operation
- (c) Foreign exchange market
- (d) All of these

25.Foreign institutional investors are

- (a) Merchant bankers
- (b) Mutual funds
- (c) Pensions funds
- (d) All of these

Read the following passage and answer the questions from 26 to 30:

India's growth path grabbed the attention of the world after the introduction of the New Economic Policy in 1991. Economic reforms included stabilization and structural reforms.

Liberalization led to the breakdown of the "License raj". Reforms were introduced in various sectors with the aim of decreasing government intervention. It was done in order to build a new framework to make markets more competitive.

India's low foreign exchange reserves was one of the reasons for the introduction of reforms. At present, India enjoys a leading position in terms of foreign exchange reserves across the world. These reforms completely transformed the Indian economy. However, today many economists feel the need for a new set of reforms.

26.Which of the following is net the reason for the introduction of economic reforms in 1991:

- (a) Decrease in foreign exchange reserves
- (b) High rate of inflation
- (c) Balance of Payment crisis
- (d) Increase in exports

27.In order to mark the end of the "license raj" _____ measure was/were taken by the Government of India

- (a) Liberalization
 - (b) Privatization
 - (c) Globalization
 - (d) Disinvestment
- (1) Only a (2) Only b (3) both a and d (4) a, b and c

28.Privatization of public sector enterprises implies:

- (a) Strategic Sales
- (b) Sale of private companies
- (c) Minority sales
- (d) Both a and c

29.(1) Economic reforms of 1991 created a growth path where all the sectors did not grow at the same pace.

(2) Agriculture Sector after the introduction of economic reforms of 1991 experienced accelerating growth rate.

- (a) Both the statement is true
- (b) Both the statement is false
- (c) Statement 1 true but statement 2 is false
- (d) Statement 2 true but statement 1 is false

30.(1) Structural reforms aimed at improving the efficiency of the economy and increasing its international competitiveness.

(2) Structural reforms are the short-term measures intended to correct weaknesses of the economy.

- (a) Both the statement is true
- (b) Both the statement is false
- (c) Statement 1 true but statement 2 is false
- (d) Statement 2 true but statement 1 is false

31. When was the New Economic Policy announced?

- (a) June,1991
- (b) May,1991
- (c) July,1991
- (d) January,1991

32. _____ refers to disposal of equity of public sector units in the market?

- (a) Globalization
- (b) Privatization
- (c) Disinvestment
- (d) Liberalization

33. It refers to contracting out some of its activities to a third party which were earlier performed by the organization

- (a) Outsourcing
- (b) Globalization
- (c) Privatization
- (d) Liberalization

34. _____ was the Indian Finance Minister in 1991, acknowledged for these capabilities to steer away the economic crisis looming large on the erstwhile Indian Economy.

- (a) Dr. Subramanian Swamy
- (b) Dr Manmohan Singh
- (c) Pranab Mukherjee
- (d) Dr. Urjit Patel

35. Which of the following currency notes are not in circulation post demonetization.

- (a) Rs 500
- (b) Rs 1000
- (c) Rs 2000
- (d) Rs 100

36. Who is the chairman of GST council?

- (a) Prime Minister
- (b) Finance Secretary
- (c) Finance Minister
- (d) President

37. On 24th July 1991 the Prime Minister Narsimha Rao announced the end of the license-permit Raj and Finance Minister Manmohan Singh presented a historic budget that rolled out economic _____ in India:
- (a) Globalization
 - (b) Liberalization
 - (c) Privatization
 - (d) None of these
38. All Indirect Taxes have been subsumed under
- (a) Income Tax
 - (b) Corporate Tax
 - (c) Good and Service Tax
 - (d) Value added Tax
39. _____ and _____ currency notes of old Mahatma Gandhi series were banned as legal tender money on 8th November 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
40. Cheaper imported goods were one of the reasons behind
- (a) Growing unemployment
 - (b) Unbalanced Growth
 - (c) Low level of industrial growth
 - (d) Spread of Consumerism
41. _____ means integrating the domestic economy with the world economy
- (a) Globalization
 - (b) Privatization
 - (c) Disinvestment
 - (d) Liberalization
42. Which of the following economic reforms were initiated by the government under liberalization
- (a) Industrial Sector Reforms
 - (b) Tax Reforms
 - (c) Financial Sector Reforms
 - (d) All of these
43. The final burden of Goods and Services Tax is
- (a) Borne by Producer
 - (b) Borne by Seller
 - (c) Borne by Government
 - (d) Borne by Final user
44. Demonetization does not target
- (a) Tax administration
 - (b) Cash less economy
 - (c) Credit creation
 - (d) Encouragement to black money
45. Taxes imposed on incomes of individuals are

- (a) Indirect tax
- (b) Tariff barrier
- (c) Direct tax
- (d) GST

46. How can 'Globalization' increase the standard of living of the people in the country

- (a) By offering more products to buy
- (b) By increasing rural to urban migration
- (c) By improving working conditions for factory workers
- (d) By making cheaper products available due to increased competition.

47. Which of the following policies was adopted to increase the competitive position of Indian goods in the international markets

- (a) Export duties were removed
- (b) Import licensing was abolished
- (c) The rate of corporation tax was reduced
- (d) Foreign institutional investors were allowed to invest in India

48. _____ involves deregulation and reduction of government controls and greater autonomy of private investment to make economy more competitive

- (a) Disinvestment
- (b) Privatization
- (c) Globalization
- (d) Liberalization

49. Policy measures undertaken under globalization

- (a) Devaluation of rupee
- (b) Reduction in direct tax
- (c) Increase in indirect tax
- (d) Cash less economy

50. Outsourcing has intensified in present times because of growth of _____ sector

- (a) Agriculture
- (b) Information Technology
- (c) Manufacturing
- (d) Primary

51. "Process of Globalization has produced only positive results for India and other countries."
Comment

52. Economic Reforms were widely criticized because it neglected agricultural sector. Do you agree, give proper justification of your answer?

53. The opening up of the Indian Economy has led to a rapid increase in Foreign Direct Investment and Foreign Exchange Reserves of the Country, Defend or refute the given statement.

54. "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.

55. "India is often called as Outsourcing Destination of the world. Discuss the prime reasons for this name given in India?"

56. Why were reforms introduced in India?

57. The policy of liberalization changed the role of RBI from 'a regulator to a facilitator' in the financial sector. Defend or refute the given statement with valid arguments.

58.Explain the merits of LPG policies?

59.Discuss economic reforms in India in the light of social justices and welfare?

60.Economic Policy of 1991 stressed on removing unnecessary restrictions and creating a more competitive environment to increase its interaction with the world economy. Which values are realized as per New Economic Policy?

ANSWERS of competency, source based and Objective types questions(from 1 to 50)

1(A) 2(A) 3(A) 4(D) 5(C) 6(B) 7(A) 8(B) 9(C) 10(D) 11(D) 12(D) 13(C) 14(A) 15(A) 16(A)
17(B) 18(C) 19(c) 20(i)C(ii)D(iii)A(iv)E(v)B 21LABOUR 22LOOSE 23INDIA 24(D) 25(D)
26(D) 27(A) 28(D) 29(C) 30(C) 31(C) 32(C) 33(A) 34(B) 35(B) 36(C) 37(B) 38(C) 39(B) 40(C)
41(A) 42(D) 43(D) 44(D) 45(C) 46(D) 47(A) 48(B) 49(A) 50(B)

Read the para given below and answer the questions that follow:

When Indian economy was in deep crisis in July 1991 and was also facing the problem of BOP, Government decided to take a step towards liberalization, Privatization, Globalization of the country. These structural reforms were the long-term measures aimed at improving the efficiency of the economy and increasing its international competitiveness by removing various rigidities. LPG reforms led to transformation of India into a FDI destination because since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor-friendly. But increasing FDI led to rising wage inequality because of the rise in the relative demand for skilled labour due to the rise in foreign direct investment (FDI), higher international trade and skill-biased technological change improving the relative position of skilled workers. LPG reforms also enabled technological advancements in agriculture i.e. high yield varieties, GM crops and micro-irrigation techniques. Contract farming, cold storage and food processing helped farmers to boost Indian agricultural exports. However, it had also led to shifting from traditional or mixed cropping to unsustainable cropping practices. The competition from cheaper imports pushed down the prices of crops like cotton, wheat etc making agriculture unsustainable for many farmers. These reforms had led to setting up of many foreign companies and industries in India, especially in the pharmaceutical, BPO, petroleum, manufacturing, and chemical sectors and this helped to provide employment and hence reducing the poverty level in the economy.

Q.1 Due to the __process, the unrestricted flow of goods and services, Technology capital and expertise was enabled among different countries of the world.

(a) liberalisation (b) Privatisation (c) globalization (d) modernization

[Ans. (c) globalization]

Q.2 What kind of policy strategies were adopted in agriculture?

(a) Import Oriented (b) Export Oriented
(c) Money Oriented (d) Both (a) &(b)

[Ans. (b) Export Oriented]

Q3 liberalization aimed to promote economic potential of the country by..... private sector.

(a) Encouraging (b)Discouraging
(c)Removing (d) Empowering

[Ans.(a) Encouraging]

Q.4 What was the primary outcome of the liberalisation and privatisation initiatives under the New Economic Policy (NEP) in 1991, followed by the Indian government?

- (a) Fiscal policy reforms (b) Globalisation
(c) Monetary policy reforms (d) Industrial reform

Ans. (b) Globalisation

Q.5 FDI has been prohibited in India.

- (a) Insurance (b) Atomic energy
(c) Retail. (d) Drug and pharmaceuticals

Ans. (b) Atomic energy

Read the para given below and answer the questions that follow:

The United States has announced the support for waiving intellectual property (IP) protection for Covid-19 vaccines, In October 2020, India and South Africa had asked the WTO to waive certain conditions of the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement that could impede timely access to affordable medical products to combat Covid-19. The countries had asked the TRIPS Council to recommend, “as early as possible”, a waiver on the implementation, application and enforcement of four sections in the second part of the agreement. These sections — 1, 4, 5, and 7 — pertain to copyright and related rights, industrial designs, patents, and the protection of undisclosed information. The proposal had said that developing countries “especially”, may face institutional and legal difficulties when using flexibilities available in the TRIPS Agreement.

Q.1 TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement is administered by the

- (a) World Bank (WB) (b) United Nations Organization (UNO)
(c) World Trade Organization (WTO) (d) United Nations Conference on Trade and Development (UNCTAD)

[Ans. (c) World Trade Organization (WTO)]

Q.2 Among the following options, which one is not the objective of the WTO?

- (a) To protect environment
(b) To improve the balance of payment situation of the member countries
(c) To improve the standard of living of people of the member countries
(d) To enlarge production and trade of goods

[Answer: (b) To improve the balance of payment situation of the member countries]

Q.3 Along with the World Bank and _____, WTO is the third economic pillar of worldwide dimensions.

- (a) International Economic Association (IEA) (b) International Monetary Funds (IMF)
(c) International Development Bank (IDB) (d) International Funding Organisation (IFO)

[Answer: (b) International Monetary Funds (IMF)]

Q.4 How many members are present in the WTO?

(a) 207 (b) 195 (c) 160 (d) 164 [Ans. (d) 164]

Read the following statement Assertion (A) and reason (R). choose one of the correct alternatives given below:

Q.1 Assertion (A): Goods and services tax (GST) solved the problem of the cascading tax effect.

Reason (R): It is charged on value addition and not the entire value of output. Due to this, the final price of goods became cheaper.

(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

[Ans. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).]

Q.2 Every year, the government fixes a target for the disinvestment of public sector enterprises (PSEs)

Reason (R): As per the Five-Year Plan, The Indian Government is moving to a more Capitalist Economy by selling enterprises that can be managed by the public sector.

(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

[Ans. (c) Assertion (A) is true but Reason (R) is false.]

Q.3 Assertion (A): GST is a comprehensive levy and collection on both goods and services at the same rate with benefit of input tax credit or subtraction of value.

Reason (R): GST is a destination-based tax and levied at a single point at the time of consumption of goods and services by the end consumer.

(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

[Ans. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).]

Q.4 Assertion (A) :WTO was founded in 1948.

Reason (R):General agreement on trade and tariff (GATT).GATT was established in 1948 with23 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

[Ans. (d) Assertion (A) is false but Reason (R) is true).]

Q.5 Assertion (A): Globalization means integration of various economics of the world leading towards the emergence of a cohesive global economy.

Reason (R): For globalization, the important ingredient is to facilitate the migration of human resources.

(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

[Ans. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).]

Q.6 Assertion (A): GST comes the slogan of one tax, one nation, one market. It is said to be national tax.

Reason (R): It is a uniform tax across all states of the country. Only one rate will prevail on one set of goods across all parts of the country.

(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

[Ans. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).]

Q.7 Assertion (A): Privatization process leads to a change in management with a change in ownership.

Reason (R): Change in management is not a necessary condition for the process of privatization.

- (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

[Ans. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).]

Q.8 In order to attract investors, Special Economic Zones (SEZ) were set up.

Reason (R): SEZ is geographical reason that has economic laws different from the country's typical economic laws.

- (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

[Ans. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).]

Q.9 Assertion (A): During the reform period, the growth of agriculture has declined

Reason (R): Decline in public investment and removal of fertilizer subsidy adversely affected the status of agriculture.

- (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

[Ans. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).]

Q.10 Assertion (A): New economic reforms paved way for decreased consumer sovereignty.

Reason (R): Diverse global markets allow a wide variety of goods and services to be available to the consumers.

- (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

[Ans. (d) Assertion (A) is false but Reason (R) is true.]

Q.11 Assertion (A): Government decided to develop Navratnas as global players in their respective areas of industrialization.

Reason (R): Navratnas are highly efficient profit-making PSUs and are revenue generators for the government.

(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

[Ans. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).]

Q.11 Assertion: Liberalisation of foreign trade and foreign investment policy have helped in the promotion of globalization.

Reason: Goods, investment, and labour move freely between countries which accelerates development and trade.

(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

[Ans. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).]

Q.12 Assertion(A) : Quantitative restrictions on imports of manufactured consumer goods and agricultural products were also fully removed from April 2010.

Reason(R): the aim of removing quantitative restriction was initiative to increase international competitiveness of industrial production and also foreign investment and technology into the economy

(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

[Ans. (d) Assertion (A) is false but Reason (R) is true]

Q.13 Assertion (A): ₹ 500 and ₹ 1000 currency notes of the old Mahatma Gandhi series were banned as legal tender money on 8th November 2016.

Reason (R): Demonetization channelized the savings of an individual into the formal financial system.

(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

[Ans. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).]

Q.14 Assertion (A): Tax reforms are concerned with the reforms in government taxation and public expenditure policies which are collectively known as fiscal policy

Reason: there are two type of taxes, direct tax and indirect tax.

(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

[Ans. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).]

Q.15 Assertion (A): India has become a favourite destination of outsourcing for most of MNCs.

Reason (R): India has vast skilled and cheap manpower which enhances the faith of MNCs for investment in India.

(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

[Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).]

Q.16) Assertion (A) :There was a significant need to introduce a policy measure which could improve the efficiency and productivity in an economy.

Reason (R): As a result, LPG model of growth was introduced in 1991 which provided a structural shift in the policy perspective of Indian economy

- (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

[Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).]

Q.17 Assertion (A): In India, indirect taxes constitute a large share of government revenue. Reason (R): Taxes are essential for 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

[Ans. (c) Assertion (A) is true but Reason (R) is false.]

Multiple Choice Questions

Q.1 After the finance sector reforms there was a limit on foreign financial investment. What was the percentage of the limit?

- (a) 80%
- (b) 70%
- (c) 50%
- (d) 74%

[Ans: (d) 74%]

Q.2 What was the issue that was being addressed through the Economic reforms of 1991?

- (a) Depreciation of the Indian rupee
- (b) Crisis in Foreign exchange
- (c) Economic policy failure
- (d) All of these

[Ans. (b) Crisis in Foreign exchange]

Q.3 To solve the balance of payment crisis in 1991, the Indian Rupee was _____ against foreign currencies.

- (a) Appreciated
- (b) Depreciated
- (c) Revalued
- (d) Devalued

[Answer: (d) Devalued]

Q.4 Which of these financial sector reforms were introduced in India under the New Economic Policy (NEP) in 1991?

- (a) Change in the Monopolies and Restrictive Trade Practices (MRTP) Act

- (b) Freedom for importing of capital goods
- (c) Reduction in the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)
- (d) None of the above

[Ans: (c) Reduction in the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)]

Q.5 Which of the following was not a part of the structural adjustment programs under the New Economic Policy (NEP) in 1991?

- (a) Fiscal reforms
- (b) Tax reforms
- (c) Balance of payment adjustment
- (d) Industrial reforms

[Ans: (c) Balance of payment adjustment]

Q.6 What was the total amount of the loans provided by the International Monetary Fund and the World Bank during the nineties to help India during its financial crisis?

- (a) 13 billion US dollars
- (b) 15 billion US dollars
- (c) 5 billion US dollars
- (d) 7 billion US dollars

[Ans: (d) 7 billion US dollars]

Q.7 what are short-term policy measures that government take to improve the BOP situation in an economy.

- (a) Structural measures
- (b) Stabilisation measures
- (c) Reconstruction measures
- (d) Developmental measures

[Ans. (b) Stabilisation measures]

Q.8 -----was the Indian Finance Minister in 1991, acknowledged for his capabilities to steer away the economic crises looming large on the erstwhile Indian Economy.

- (a) Dr. Subramanian Swamy
- (b) Dr. Manmohan Singh
- (c) Pranab Mukherjee
- (d) Dr. Urjit Patel

[Ans.) Dr. Manmohan Singh]

Q.9 The thrust of the New Economic Policy (NEP) was _____.

- (a) to create a more competitive environment in the economy and removing the barriers to entry and growth of firms.
- (b) to maintain sufficient foreign exchange reserves and keep the rising prices under control.
- (c) to improve the efficiency of the economy and increasing its internal competitiveness by removing the rigidities in various segments of the Indian economy.
- (d) to meet the challenges like unemployment, poverty and population explosion.

[Ans: (a) to create a more competitive environment in the economy and removing the barriers to entry and growth of firms.]

Q.10 Under trade policy reforms, the policy of import licensing was.....

- (a) Introduced (b) modified
(c) scrapped (d) none of these

[Ans. (c) scrapped]

Q.11 What did India announce after Agreeing to the condition of World Bank and IMF ?

- (a) fiscal policy (b) trade policy
(c) public policy (d) new economic policy

[Ans. (d) new economic policy]

Q.12 which reason gives importance to privatization.

- (a) decline in private Monopoly
(b) favour the objective of social welfare
(c) reduce the cost of minimising wastages.
(d) increase employment

[Ans (c) reduce the cost of minimising wastages.]

Q.13 The concept of special status granted to Some PSEs was given based on the famous nine jewels in the imperial court of which king?

- (a) King Vishnuditya (b) King Vishkarma
(c) King Vikramaditya (d) King Vivekananda

[Ans. C) King Vikramaditya]

Q.14 the Siricilla tragedy related to which sector Reform ?

- (a) financial sector Reform (b) power sector Reform
(c) industrial sector Reform (d) agricultural sector Reform

[Ans. (b) power sector Reform]

Q.15 Which of the following is the advantage of implementing GST?

- (a) Reduction of litigations (b) Negative impact on Estate market
(c) No reduction in the number of tax layers (d) Bad effects upon industrial sector

[Ans. (a) Reduction of litigations]

Q.16 Which of the following is not the motive behind demonetization?

- (a) to curb black money (b) to curb terror funding

(c) to reduce people's purchasing power (d) to stop the use of fake currency

[Ans. (c) to reduce people's purchasing power]

Q.17 Who is the head of the GST council?

- (a) Prime Minister (b) President
(c) Home Minister (d) Finance Minister

[Ans: (d) Finance Minister]

Q.18 Which constitutional amendment was done to pass the GST bill?

- (a) 99th (b) 100th
(c) 101th (d) 102nd

[Ans. (c) 101th]

Q.19 The financial sector reform aimed to reduce the role of RBI from..... to..... of financial sector.

- (a) regulator, facilitator (b) facilitator, regulator
(c) facilitator, investor (d) regulator, contributor

Q.20 Which of the following statement is Not true about foreign investment.

- (a) FDI involves investment by the foreigners by the foreigners by way of their business establishment in India.
(b) FDI implies ownership and control of business.
(c) FII involves investment in Indian companies by the foreign banking and non-banking institutions.
(d) FII involves direct control on the management of the Indian company where investment is made.

[Ans. (d) FII involves direct control on the management of the Indian company where investment is made.]

Q.21 The rate of -----, which was very high earlier, has been gradually reduced.

- (a) Indirect Tax (b) Direct Tax
(c) Corporation tax (b) goods and service Tax

[Ans. (c) Corporation tax]

Q.22 Liberalisation leads to some limitations

- a) lesser participation of foreign investor (b) it neglect the social welfare
c) no improvement in productivity (d) improvement in financial sector

[Ans : b) it neglect the social welfare]

True and False

Q.1 Quantitative restrictions are those trade barriers which increases the prices of imported goods.

Ans. False

Q.2 The goal of making the economy more market-oriented and expanding the role of private and foreign investment is called globalisation.

Ans. False

Q.3 outsourcing is an emerging business activity.

Ans.True

Q.4 Trade agreements between more than two countries are referred to as multilateral trade.

Ans.True

Long question Answer

Q.1 As a form of economic activity, outsourcing has intensified in recent times. Most MNCs, and even small companies, are outsourcing their services to India.”Defend or refute the above statement.

Ans. The given statement is correct. In recent times, outsourcing has intensified because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). Today, voice-based business processes (popularly known as BPO or call centres), record keeping, accountancy, banking services, music recording, film editing or even teaching are being outsourced by companies in developed countries to India where they can be availed at a cheaper cost with reasonable skill and accuracy. Thus, low wage rates and availability of skilled manpower in India made it a destination for global outsourcing after 1991.

Q.2 “Fiscal policy reforms in India have had a negative impact on developmental and welfare expenditures.” Defend or refute the given statement.

Ans. The given statement is true. Effect on expenditure policy: Economics reforms have placed limits on the growth of public expenditure, especially in social sectors. The government was not able to address some of the basic problems facing our economy especially in areas of employment, agriculture, industry, infrastructure development, etc. Though the GDP growth rate has increased in the reform period from 5.6% during 1980-91 to 8.2% during 2007-12. But it has not generated sufficient employment opportunities in India.

Effect on taxation policy

i)The tax reductions in the reform period aimed at yielding larger revenue and curb tax evasion, have not resulted in increase in tax revenue for the government.

ii) The reform policies, involving tariff reduction, have curtailed the scope for raising revenue through custom duties.

iii)In order to attract foreign investment, tax incentives were provided to foreign investors which further reduced the scope for raising tax revenues.

Q.3 As an important member of WTO, India has been in the forefront of framing fair global rules, regulations and safeguards and advocating the interests of the developing world. However, some scholars question the usefulness of India being a member of the WTO. Examine the above statement.

Ans. India is an important member of WTO. It has kept its commitments towards liberalisation of trade, made in the WTO, by removing quantitative restrictions on imports and reducing tariff rates. However, some scholars question the usefulness of India being a member of the WTO due to the following reasons:

(i) A major volume of international trade occurs among the developed nations.

(ii) While developed countries file complaints over agricultural subsidies given to their countries, developing countries like India feel cheated as they are forced to open their markets for developed countries but are not allowed access to the markets of developed countries because of high non-tariff barriers. For example although all quota restrictions on exports of textiles and clothing have been removed in India, USA has not removed their quota restrictions on import of textiles from India and China.

Q.4 Why did the agriculture sector appear to be adversely affected by the reform process.

Ans. (i) Public investment in agriculture sector especially in infrastructure like irrigation, power etc. has been reduced in the reform period.

(ii) Reduction of fertilizer subsidy has increased the cost of production affecting thereby the small and marginal farmers.

(iii) Increased international competitiveness due to liberalisation and reduction of import duties.

(iv) Shift from food crops to cash crops due to export-oriented policy in agriculture led to a rise in prices of food-grains.

Q.5 “The process of globalisation through liberalisation and privatisation policies has produced positive, as well as, negative results for India and other countries.” Defend or refute the above statement.

Ans. The given statement is true to its character. Some scholars argue that globalisation should be seen as an opportunity in terms of:

(i) Greater access to global markets,

(ii) High technology and,

(iii) Increased possibilities of large industries of developing countries to become important players in the international arena.

On the contrary, the critics argue that

(i) Globalisation is a strategy of the developed countries to expand their markets in other countries. According to them, it has compromised the welfare and identity of people belonging to poor countries.

(ii) Market-driven globalisation has widened the economic disparities among nations.

(iii) It has increased the income and quality of further consumption of only high-income groups.

(iv) The growth has been concentrated only in some select areas in the service sector such as telecommunication, IT, finance, entertainment, travel and hospitality services, real estate and trade rather than vital sectors such as agriculture and industry which provide livelihoods to millions of people in the country.

Q.6 What were the objectives behind Trade and Investment Policy reforms?

Ans. Trade and investment policy reforms were initiated to:

- i) Remove the restrictions on foreign goods and to increase international competitiveness in Indian markets.
- ii) Attract foreign investment and to promote the adoption of modern technology into the economy.
- iii) Dismantling of quantitative restrictions on imports and exports.
- vi) Reduction of tariff rates
- v) Removal of licensing procedures for imports.
- vi) To increase the efficiency of domestic market.

Q.7 Why should tariff and non-tariff barriers be removed to promote globalisation?

Ans. Tariff and non-tariff barriers restrict the free flow of trade between the two countries. Therefore, these barriers should be removed to promote globalisation. Otherwise, domestic goods would lose international competitiveness.

Q.8 Those Public Sector Undertakings which are making profits should be privatised. Do you agree with this view? Why

Ans: No, I do not agree with this view. Even though disinvestment would increase the revenue of the government, the profit-making Public Sector Units (PSUs) are revenue generator for the government and they should be retained in the public sector because the profits of these undertakings add to the revenues of the government and can be used to develop other PSUs and the infrastructure of the company. The profit making PSUs should not be privatised just for the reason that the government can get funds to cover the deficit in government budget. A profit-making PSU should be privatised only if it can earn better revenues and thus higher profit if run more efficiently by the private sector. Also, in the process of disinvestment, if the assets of the profit-making industries are undervalued, it will lead to a substantial loss to the government. Also, the government should retain the strategic profit-making industries to avoid emergence of any monopoly in the private sector.

Q.9 Why the requirement of fiscal reforms arose under liberalization?

Ans: Prior to liberalization, tax structure was highly complicated and evasive. Fearing a heavy burden of taxation, it promotes evade the payment of tax, so tax reforms become essential for the Govt.

Q.10 What are the Navaratna Companies of India?

Ans: During 1997, the Government of India gave the status of Navaratna to nine public sector enterprises (PSEs), thus giving them a greater autonomy to compete in the market by assisting them in their path to become global tycoons. Currently, in India, there are 14 companies with the title of Navaratna – HAL, BEL, MTNL, NTPC, Oil India Limited, etc. This scheme was introduced by the government to identify the central public sector enterprises (CPSEs) that had a few merits.

Unit 7: Current challenges facing Indian Economy

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

CH. 5 Human Capital Formation

How people become resource: by imparting knowledge and skill that convert a human being into the human capital.

Sources of human capital:

HEALTH AND EDUCATION: Expenditure on health is an important source of human capital formation. The amount of money spent on

- ★ preventive medicine (vaccination),
- ★ curative medicine (medical intervention during illness),
- ★ social medicine (spread of health literacy) and
- ★ provision of clean drinking water and good sanitation

Health expenditure directly increases the supply of healthy labour force

Spending on education by individuals

- ★ Is similar to spending on capital goods by companies
- ★ Individuals invest in education with the objective of increasing their future income.
- ★ It results in optimum resource utilisation.

ON THE JOB TRAINING:

- ★ The workers may be trained in the firm itself under the supervision of a skilled worker;
- ★ The workers may be sent for off-campus training.
- ★ Expenditure regarding on-the-job training is a source of human capital formation as the return in the form of enhanced labour productivity is more than the cost of it.

MIGRATION:

- ★ Technically qualified persons, like engineers and doctors, migrate to other countries because of higher salaries
- ★ Migration involves cost of transport, higher cost of living in the migrated places and psychic costs of living in a strange sociocultural setup.
- ★ The enhanced earnings in the new place outweigh the costs of migration; hence, expenditure on migration is also a source of human capital formation

INFORMATION:

- ★ Expenditure on information is necessary to make decisions regarding investments in human capital
- ★ For efficient utilisation of the acquired human capital stock.
- ★ For acquiring information relating to the labour market and other markets is also a source of human capital formation.

Role of human capital in economic development

- ★ BOTH GOES HAND IN HAND
- ★ BETTER HANDLING OF TECHNIQUES AND TECHNOLOGY RAISES THE PRODUCTIVITY
- ★ INNOVATION IS POSSIBLE WHICH INCREASES GDP.
- ★ HIGHER RATE OF PARTICIPATION MEANS INCREASED LIVING STANDARD
- ★ PER CAPITA INCOME HAS DIRECT RELATION WITH POSITIVE EDUCATION AND HEALTH INDICATORS

Growth of Education Sector in India:

SL.No.	Particulars	1990	2000	2011	2017-18
1.	Adult Literacy Rate (per cent of people aged 15+)				
	1.1 Male	61.9	68.4	79	82
	1.2 Female	37.9	45.4	59	66
2.	Primary completion rate (per cent of relevant age group)				
	2.1 Male	78	85	92	93
	2.2 Female	61	69	94	96
3.	Youth literacy rate (per cent of people aged 15+ to 24)				
	3.1 Male	76.6	79.7	90	93
	3.2 Female	54.2	64.8	82	90

CAN BE EXPLAINED IN TWO MANNERS:

- ★ IN TERMS OF INCREASED EXPENDITURE
- ★ IN TERMS OF INCREASED SHARE IN GDP

The education budget 2022 has been allotted Rs 1,04,278 crore -- a rise of Rs 11,054 crore from the previous year.

SHARE OF EDUCATION SECTOR IN GDP WAS 0.64 % -1950 NOW 3.1 %. EDUCATION COMMISSION (1964-66) RECOMMENDED 6%.

RTE AND EDUCATION CESS

- ★ In 2009, the Government of India enacted the Right of Education Act to make free education a fundamental right of all children in the age group of 6-14 years.
- ★ 2% EDUCATION CESS ON ALL UNION TAXES – WILL BE SPENT ON ELEMENTARY EDUCATION
- ★ Along with RTE, NATIONAL LITERACY MISSION, SARVA SHIKSHA ABHIYAAN AND MID DAY MEAL SCHEME are the programmes to promote literacy and elementary education.
- ★ 95 million students in 1.14 million schools are getting a mid day meal.
- ★ Total 23 IITs, 31 NITs, 48 central universities, more than 800 universities, 13 AIIMS with 6 new AIIMS are in pipeline. 3870 medical colleges (75 to be set up by 2021-22),
- ★ In the past 4 years 141 new universities and 7 IITs have been sanctioned.
- ★ Atal Innovation mission: Atal Tinkering Labs- 5450

FUTURE PROSPECTS

- ★ Education for All — Still a Distant Dream
- ★ Gender Equity — Better than Before

★ Higher Education — a Few Takers

OBJECTIVE TYPE QUESTIONS

- 1 Significance of human capital was recognised in.....five-year plan.
(a) Third (b) Second (c) Seventh (d) Fourth
ANSWER = C
- 2 Government organisation that regulates education sector.
(a) NCERT (b) ICMR (c) UGC (d) Both (a) and (c)
ANSWER = D
- 3 Which one of the following organisations regulate the health sector in India?
(a) ICMR (b) UGC (c) AICTE (d) RBI
ANSWER = A
- 4 In.....government of India made education free and compulsory for all children between 6-14years of age group.
(a) 1991 (b) 2009 (c) 2014 (d) 2017
ANSWER = B
- 5 Investment on skill, expertise and knowledge of people in a nation is referred to as.....
(a) Physical capital (b) Financial capital
(c) Human capital formation (d) Working capital
ANSWER = C
- 6 Which of the following is the problem of human capital formation?
(a) High growth of population (b) Brain drain
(c) Insufficient resources (d) All of these
ANSWER = D
- 7 The government of India enacted the right to Education Act to make free education a fundamental right of all children in the age group of..... years.
(a) 5-13 (b) 6-12 (c) 6-14 (d) 5-14
ANSWER = C
- 8 ICMR stand for
(a) International council of medical research
(b) Indian council of medical resources
(c) International council of medical resource
(d) Indian council for medical research
ANSWER = D
- 9 The benefit of on-the-job training...
(a) Enhance the productivity of labour
(b) Keeps the employees updated with the latest changes.
(c) Both (a) and (b)
(d) Neither (a) nor (b)
ANSWER = C
- 10 Which of the following cost is included in migration?
(a) Cost of transportation from one place to another
(b) Higher cost of living in migrated places
(c) Psychic cost
(d) All of these
ANSWER = D
- 11 Human capital creates both.....and.....benefits
(a) Physical, Social
(b) Private, Economical
(c) Private, Social
(d) None of these

ANSWER = C

- 12 Which of the following could aid in human capital formation?
- (a) Expanding the labour market by increasing supply of jobs
 - (b) Creating larger industries with more complete equipment
 - (c) Creating open markets with increased stability
 - (d) Promoting gender equality in the family

ANSWER = D

B. COMPETENCY BASES QUESTIONS

Fill in the blanks

- 13capital refers to the stock of skill, ability, expertise, education and knowledge embodied in the people.

ANSWER = HUMAN

- 14 capital is tangible, while.....is intangible.

ANSWER = PHYSICAL, HUMAN

- 15 capital cannot be separated from the owner, whereas.....capital can be separated its owner.

ANSWER = HUMAN, PHYSICAL

- 16 rate refers to the ratio of literate adult population to the total adult population in a country.

ANSWER = LITERACY

- 17 A form of training that takes place during the working is called.....training.

ANSWER = ON -THE-JOB

ASSERTION REASON QUESTION

- 18 Assertion(A): Education contributes to economic growth.
Reason (R): Education confers higher earning capacity of people.

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

- 19 Assertion (A): Human capital formation is required for effective use of physical capital.
Reason (R): Formation of human capital raises life expectancy of the 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 = B

- 20 Assertion (A): Human capital treats human beings as means to an end.
Reason (R): Human capital formation decreases by way of investment in education and health.

- (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

STATEMENT BASED QUESTIONS:

(Q.NO.37 to Q.NO.40)

- 21 Statement 1: Human Capital is needed to make effective use of physical capital.
Statement 2: Human Capital creates both private and social benefits.
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 = A
- 22 Statement 1: Human capital benefits not only the owner but also society in general.
Statement 2: Human Capital and human development are similar terms.
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

CASE STUDY BASED/ SOURCE BASED QUESTION

CASE STUDY-1

Human Capital and Human Development are related concepts, but certainly not identical. Human capital is means to an end. Human capital is a means in the sense that it consists of 'skills' as used in the process of production. It consists of 'know how', abilities and expertise used as inputs in the production activity increase productivity is the end result. Thus, we want to achieve higher and higher levels of output through extensive and intensive application of human capital development is an end itself. It refers to development of the individuals and valuable personalities by acquiring good education and attaining good health. Human development occurs when more and more individuals in a society are educated, healthy and skill-oriented.

Answer the below Questions on basis of above case study

- 23 Human development occurs when more and more individuals in a society are
(a) Skill-oriented
(b) Educated
(c) Healthy
(d) All of these ANSWER = D
- 24 Differentiate between human development and human capital.
ANSWER = Human capital is a means to an end. Human development is an end itself
It refers to development of the individual as valuable personalities by acquiring good education and attaining good health. Human development occurs when more and more individual in a society are educated, healthy and skill-oriented.
- 25 Human development is an end itself, it refers to development of the individual as valuable person by acquiring.....(education/investment) ANSWER = EDUCATION
- 26 Human development is a means to an end. (True/False) ANSWER = FALSE

CASE STUDY-2

On-the-job training, also known as OJT, is a hands-on method of teaching the skill, knowledge, and competencies needed for employees to perform a specific job within the workplace. Employee how to effectively do their job. Consequently, no o make stand-ins exist that will require an employee training to the workplace.

Answer the Questions on the basis of above case study

- 27 How is on-the-job training source of human capital formation?

ANSWER = On-the-job training is source of human capital formation as it increases the skill and efficiency of the worker and leads to an increase in production and productivity

28 Why are workers required to work for a certain period after the on-job-training?

ANSWER = Workers are required to work for a certain period after the on-the-job training so that firm can recover the benefits of the enhanced productivity owing to the training.

29 Which are the two different forms of on-the-job training?

Answer = (i) Training under the supervision of a skilled worker in the firm (ii) Off-campus training

30 What is on-the-job training?

ANSWER = On-the-job training is a form of training taking place in a normal working situation

31 How does investment in human capital contribute to growth?

3m

ANSWER = (i) Higher production and productivity

(ii) Promotes inventions, innovations and technological improvement

32 What is the need for on-the-job training for a person?

3m

ANSWER =(i) It can be provided fast and without much cost.

(ii) It increases the skill and efficiency of the workers

(iii)It is the source of human capital formation

33 Education is considered an important input for the development of a nation. How?

4m

ANSWER = (i) Education confers higher earning capacity on people.

(ii) It gives better social standing and pride.

(iii) It enables one to make better choices in life.

(iv) It provides knowledge to understand the changes taking place in society.

(v) It also stimulates innovations.

(vi) Its facilities adaptation of new technologies.

34 “Human capital formation give birth to innovation, invention and technological improvement”

Do you agree with the given statement? Support your answer with valid argument.

4m

ANSWER = The given statement is correct.

Human capital formation not only increase the productivity of available human resources but also stimulates innovation and creates ability to adopt new technology.

Investment in education creates ability to adopt newer technology, facilitates invention and innovation since educated workforce generally adapts to modern technologies and innovation.

35 What are the main problems of human capital formation in India?

6m

ANSWER = The various problems of human capital formation are:

(i) Insufficient resources

(ii) Inefficiencies.

(iii) Brain Drain

(iv) High growth of population

(v) Lack of proper manpower planning.

(vi) Weak science and technology.

CH. 7 Rural development

ACTION FOR THE DEVELOPMENT OF AREAS THAT ARE LAGGING BEHIND IN THE OVERALL DEVELOPMENT OF THE VILLAGE ECONOMY.

KEY ISSUES

- ★ Development of human resources including
- ★ Literacy, more specifically, female literacy, education and skill development
- ★ Health, addressing both sanitation and public health
- ★ Land reforms
- ★ Special measures for alleviation of poverty and bringing about significant improvement in the living conditions of the weaker sections.
- ★ Infrastructure development like electricity, irrigation, credit, marketing, transport facilities including village roads, agriculture research.

RURAL CREDIT- WHY

- ★ As the time gestation between crop sowing and realisation of income after production is quite long, farmers borrow from various sources to meet their initial investment on seeds, fertilisers, implements.
- ★ other family expenses of marriage, death, religious ceremonies etc.

FROM WHERE TO MANAGE THE CREDIT

TWO SOURCES:

- ★ NON INSTITUTIONAL (INFORMAL) SECTOR : MONEY LANDERS, TRADERS, RELATIVES ETC. – LEAD TO DEBT TRAP
- ★ INSTITUTIONAL (FORMAL): COMMERCIAL BANKS, REGIONAL RURAL BANKS (RRBs), COOPERATIVES AND LAND DEVELOPMENT BANKS.

CHANGES OVER THE TIME

- ★ REMARKABLE INCREASE IN SHARE OF RURAL CREDIT BY FORMAL SECTOR AFTER 1969 WHEN 14 LARGE BANKS (PAID UP CAPITAL 50 CR.) WERE NATIONALISED.
- ★ 1951: INFORMAL SECTOR CREDIT – 93%
- ★ 2018: IT HAS REDUCED UP TO 23%

NABARD

- ★ 12 JULY 1982
- ★ TO COORDINATE THE ACTIVITIES OF ALL INSTITUTIONS INVOLVED IN THE RURAL FINANCING SYSTEM.
- ★ RURAL INFRASTRUCTURE DEVELOPMENT FUND -WITH THE HELP OF SWISS AGENCY. THIS FUND COVERS THE AREAS OF IRRIGATION, RURAL ROADS, HEALTH AND EDUCATION, SOIL CONSERVATION ETC.

REGIONAL RURAL BANKS

- ★ 2 OCTOBER 1975.

- ★ 196 RRBs WERE THERE BUT ARE MERGED. NOW 45 RRBs ARE FUNCTIONING IN THE COUNTRY.
- ★ COVERS ONE OR MORE DISTRICTS

SELF HELP GROUPS/MICRO CREDIT

Credit linking between banks and SHGs/NGO is called MICRO CREDIT PROGRAMME.

NEED:

- ★ Since some kind of collateral is required, a vast proportion of poor rural households are automatically out of the credit network.
- ★ The SHGs promote thrift in small proportions by a minimum contribution from each member.
- ★ By credit linking SHGs are empowered financially and rate of recovery is 98%, a grand success in non farm sector which created self employment especially among women.

Agricultural marketing is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.

Need:

- ★ Faulty weighing and manipulation of accounts.
- ★ Farmers are forced to sell their produce at low prices.
- ★ Lack of proper storage facilities to keep back their produce for selling later at a better price.

FOUR MEASURES BY GOVT.

- ★ Regulation of markets to create orderly and transparent marketing conditions.
- ★ Provision of physical infrastructure facilities like roads, railways, warehouses, godowns, cold storages and processing units.
- ★ Cooperative marketing, in realising fair prices for farmers' products.
- ★ Policy instruments like
 - Assurance of minimum support prices (MSP) for agricultural products
 - Maintenance of buffer stocks of wheat and rice by Food Corporation of India and
 - Distribution of food grains and sugar through PDS.

ROLE OF COOPERATIVES IN RURAL CREDIT

- ★ 1951- 3.1% SHARE IN RURAL CREDIT
- ★ Now over 96% of rural population is covered with 35% share in rural credit.
- ★ Advantages of cooperative credit: Alternative credit source, cheap rural credit, productive lending and improvement in farming methods.

ROLE OF COOPERATIVES IN MARKETING

- ★ National agricultural cooperative marketing federation of India limited (NAFED) is the apex cooperative marketing organization which procures, distributes and involved in foreign trade of selected agricultural commodities.
- ★ Three types of cooperative marketing: single commodity, multi commodity and multi-purpose multi-commodity marketing.
- ★ The structure is two tier in some states and three tier in another states.

EMERGING ALTERNATE MARKETING CHANNELS

- ★ farmers directly sell their produce to consumers:
- ★ *Apni Mandi* (Punjab, Haryana and Rajasthan);
- ★ *Hadaspar Mandi* (Pune); *Rythu Bazars* (vegetable and fruit markets in Andhra Pradesh and Telangana) and *Uzhavar Sandies* (farmers markets in Tamil Nadu).

- ★ MNCs are also approaching farmers for desired produce but it results in conflicts (Pepsico V/S farmers on potato cultivation)

AGRICULTURAL DIVERSIFICATION

Two aspects-

- ★ To change in cropping pattern
- ★ Shift of workforce from agriculture to other allied activities (livestock, poultry, fisheries etc.) and non-agriculture sector.

Need:

To reduce the risk from the agriculture sector but also to provide productive sustainable livelihood options to rural people.

SCOPE IN DIVERSIFICATION

- ★ Agro-processing industries, food processing industries, leather industry, tourism,
- ★ Traditional home-based industries like pottery, crafts, handlooms
- ★ Livestock sector

ALTERNATIVE FARMING- ORGANIC FARMING

- ★ A whole system of farming that restores, maintains and enhances the ecological balance and to enhance food safety throughout the world.
- ★ to substitute costlier agricultural inputs (such as HYV seeds, chemical fertilisers, pesticides etc.)
- ★ generates income through exports and generates more employment
- ★ has more nutritional value than chemical farming
- ★ An environmentally sustainable way

CHALLENGES

- ★ Requires awareness and willingness on the part of farmers to adapt to new technology
- ★ Inadequate infrastructure and the problem of marketing the products are major concerns
- ★ Yields from organic farming are less than modern agricultural farming in the initial years.
- ★ Organic produce may also have more blemishes and a shorter shelf life than sprayed produce.
- ★ Production of off-season crops is quite limited in organic farming.

INDIAN ORGANIC FARMING

- ★ SIKKIM – COUNTRY'S FIRST ORGANIC STATE.
- ★ INDIA HAS HIGHEST % OF ORGANIC FARMERS (30% OF WORLD SHARE) WITH 1.5 MILLION HECTARES UNDER ORGANIC FARMING.
- ★ PARAMPARAGAT KRISHI VIKAS YOJANA: FREE CERTIFICATION PROGRAMME.

OBJECTIVE TYPE QUESTIONS

1. Rural development means:-

- Providing education to rural people
- Providing health facilities to rural people
- Development of agriculture
- All of above

2. Rural people require long term loans.....

- To purchase agriculture machinery
- To buy fertilizers and seeds
- TO improve the land
- All of the above

3. Rural people require short term loans...

- A. To buy factors and cattle
- B. To pay old debits
- C. To meet consumption expenditure
- D. All of the above

4. Rural marketing is related to.....

- A. Regulated markets
- B. Storage
- C. Transportation
- D. All of the above

5. Organic farming is very useful due to

- A. Less use of pesticides
- B. Less use of insecticides
- C. Improvement in soil fertility
- D. All of the above

6. Cow dung, urine, residuals of fruits, mobility of organic nutritious elements are trusted by farmer under.....

- A. Organic farming
- B. Farming
- C. Land holding
- D. Distress farming

7. Regional rural banks contribute in institutional credit.....

- A. 32Percentage
- B. 22 percentage
- C. 12 percentage
- D. 60 percentage

8. Three tier system of rural co-operative credit societies is.....

- A. Primary agricultural credit societies (PACS)
- B. Central co-operative banks
- C. State co-operative banks
- D. All of these

9. Multi-agency approach is related to.....

- A. co-operatives
- B. Commercial Banks
- C. Regional Rural Banks
- D. All of these

10. Different type of production included in Agriculture...

- A. Animal husbandry
- B. Production of milk
- C. Goods related to animal produce
- D. All of these

11. If India has to make real progress, it has to develop its rural areas. It is because.....

- A. One –third of rural India still lives in abject of poverty.
- B. More than the 50% India's population depends on agriculture which is the major source of livelihood in the rural sector.
- C. Growth –rate in the agricultural sector has been quite lower than those of other sectors of the economy.
- D. All the above.

12 .14 major commercial banks were nationalized in---

- A 19 July 1969
- B 19 July 1980
- C 19 July 1975
- D 19 July 1991

13. Diversification of agriculture implies.....

- A. Shift of workforce from agriculture to other allied activities and change in cropping pattern
- B. Commercialization of agriculture.
- C. Use of modern technology
- D. None of these

14. Production of a commodity, mostly through the natural process, is an activity in:^d

- A. Primary
- B. Secondary
- C. Tertiary
- D. Information technology

15 .Livestock sectors in India provide employment to over..... Rural people.

- A. 14.4 million
- B. 52 million
- C. 70 million
- D. 90 million

16. Which of the following accounts for the largest share in the livestock sector of India?

- A. Poultry
- B. Cattle
- C. Goats
- D. Ponies and mules

17. Which of the following is traditional source of rural credit?

- A. Regional Rural Bank
- B. Village Money Lender
- C. Commercial Bank
- D. Co-operative Bank

18. Agricultural diversification mean:

- A. Scientific farming
- B. Large scale farming
- C. Co-operative farming
- D. Production of variety of grains and plans on the same land

19. Surplus population engaged in agriculture can be employed in:

- A. Animal husbandry
- B. Fisheries
- C. Horticulture
- D. All the above

20. Who was the founder of High Yielding Varieties (HYV) of seeds?

- A. Norman E. Borlaug
- B. Dada Bhai Naoroji
- C. Dr. Swaminathan
- D. None of these

OBJECTIVE TYPE QUESTIONS ANSWER KEY

1. D 2. A 3. C 4. D 5. D 6. A 7. C 8. D 9. D 10. D 11. D 12. A 13. A 14. A 15. C 16. A 17. B 18. D 19. D 20. A

B. COMPETENCY BASES QUESTIONS

ASSERTION REASONING BASED QUESTIONS

Q21. ASSERTION (A): Rural development is an action plan for complete and comprehensive development of rural area. REASONING (R): It is required to increase the standard of living of Indians as two third of the population of India lives in rural area.

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.
- Ans: (a)

22. ASSERTION (A): National Bank for Agriculture and Rural Development (NABARD) was set up in 1980. REASONING (R): National Bank for Agriculture and Rural Development (NABARD) is an apex body to coordinate the activities of all institutions involved in the rural financing system.
- 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.
- Ans: (d)

23. ASSERTION (A): Rural people not only face problems with regard to finance, but also encounter difficulties in marketing their goods. REASONING (R): Agriculture Marketing' needs urgent attention in the scheme of securing rapid rural 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.
- Ans: (a)

24. ASSERTION (A): Rapid expansion of the banking system had a positive effect on rural farm and non-farm output, income and employment. REASONING (R): The institutional credit arrangement continues to be inadequate as they have failed to cover the entire rural farmers of the country.
- 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.
- Ans: (b)

25. ASSERTION (A): The emergence of Self-Help Groups (SHG's) ensured the reduction in the fissures of the formal credit system. REASONING (R): The borrowings from SHGs mainly confined to consumption purposes by its members. SHG
- 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

CASE STUDY BASED QUESTIONS

CASE STUDY 1

In agriculture, due to long time gap between crop sowing and realisation of income, farmers are in strong need for credit. Farmers need money to meet initial investment on seeds, fertilisers, implements and other family expenses of marriage, death, religious ceremonies, etc. So, credit is one of the important factors, which contribute to agricultural production. An efficient and effective rural credit delivery system is crucial for raising agricultural productivity and incomes.

26. Which one of the following is not a non-institutional source of credit?

- (a) Money lenders
- (b) Co-operative Credit
- (c) Trader and commission agents
- (d) Land development bank

27. _____ (NABARD/ RBI) is the Apex Bank which coordinates the functioning of different financial institutions, working for expansion of rural credit.

28. Regulated markets were organised to protect the farmers from the malpractices of consumers. (True/ False)^d

Answers: 26. (b) Co-operative Credit 27. NABARD 28. False

CASE STUDY 2

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 markets were often forced to sell at low prices. They also did not have proper storage facilities to keep back their produce for selling later at a better price. Measures were initiated to improve the marketing aspect.

29. Government improve agriculture marketing system through (Control/Regulate)

30. Agricultural marketing is a process that involves the

- (a) Transportation
- (b) Packaging
- (c) Grading
- (d) All of these

31. The first step was regulation of markets to create orderly and transparent marketing conditions (True/Falls)

Answers: 29. Regulate 30. (d) All of these 31. True

CASE STUDY 3

Rural Development is the key issue with the government. Without the development of rural areas India cannot increase its growth to desired level. Rural development does not mean only to develop its agriculture marketing and credit but also to develop education, training, and infrastructure in rural areas. The government has launched many programs especially of provision of credit and marketing facilities. The farmers often have shortage of funds. Farmers generally go to non-institutional sources for their short term and long-term loans. But farmers are generally exploited. To help them government started provided loan through commercial banks and an apex bank named NABARD was established in 1982. Government is also making efforts to improve agricultural marketing by removing the role of intermediaries where farmers can directly sell their produce to seller without involving any commission agent or middlemen.

32. Name the Non-institutional sources of credit

- a) Landlords
- (b) Moneylenders
- (c) Traders and commission agents
- (d) All of above

33. NABARD is established in the year

- (a) 1982
- (b) 1992

- (c) 1980
- (D) 1985

34. Non-farm activities are promoted by government for:

- (a) Regular income to farmer
- (b) Addressing the problem of disguised unemployment
- (c) Reducing pressure on land
- (d) All of the above

Answers: 32. (d) All of above

33. 1982

34. (d) All of the above

35. The gestation lag between sowing and harvesting of crops leads to----- crop caring cost.

Answer-high

36. Landlords, village traders and moneylenders are some important sources of -----credit.

Answer-non-institutional)

37. On the eve of independence, ----- sources show notional existence.

Answer-institutional

38. Self Help Groups (S HGs) and Micro Credit Programmes are an emerging phenomenon in the context of ----- credit.

Answer-rural)

39. Agricultural marketing ----- simply refer to the farmers' act of bringing their produce to the market for sale.

Answer-does not)

40. -----is a significant progressive step in the context of agricultural market system.

Answer- Cooperative marketing

41. Diversification of crop production ----- market risks.

Answer- minimises

42. With the nationalisation of commercial banks, the concept of ----- was put into practice in India.

Answer-social banking

43. High crop productivity led to ----- revolution in horticultural farming in India.

Answer- golden

44. ----- fertilizers erode soil fertility.

Answer- Chemical

45. As a minister for rural development, what will be your action-plan for the development of rural India?

Ans. As a minister for rural development, my action-plan would focus on three basic objectives:

(i) Crop productivity must be increased to increase income from farming. Agriculture should no longer remain merely as a means of subsistence. It must be transformed into a commercial activity that generates profit.

(ii) Avenues of employment outside agriculture must be explored and developed. This is to ensure that rural development no longer remains farm-centric. It becomes more comprehensive and meaningful.

(iii) Rural development must be integrated with human development. This can be achieved only when a significant focus is placed on education and health in the rural areas.

Briefly, action-plan for rural development must be holistic. It must focus on the overall rural development. It should not be restricted merely to the development of agriculture. 3 Marks

46. Given the fact that organic farming offers lower yield than conventional farming, should it be promoted in our country where millions of people are not getting enough to eat? Write your observations in brief.

Ans. It is not denying the fact that organic farming is environment-friendly. But the hard fact cannot be denied that organic farming is less productive compared with conventional farming (using chemical fertilizers, insecticides and pesticides).

We must strike a balance between environment and productivity. The planners and politicians in the country must see to it that environmental degradation is minimised without suffering a substantial loss of productivity. Rejection of conventional farming in favour of organic farming should not push us to a point where food problem becomes an emerging challenge. 3 Marks

47. Explain the role of micro-credit in meeting credit requirements of the poor.

Ans: Micro-credit refers to small loans (available through SHGs) and meant for the impoverished people. These loans are offered without any security and at a moderate rate of interest. Presently, more than seven lakh SHGs are operating across different rural areas. Credit provisions by the SHGs are known as Micro-Credit Program. These program are becoming popular among small borrowers owing to their 'informal credit delivery mechanism' involving minimum legal formalities.
(To be explain in detail) 4 Marks

48. Why is agricultural diversification essential for sustainable livelihoods?

Ans: Agricultural diversification refers to the allocation of farm's productive resources to diverse areas of crop output, so as to reduce market risk. Owing to changes in the relative price structure, if one crop fetches low revenue, the other may fetch high. Thus, diversification helps stabilization of farm income by lowering the market risk.
Diversification also minimizes risk occurring due to monsoon failure.
(To be explain in detail) 4 Marks

49. What do you mean by rural development? Bring out the key issues in rural development.

Ans: Rural development means an 'action - plan' for the economic and social growth of the rural areas. The action - plan is to focus on the lingering and emerging challenges in rural areas.
The principal lingering challenges of rural development are:
(i) Challenges of rural credit, and
(ii) Challenges of rural marketing.
Emerging challenges of rural development include basically:
(i) Exploring options of sustainable livelihood, other than farming, and
(ii) The challenge of organic farming.
(To be explain in detail) 6 Marks

50. Discuss the importance of credit in rural development.

Ans: (i) Most rural people are poor and most farmers are small and marginal holders. As the small and the marginal farmers produce only for their subsistence, they fail to generate sufficient surplus to reinvest on their lands leading to degradation of the land. Thus, credit helps the small and marginal farmers to carrying out permanent improvements on their land and commercialise their farming.
(ii) Owing total on g gestation lag between sowing and harvesting of the crops, short-term credit is required for the purchase of inputs (seeds, fertilizers, etc.).
(iii) Rural artisans and farmers require funds for meeting their general and specific needs.
(iv) Agriculture continues to depend on uncertain monsoon. In order to save them from natural calamities, farm credit becomes essential.
(To be explain in detail) 6Marks

CH 8. Employment

- ★ All those who are engaged in economic activities, in whatever capacity — high or low, are workers

WORKER POPULATION RATIO

- ★ The proportion of population that is actively contributing to the production of goods and services of a country. (India: 38.6, year 2011-12)
- ★ If the ratio is higher, it means that the engagement of people is greater; if the ratio for a country is medium, or low, it means that a very high proportion of its population is not involved directly in economic activities.

Worker-Population Ratio in India, 2017-2018

Sex	Worker-Population Ratio		
	Total	Rural	Urban
Men	52.1	51.7	53.0
Women	16.5	17.5	14.2
Total	34.7	35.0	33.9

WORK FORCE

- ★ Defined by labour bureau:
- ★ No. of employed and unemployed persons ÷ population above 15 years of age

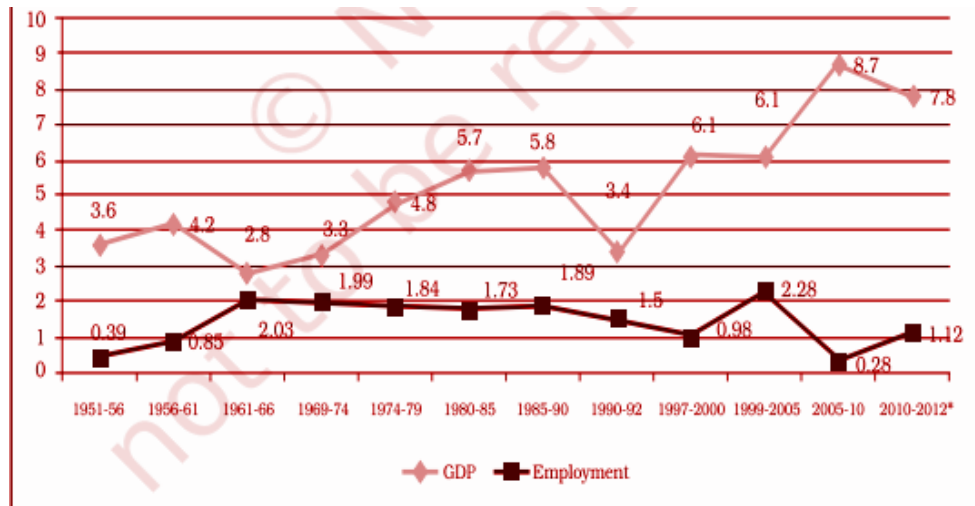
DISTRIBUTION OF WORKFORCE

Distribution of Workforce by Industry, 2017-2018

Industrial Category	Place of Residence		Sex		Total
	Rural	Urban	Men	Female	
Primary Sector	59.8	6.6	40.7	57.1	44.6
Secondary Sector	20.4	34.3	26.5	17.7	24.4
Tertiary / Service Sector	19.8	59.1	32.8	25.2	31.0
Total	100.0	100.0	100.0	100.0	100.0

JOB LESS GROWTH: Analyse the data and graph:

Year	GDP (%)	Employment (%) growth
1990 - 1997	3.4 to 6.1	1.5 to 0.98
2000 - 2005	6.1	0.98 to 2.28
2005-2010	6.1 to 8.7	2.28 to 0.28
2018-19	7.2	3.4



CASUALIZATION OF WORKFORCE

- ★ The process of moving from self-employment and regular salaried employment to casual wage work.

FORMAL SECTOR

- ★ 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 workers.
- ★ Enjoys social security benefits.

EMPLOYMENT IN FORMAL SECTOR

REPORT BY NSSO		
Year	Jobs: formal sector	Jobs: informal sector
2009-12	30 million	443 million
2015-18	74.9 million	Fall from 70% to 68%

REASONS

- ★ 44 labour laws are going to merge in 4.
- ★ Reforms in EPF, ESI, introduction of GST and demonetization linked reforms
- ★ E-commerce, manufacturing and the government are main contributors.

**Source: Report released by Indian Staffing Federation which used the data provided by NSSO.

INFORMAL SECTOR (68% WORK FORCE)

- ★ Informal sector: farmers, agricultural labourers, owners of small enterprises who do not have any hired workers, all non-farm casual wage labourers construction workers and headload workers.
- ★ Social Security Benefits: ??? Just think about it.

POLICIES

Can be categorized as:

- ★ Direct employment generation programmes
- ★ Indirect generation of employment opportunities by the government initiatives in the economy

SOME PROGRAMMES

- ★ National food for work programme: 14 November 2004.
- ★ Skill India Mission: 28 August 2014
- ★ Shramew Jayate: 16 October 2014
- ★ PM Mudra Yojana: 8 April 2015
- ★ Atal Pension: 9 May 2015
- ★ PM Kaushal Vikas Yojana: 21 March 2015
- ★ Start-up India: 16 January 2016
- ★ Stand up India: 5 April 2016

PROBLEMS

- ★ Change in the structure of workforce in India
- ★ Emerging jobs are found mostly in the service sector
- ★ Highly competitive existence
- ★ Outsourcing of work is becoming a common practice.
- ★ The traditional notion of the modern factory or office, as a result, has been altering in such a manner that for many the home is becoming the workplace.
- ★ The nature of employment has become more informal with only limited availability of social security measures to the workers.
- ★ There has been rapid growth in the gross domestic product, but without simultaneous increase in employment opportunities.

MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE ACT: 2005

- ★ LAUNCHED 2 FEBRUARY 2006.
- ★ AT LEAST 100 DAYS OF UNSKILLED MANUAL WORK
- ★ ALL INDIA COVERAGE: 1 APRIL 2008.
- ★ IMPLEMENTATION BY GRAM PANCHAYATS
- ★ WAGE MATERIAL RATIO: 60:40 but decision power is given to districts
- ★ BARGAINING POWER OF WORKERS IS INCREASED, MIGRATION IS CHECKED, LIVING STANDARD IS IMPROVED. WATER CONSERVATION IS INCLUDED,
- ★ 13 CRORES JOB CARDS ARE ISSUED. FOR 100 DAYS OF WORK- Rs 2.8 lakh crores are needed but the govt. budget 2019-20 allocated 60000 crores. Govt. is not serious????
- ★ Reasons: corruption, poor implementation, mostly used for political gain,

PRADHAN MANTRI KAUSHAL VIKAS YOJANA

- ★ 21 March 2015.
- ★ Skill training to 10 million youth (class X and XII drop outs) relevant skill certification for getting work in industries.
- ★ Under the ministry of skill development and entrepreneurship.
- ★ Training programmes have been worked out on the basis of National Occupational Standards.
- ★ Various plans are developed by Sector Skill Councils with participation of industries.

Multiple Choice Questions:

Question 1. Which of the following statement is not true for a worker?

- (A) A worker contributes to the GDP.
- (B) Workers may temporarily abstain from work due to illness.
- (C) Self-employed are not workers.
- (D) Those who help the main workers are also workers.

Ans-C

Question 2. What is the distribution of the workforce in rural and urban areas?

- (A) 75 : 25
- (B) 60 : 40
- (C) 50 : 50
- (D) 40 : 60

Ans-A

Question 3. Which of the following is the correct definition of self-employed?

- (A) Not able to find jobs during some months of the year
- (B) Own and operate their own enterprises
- (C) Receive wages on a regular basis by the employer
- (D) Casually engaged in other individuals enterprises

Ans-B

Question 4. What percent of urban workers are casual labourers?

- (A) 54 percent
- (B) 41 percent
- (C) 39 percent
- (D) 18 percent

Ans- D

Question 5. Which of the following workers is a regular salaried employee?

- (A) Owner of a saloon
- (B) Rickshaw puller
- (C) Cashier in State Bank of India
- (D) Vegetable vendor

Ans- C

Question 6. Which of the following is a primary sector activity?

- (A) Mining and Quarrying
- (B) Construction
- (C) Trade
- (D) Transport and Storage

Ans- A

Question 7. What proportion of the urban workforce is engaged in the secondary sector?

- (A) Half
- (B) One-third
- (C) One-fourth
- (D) One-fifth

Ans-B

Question 8. What was the average rate of growth of employment during 1950-2010?

- (A) 1 percent
- (B) 2 percent
- (C) 5 percent
- (D) 10 percent

ANS-B

Question 9. Which of the following is not a feature of organised sector?

- (A) Job Security
- (B) Social security benefits
- (C) Irregular payment
- (D) Fixed working hours

ANS-C

Question 10. Which of the following is not an employment generation programme?

- (A) Rural Employment Generation Programme (REGP)
- (B) Prime Minister's Rozgar Yojana (PMRY)
- (C) National Food for Work Programme (NFWP)
- (D) Valmiki Ambedkar Awas Yojana

ANS-D

11. Which of the following is an accurate definition of a self-employed person?

- a. A self-employed person receives a salary from their employer on a regular basis
- b. A self-employed person owns as well as operate a business
- c. A self-employed person is employed only for a few months in a year
- d. All of the above

Answer: b

12. Which of the following measures can help to reduce unemployment in a country within a very short period of time?

- a. Increasing the investment in both public and private sector
- b. Reducing the growth rate of a country's population
- c. Reducing the inequalities in terms of distribution of wealth and income
- d. None of the above

Answer: a

13. Which of the following is a major form of livelihood for Indians as it accounts for greater than 50 per cent of the total workforce?

- a. Regular salaried employment
- b. Casual wage labour
- c. Self-employment
- d. None of the above

Answer: c

14. Which of the following statements is not true for a worker?

- a. Any person who is self-employed is not a worker
- b. Any worker has the right to temporarily abstain from their work due to any illness
- c. Any person who is helping the main worker is also called a worker
- d. A worker also contributes to the gross domestic product (GDP) of a country

Answer: a

15. Which of the following workers is a regular salaried employee?

- a. A vegetable vendor
- b. A cashier in a bank
- c. Both a and b are incorrect
- d. Both a and b are correct

Answer: b

16. Which of the following statements is true about disguised unemployment?

- a. The majority of disguised unemployed in India are found in the agriculture sector
- b. The majority of disguised unemployed in India are found in the trade sector
- c. The majority of disguised unemployed in India are found in the transport sector
- d. The majority of disguised unemployed in India are found in the manufacturing sector

Answer: a

17. Which of the following statements is true about unemployment in rural India?

- a. Structural unemployment is a common form of unemployment in rural India
- b. Disguised unemployment is a common form of unemployment in rural India
- c. Educated unemployment is a common form of unemployment in rural India
- d. None of the above

Answer: b

18. Which of the following statements is true about unemployment in urban India?

- a. Seasonal unemployment is a common form of unemployment in urban India
- b. Disguised unemployment is a common form of unemployment in urban India
- c. Open unemployment is a common form of unemployment in urban India
- d. None of the above

Answer: c

19. Which of the following statements is true about unemployment in India?

- a. Voluntary unemployment is the most common form of unemployment in India
- b. Frictional unemployment is the most common form of unemployment in India
- c. Structural unemployment is the most common form of unemployment in India
- d. Technical unemployment is the most common form of unemployment in India

Answer: c

20. Which of the following agencies can provide the data for unemployment in India?

- a. Reports from the census of India
- b. The Directorate General of Employment
- c. National Sample Survey Organisation (NSSO)
- d. All of the above

Answer: d

21. Which of the following statements is true about unemployment?

- a. Seasonal unemployment occurs when there are more people working in a job than is actually required
- b. Open unemployment occurs when there are more people working in a job than is actually required
- c. Disguised unemployment occurs when there are more people working in a job than is actually required
- d. Educated unemployment occurs when there are more people working in a job than is actually required

Answer: c

22. Which of the following statements is true?

- a. An establishment that has four hired workers is known as an informal sector establishment
- b. An establishment that has four hired workers is known as a formal sector establishment
- c. Both a and b are correct
- d. Both a and b are incorrect

Answer: a

23. Which of the following statements is true?

- a. Seasonal unemployment occurs when some workers lose their jobs due to the introduction of new machinery
- b. Technological unemployment occurs when some workers lose their jobs due to the introduction of new machinery
- c. Mechanical unemployment occurs when some workers lose their jobs due to the introduction of new machinery

- d. Structural unemployment occurs when some workers lose their jobs due to the introduction of new machinery

Answer: b

CASE BASED QUESTION:

India's unemployment rate shot up to 7.8% for the week ended November 22 as compared to 5.5% in the preceding week, signaling weakening of labour market. Labour participation rate fell to 39.3% resulting in sharp fall of 114 basis points in the employment rate at 36.24%, data from the center for Monitoring Indian Economy showed. While this was the sign of weakening labour market over the last four weeks, it also reflected the inability of the labour markets to absorb adequate proportions of the working age populations during the festive seasons of 2020 the CMIE said. "The sharp rise of unemployment rate is against the trend seen since the recovery began. The trend 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 36.28% employment rate in the week of November 22 is the lowest employment rate in the week of October 25. The unemployment 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 prelockdown level. And before reaching there it has started to decline again". According to CMIE, the unemployment is the measure of the health of the Indian Economy as it measures the proportion of the working age population that are employed.

Q24) Rise in the unemployment rate week ended in the month of November 22, signals weakening of -----(labour, commodity) market.

Q25) Rise in unemployment rate is an indicator of incomplete----- (recovery/recession) period since May 2020.

Q26) Worker participation ratio is calculated by dividing the total number of workers in India by the total (population/workforce) in India then multiply by 100.

Q27) What does deterioration of labour metric signify.

ANS) Labour, recovery, population, early exhaustion of recovery process.

SOURCE BASED QUESTION:

The pandemic had an impact on unemployment 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%, casual wage 10%, informal salaried job 9% between late 2019 and late 2020. Employees Provident Fund Organisation 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 sector too.

Source: Business Standard .com Aug 8 2020

Q28) Pandemic effected employment ----- (positively/adversely) in the lockdown.

Q29) How pandemic has effected regular salaried workers.

Q30) Which sector workers have weak bargaining power.

Q31) In present scenario what should be done by Employees Provident Fund Organisation.

ANS) Adversely, movement into informal work, unorganized sector, to play innovative and proactive role

(1- marks Questions)

1. What is unemployment?

Ans. It is a situation when people are willing to work at the existing wage rate, and are able to work, but are not getting work.

2. What is meant by underemployment?

Ans. Underemployment is a situation in which a worker does not get a full time job.

3. Define occupational structure.

Ans. Distribution of workforce across Primary, secondary and tertiary sectors is called occupational distribution.

4. What is casualisation of workforce?

Ans. Casualisation of workforce refers to a situation when the percentage of casually- hired workers in the total workforce tends to rise over time.

5. What is informalisation of workforce?

Ans. Informalisation of workforce refers to a situation where percentage of workforce in the formal sector trends to decline and that in the informal sector tends to rise.

6. What is jobless growth?

Ans. jobless growth is a situation when the level of output in the economy tends to rise owing to innovative technology without any meaningful rise in the level of employment. So that unemployment stays as a serious problem, even when there is a rise in GDP.

7. Define the worker population ratio.

Ans. Worker population ratio is an indicator which is used to analyse the employment situation in the country. It is measured as a ratio of workforce to total population of the country.

Worker Population Ratio=Total Number of Workers×100/Total Population

8. Unemployment and poverty are reflections of each other. Give reason.

Ans. It is true because unemployed people do not earn wages and salaries. Thus, poverty is the obvious consequence of unemployment.

9 . Choose the correct alternative:

Assertion: Self employed is a major source of livelihood in both the rural areas and urban areas.

Reason:In rural areas rural people work on their plots of land and in urban areas urban people have their own resource to work.

(a)both reason and assertion are true and reason is correct explanation of assertion.

(b) both reason and assertion are true and reason is not correct explanation of assertion

(c)assertion is true but reason is false

(d)assertion is false but reason is true.

10)Who are workers.

Ans) all those persons who are engaged in economic activities .

11)The newly emerging jobs are found mostly in the------(primary, tertiary) sector.

Ans) tertiary

12)Less women are found in regular salaried job . true or false

Ans)True

13.Explain classification of workforce.

The number of persons, who are actually employed at a particular time are known as workforce.

14.Define GDP

Sum total of the goods and services produced in the economy during a year is called GDP .

15.why are regular salaried employees more in urban areas than in rural areas?

Regular salaried employees are more in urban areas as considerable section of urban people are able to study in various educational institution and it enables them to look for an appropriate job to suit their qualifications and skills. However, in rural areas, most of the people are illiterate and lack skills, which are needed for regular Employment.

16. What do you mean by Informal sector Establishment?

All those private enterprises which hire less than 10 workers are called Informal sectors. Eg: 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.

17. What is meant by frictional unemployment?

Temporary unemployment, which exists during the period, wherein. Workers leave one role and joinsome other, are called frictional unemployment.

People those who are not working and are neither seeking nor available for work are consider to beoutside the labour force.

18. What are the Causes of unemployment ? what are remedial measures to solve problem of unemployment?

1. Slow rate of economic growth
2. Population explosion
3. Underdeveloped agriculture
4. Defective educational system
5. Slow growth of Industry
6. Decline of collage and small industry .
7. Faulty planning
8. Inadequate employment planning.
9. Low capital formation.

Remedial measures for unemployment .

1. Accelerating growth rate of GDP
2. Control of population growth
3. Development to small scale enterprises.
4. Encouragement in infrastructure.
5. Special employment programmes.
6. Rapid industrialisation.

19. Why does workers in rural work migrate to urban areas during some part of the year?

Ans. People in rural areas are engaged mostly in agriculture, which is a seasonal activity. So, rural workforce migrates to urban areas during some part of the year.

20. Name the two kinds of urban unemployment?

1. Industrial unemployment
2. Educated unemployment

21. What do you mean by industrial unemployment?

It refers to the unemployment among the illiterates who wish to work in industrial establishment

22. Give the meaning of educated unemployment.

Educated unemployment refers to the unemployment among the Educated people

23. What is mean by wage employment?

An arrangement in which a worker sells his labour and earns wages in return.

24. Men are found in greater proportion than women in regular salaried employment. Why?

Rural unemployment is of two types :

1. Disguised unemployment
2. Seasonal unemployment

26. What is mean by seasonal unemployment?

Unemployment that occurs at certain seasons of the year is known as Seasonal unemployment.

27. Give the meaning of disguised unemployment?

Disguised unemployment refers to a state in which more people are engaged in work than are really needed.

(3-4 marks Questions)

1. Women in rural areas are ready to work even at low wage rate why?

Ans. This is because of two reasons:

(I) There is widespread poverty in rural areas. poverty compels the women in rural areas to accept low- wage occupations.

2. (ii) Women in rural areas are averse to migration. They are reluctant / willing to migrate to urban areas for jobs. Owing to the lack of education, they are not even capable of finding jobs

outside rural areas. Accordingly, they prefer to be engaged in farm and non-farm activities, but in the rural areas only.

2. How do you evaluate Start-ups in India as a solution to the problem of unemployment? Write two observations.

Ans. (i) Start-up are expected to generate opportunities of self- employment, and are therefore, solution to the problem of unemployment. (ii) Start-ups are to be aided with technical and financial support by the government. Accordingly, these are expected to encourage the use of latent resources (particularly entrepreneur skill and small savings) . When latent resources are used, employment opportunities are bound to arise.

3. "The gap between the growth of GDP and Employment is widening." State the trend which highlight this phenomenon.

Ans. This trend is termed as 'Jobless growth'. Jobless growth refers to a situation when the economy is able to produce more goods and services without a proportionate increase in employment opportunities. There is a situation when there is an overall acceleration in the growth rate of GDP in the economy without corresponding expansion in employment opportunities.

4. 'Labour- force' and 'Work-force' are one and the same thing. Comment.

Ans. The given statement is incorrect. Labour- force includes all those who are working and though not working, are seeking and are available for work, I.e. Labour -force = Persons working + persons seeking and/ or available for work. On the other hand, Work-Force includes all those who are actually employed at a particular time.

5. Analyse the recent trends in sectoral distribution of workforce in India. Ans.

The distribution of workforce in India in different sectors is as follows:

(I) Primary sector is the main source of employment (60.4%), for majority of workers in India.

(ii) Secondary sector provides employment to only 15.8% of workforce.

(iii) 23.8 percent of workers are engaged in the service sector.

6. You are residing in a village. If you are asked to advise the village panchayat, what kinds of activities would you suggest for the improvement of your village which would also generate employment.

Ans. The following two activities can be suggested to improve the village and to generate employment:

(I) **Setting up of small- scale and cottage industries:** Small -scale and cottage industries will not only generate new employment opportunities but will also act as subsidiaries to the industrial sector by providing them raw material.

(II) **Encourage non-farm employment:** Disguised and seasonal unemployment is a

common feature of Indian economy. So, it is necessary to engage these people in non-agricultural sectors like pottery, handicrafts etc.

7. How will you know whether a worker is working in the informal sector? Ans. A worker is working in the informal sector if:

- (I) Such worker works in a private enterprise, which employ less than 10 workers. For example, farmers, agricultural labourers, owners of a small Enterprises, etc.
- (ii) Such worker does not get regular income and does not have any protection or regulation from the government.
- (iii) Such worker has the risk of being dismissed without any compensation.

8. The following table shows the population and worker population ratio for India in 1999 -2000. Can you estimate the workforce (rural and urban) for India?

Region	Estimates of Population (in crores)	Worker Population Ratio	Estimated No.of Workers(in crores) (in
Rural	71.88	41.9	$71.88 \times 41.9 / 100 = 30.12$
Urban	28.52	33.7	?
Total	100.49	75.6	?

Ans. Worker Population Ratio=Total Number of Workers×100/Total Population So Number of Workers= Total Population×Worker Population Ratio/100

Region	Estimates of Population (in crores)	Worker Population Ratio	Estimated No.of Workers(in crores)
Rural	71.88	41.9	$71.88 \times 41.9 / 100 = 30.12$
Urban	28.52	33.7	$28.5 \times 33.7 / 100 = 9.611$
Total	100.49	75.6	$100.40 \times 75.6 / 100 = 75.90$

9. "It is necessary to create employment in the formal sector rather than in the informal sector". Defend or refute the given statement with valid arguments.

Ans. "It is necessary to create employment in the formal sector rather than in the informal sector". The statement is defended because workers of the formal sector enjoy social security benefits and job security which remain protected by the labour laws. On the other hand people engaged in the informal sector do not enjoy any social security benefits and do not have job security. As a result, informal workers are generally very poor and live in slums.

10. Empowerment of women related to employment of women. Comment.

Ans. It is since ages that the women have suffered gender- discrimination. Men have been getting priority in matters relating to education, health, inheritance, marriage and policies. Empowerment of women aims at achieving gender equality. Of all the measures related to empowerment of women, employment of women is of central significance. Employment makes the women economically independent. This enhances their ability as decision- makers in all of walk of life. Once the women are independent decision- makers, they can always strive for gender equality. It is, therefore, required that the participation of women is raised, particularly in secondary and tertiary sectors of the economy.

(5 marks Questions)

1. There is a mismatch between GDP growth and employment growth in India. How do you justify this statement?

Ans. GDP growth in India happens to be faster than employment growth. In other words, even when production activity is expanding, job opportunities continue to be low. This is a situation of 'jobless growth'. This occurs when we rely more and more on labour- saving Western Technology. Such a technology (using more of capital and less of labour) does not suit the needs and means of a country where unemployment is an alarming social challenge. But, given the fact that the country lacks investment capital, we are forced to depend more and more on FDI. Foreign investment in India is linked with foreign technology which is efficient but the one which uses less and less of labour.

Reliance on FDI cannot be minimized. Implying that the reliance on labour-saving western technology cannot be minimized. Accordingly, a mismatch between 'GDP growth' and 'employment growth' cannot be so easily corrected.

2. GDP in India is growing but unemployment stays to be a serious issue. How do you reconcile this facts?

Ans. Despite a rise in GDP, unemployment continues to stay as a serious issue owing to the following reasons:

- (i) Owing to rising population, labour force continues to rise at an alarming rate.
- (ii) Education and Employment of women in India is no longer a social taboo. This has led to a significant rise in the labour force.
- (iii) Strategy of growth is such that we are relying more on the western technology which is labour saving.

Briefly, a significant rise in the supply of labour on the one hand and a significant reliance on the eastern technology, on the other hand, has led to GDP growth without significant conversion of labour force into workforce. Hence, unemployment stays to be a serious issue.

3. The following table shows the distribution of workforce in India for the year 1972-73, analyse it and give reasons for the nature of work force distribution.

Place of Residence	Workforce (in millions)		
	Male	Female	Total
Rural	125	69	195
Urban	32	7	39

Ans. The following points can be analyzed with the help of given data:

- (i) **More proportion of rural population:** The total workforce in India in the year 1972 -73 was 234 million, out of which major portion 83% (195 million) belonged to rural population. and the rest 17% (39 million) belonged to the Urban population. It happened because a majority of rural population was engaged in agricultural and allied sectors.
- (ii) **More Proportion of Males:** Males used to dominate the workforce, in both rural and urban areas. The rural workforce comprises of 125 million males (around 64%) as compared to just 69 million females (around 36%). On the contrast, the urban workforce comprises of about 82% of male workforce and 18% of female workforce. The participation of males was higher due to lack of opportunities available to women for acquiring education and female members were often confined to household work only.
- (iii) **More Proportion of Rural Females:** Females in the rural areas formed 36% of the workforce as compared to just 18% females in the urban workforce.

4. Analyze the recent trends in sectoral distribution of workforce in India. Trends in Employment pattern (sector wise) 1993- 2012(in percentage)

Sector	1993-94	1999-2000	2011-2012
Primary	64	60.4	48.9

Secondary	16	15.8	24.3
Service	20	23.8	26.8

Ans. The given data indicates that over the given period, the proportion of workforce in primary sector has gone down significantly. Whereas, the employment share of both secondary sector and the service sector has increased gradually.

While the share of secondary sector has gone up by approximately 9% recently, the corresponding figure for service sector has gone up by approximately 7.1 %. This also shows that dependency on agriculture remained high as secondary and service sector was not created in of employment.

5. What is seasonal unemployment? Suggest measures for reducing this kind of unemployment in India.

Ans. It refers to a situation where a number of persons are not able to find job in a particular season. It occurs in case of agriculture, ice cream factories, woolen Factories etc. Following measures may be suggested to reduce seasonal unemployment:

(i) promotion of multiple cropping i.e.,

raising more than one crop on the same piece of land in a year.

(ii) Development of activities allied to agriculture as animal husbandry, dairy farming, horticulture etc. to provide extra employment throughout the year

(iii) Public investment in rural areas in such fields as irrigation, drainage, flood control, land and

(iv) environment, improvement of rural roads, schools, hospitals, etc.

Mechanisation of peak season activities so that a proportion of the labour force is permanently shifted from agriculture to non- seasonal activities and surplus labour in the slack

(v) season is reduced.

Establishment of a variety of industries which operate at different times of the year so that labour may be kept employed almost throughout the year by shifting from one seasonal industry to another.

CH.9 Sustainable Economic Development

Meaning:

- ★ Development that will allow all future generations to have a potential average quality of life that is at least as high as that which is being enjoyed by the current generation.
- ★ The concept of sustainable development was emphasised by the United Nations Conference on Environment and Development (UNCED), which defined it as: 'Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs'.
- ★ The Brundtland Commission emphasises on protecting the future generation. This is in line with the argument of the environmentalists who emphasise that we have a moral obligation to hand over the planet earth in good order to the future generation

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

- ★ TRADE-OFF BETWEEN ECONOMIC DEVELOPMENT AND RESOURCES & ENVIRONMENT.
- ★ AVAILABILITY OF OIL/COAL AND GAS:
- ★ OIL: 1.7 TRILLION BARRELS OF RESERVES OF WHICH 45 BILLION BARRELS IS CONSUMED. WILL END BY 2050.
- ★ COAL: 1.1 TRILLION TONNES OF RESERVES. WILL LAST US AROUND 150 YEARS
- ★ GAS: 52 YEARS

SOIL EROSION

- ★ Loss of vegetation occurring due to deforestation
- ★ Unsustainable fuel wood and fodder extraction
- ★ Shifting cultivation and encroachment into forest lands
- ★ forest fires and over grazing
- ★ Non-adoption of adequate soil conservation measures
- ★ Improper crop rotation and indiscriminate use of agro-chemicals such as fertilisers and pesticides
- ★ Improper planning and management of irrigation systems and extraction of ground water in excess.

BIODIVERSITY

- ★ World wildlife fund (WWF):
- ★ 60% of species declined in past 4 decades.
- ★ Amazon rain forests – 20% decrease in 50 years. Burning right now with govt. permission
- ★ Death of coral reefs

Montreal Protocol- 26 August 1987

- ★ The **Montreal Protocol on Substances that Deplete the Ozone Layer** (a protocol to the Vienna Convention for the Protection of the Ozone Layer) is an international treaty designed to protect the ozone layer by phasing out the production of numerous substances that are responsible for ozone depletion.
- ★ As a result of the international agreement, the ozone hole in Antarctica is slowly recovering.

Kyoto protocol

To reduce greenhouse gas emissions, based on the scientific consensus that (part one) global warming is occurring and (part two) it is extremely likely that human-made CO₂ emissions have predominantly caused it.

The Kyoto Protocol was adopted in Kyoto, Japan, on 11 December 1997 and entered into force on 16 February 2005.

GLOBAL WARMING:-

- ★ The observed and projected increase in the average temperature of the earth's atmosphere and oceans.

CAUSES OF GLOBAL WARMING:-

- ★ Increase in the green house gas concentrations.
- ★ Increasing use of fossil fuels.

MAIN EFFECTS OF GLOBAL WARMING:-

- ★ Earth temperature may increase by about 3°C to 5°C by the year 2100.
- ★ Sea levels can increase by at least 25 meters by 2100.
- ★ It can lead to melting of polar ice and affects the drinking water supplies.
- ★ It can cause frequent tropical storms.

Strategies

- ★ Use of Non-conventional Sources of Energy
- ★ LPG, Gobar Gas in Rural Areas
- ★ CNG in Urban Areas
- ★ Wind Power, Solar Power, Mini-hydel Plants
- ★ Traditional Knowledge and Practices
- ★ Bio composting, Bio pest Control

- **Environment** refers to total planetary inheritance and totality of all resources and includes all the biotic and factors influencing each other.

Excessive resource extraction and excess wastes generation from use of resources, both together, cause environmental crisis. It is caused by rising population and rising consumption and production standards.

- **Functions (importance/significance) of environment:**

1. Environment offers resources for production:- resources here include both renewable and non-renewable resources. Renewable resources are those which can be used without the possibility of the resources becoming depleted or exhausted. That is, a continuous supply of the resources remains available.

2. Enhances quality of life

3. Environment sustains life by providing genetic and bio diversity

4. Environment assimilates waste:- this 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.

- **Problems related to environment:-** 1. Problem of pollution. 2. Problem of excessive exploitation of natural resources.

1. Problem of pollution:- the intensive and extensive extraction of both renewable and non-renewable resources has exhausted some of these vital resources and we are compelled to spend huge amounts on technology and research to explore new resources. Added to these are the health costs of degraded environmental quality — decline in air and water quality (seventy per cent of water in india is polluted) have resulted in increased incidence of respiratory and water-

borne disease. Hence the expenditure on health is also rising. To make matters worse, global environmental issues such as 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. (i) air pollution (ii) water pollution (iii) noise pollution

2.excessive exploitation of natural resources:- deforestation:- “deforestation refers to the removal or destruction of the forest cover of an area”. **Causes of deforestation :-**(i) it is caused by growing demand for wood other forest products by the industries (ii) increasing pressure of population (iii) industrialization leads to urbanization and urbanization induces deforestation (iv) construction of dams is another factor for deforestation.

Degradation of land:- “degradation of land means loss of fertility of land”. Degradation of land is caused by the following factors. (i) soil erosion (ii) water logging (iii) deforestation (iv) excessive use of fertilizers.

- **Cause of environmental degradation:-**

1. Population explosion 2. Poverty 3. Increasing urbanization 4. Rapid industrialization 5. Increasing use of insecticides, pesticides and chemical fertilizers 6. Disregard to the civic norms 7. Multiplicity of transport vehicles 8. Improper crop rotation 9. Poverty of the agriculture-dependent people.

State of environment in india:- india supports approximately 17 per cent of the world’s human and 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 country as a result of which the country loses 0.8 million tonnes of nitrogen, 1.8 million tonnes of phosphorus and 26.3 million tones of potassium every year. Our challenging issues are: (i) land degradation (ii) loss of biodiversity (iii) air pollution an urban areas (iv) management of fresh water and (v) management of solid waste.

Principal factor contributing to land degradation in india:- (i) loss of vegetation due to deforestation (ii) multiple cropping along with subsistence farming by small and marginal holders (iii) excessive use of chemical fertilizers, insecticides and pesticides (iv) low water-table (v) soil erosion occurring due to floods, strong winds and other factor.

How to save environment?:- 1. Social awareness 2. Population control 3. Afforestation campaign 4. Enforcement of environment conservation act 5. Water management 6. Management of solid waste 7. Control over industrial pollution 8. Improvement in housing.

Government measures for environment protection:- 1. The environment protection act.1986 2. The forests (protection) act.1980 3. Pollution control boards 4. Clean development mechanism 5. National green tribunal act.2010.

- **Global warming:-** “global warming refers to the phenomenon of sustained increase in global temperature due to environmental pollution and deforestation.” **Causes of global warming:-** (i) burning of coal and petroleum products are sources of carbon dioxide (ii) deforestation (increases the amount of carbon dioxide) release of methane gas from animal waste.
- **Chipko and appiko movements are related to project forests:-** in order to address two major environment 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.
- **Sustainable development:-** “sustainable development is that process of economic development which aims at raising the quality of life of both present and future generations, without harming natural resources and environment”. The concept of sustainable development was emphasised by the united nations conference on environment and development (unced), which defined it as: ‘development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs.’

the Brundtland Commission (1987) emphasises on protecting the future generation. This is in line with the argument of the environmentalists who emphasise that we have a moral obligation to hand over the planet earth in good order to the future generation; that is, the present generation should bequeath a better environment to the future generation. The present generation can promote development that enhances the natural and built environment in ways that are compatible with (i) conservation of natural assets (ii) preservation of the regenerative capacity of the world's natural ecological system (iii) avoiding the imposition of added costs or risks on future generations.

Features of sustainable development:- 1. Increase in per capita income and welfare over time 2. Rational use of natural resources 3. Check on pollution 4. Ability of future generations to fulfill their need.

Strategies for sustainable development:-

1. Use of non-conventional sources of energy: India, as you know, is hugely dependent on thermal and hydro power plants to meet its power needs. Both of these have adverse environmental impacts. Wind power and solar rays are good examples of conventional but cleaner and greener energy sources but are not yet been explored on a large scale due to lack of technological devices.

2. Lpg gober gas in rural areas: households in rural areas generally use wood, dung cake or other biomass as fuel. This practice has several adverse implications like deforestation reduction in green cover, wastage of cattle dung and air pollution. To rectify the situation, subsidised lpg is being provided. In addition, gober gas plants are being provided through easy loans and subsidy. As far as liquefied petroleum gas (lpg) is concerned, it is a clean fuel—it reduces household pollution to a large extent. Also energy wastage is minimised.

3. 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.

4. Solar power through photovoltaic cells: India is naturally endowed with a large quantity of solar energy in the form of sunlight. Plants use solar energy to perform photosynthesis. Now, with the help of photovoltaic cells, solar energy can be converted into electricity.

5. Mini-hydel plants: in mountainous regions, streams can be found almost everywhere. A large percentage of such streams are perennial. Mini-hydel plants use the energy of streams to move small turbines. 6. Input efficient technology 7. Integrated rural development 8. Use of environmental friendly sources of energy 9. Manage the waste 10. Shift to organic farming 11. Public means of transport 12. Awareness to conserve natural assets for inter-generational equity.

Topic – sustainable economic development

Instructions :

1. The question paper contains two sections.
2. Section a has 60 questions . All questions carry 1 marks.
3. Section b has 61 to 75 questions. Marks for questions are indicated against each question.

Section - A

1. Where was the sustainable development explained for first time?

- (a) World development report. (b) Brundtland commission report
(c) first earth summit report. (d) human development report

Ans: (b)

2. Which of the following is not a sustainable development goal targeted to be achieved by 2030 -

- (a) Gender equality. (b) zero hunger
(c) good health and well-being. (d) space research

Ans: (d)

3. The 'agenda' 21 of Rio Summit 1992 is related to -

- (a) sustainable development. (b) polluter - pays principle
(c) environmental education. (d) preservation of ozone layer

Ans: (a)

4. The first airport powered solar energy was -

- (a) Bangalore. (b) Cochin. (c) London. (d) Frankfurt

Ans: (b)

5. Which of the following do not form part of a strategy of sustainable development?

- (a) Relying more on organic farming
(b) Reducing the use of personal vehicles and promoting public transport
(c) safeguarding the habitats of indigenous communities, flora and fauna
(d) Not compromising on the needs of the present generation with respect to future generations

Ans: (d)

6. The discussion on sustainable development was started after submitting a report on environment to the United Nations in 1987, that report was -

- (a) First report on climate change. (b) Our Common Future
(c) Second report on climate change. (d) Fifth Assessment Report

Ans: (b)

7. Which of the following are to be managed for sustainable development?

- (a) industries (b) forests. (c) crops. (d) resources

Ans: (d)

8. What was the theme of the World Sustainable Development Summit 2021 ?

- (a) Attaining the 2030 Agenda: Delivering on our promises
(b) Partnership for a Resilient Planet
(c) Redefining our common future: safe and secure environment for all
(d) Towards 2030 Goals: Making the Decade Count

Ans: (c)

9. One of the conventional sources of energy is

- (a) wind energy (b) tidal energy
(c) hydro electric energy. (d) none of the above

Ans: (d)

10. Chipko movement was started in -

- (a) 1973. (b) 1977. (c) 1989. (d) 1968

Ans: (a)

11.—————means the ability of the environment to absorb degradation.

Ans: absorptive capacity

12.the cpcb (central pollution control board) has identified—————categories of industries (large and medium scale) as significantly polluting.

Ans: 17

13.the concept of sustainable development was emphasised by————.

Ans: united nations conference on environment and development (unced)

14. The use of—————as fuel in public transport system may reduce air pollution.

Ans: compressed natural gas (cng)

15.in recent years, india is taking efforts to increase the power generation through solar. India is also leading an international body called—————.

Ans: international solar alliance (ias)

16. Identify the correct sequence of alternatives given in column ii by matching them with respective terms in column i.

Column I	Column II
(a) A un conference on climate change, held in kyoto, japan in 1997	(i) emphasised the concept of sustainable development
(b) The cpcb (central pollution control board)	(ii) to fight global warming
(c) the united nations conference on environment and development (unced)	(iii) emphasised on protecting the future generation.
(d) the brundtland commission	(iv) identified 17 categories of industries (large and medium scale) as significantly polluting

(A) (a) - (ii), (b) - (iv), (c) - (i), (d) - (iii)

(B) (a) - (iii), (b) - (ii), (c) - (iv), (d) - (i)

(C) (a) - (i), (b) - (iii), (c) - (ii), (d) - (iv)

(D) (a) - (iv), (b) - (i), (c) - (iii), (d) - (ii)

Ans: (a) - (ii), (b) - (iv), (c) - (i), (d) - (iii)

17. Cpcb is the full form of—————.

Ans: central pollution control board

18. state whether the following statement is true or false :

“use of chlorofluorocarbons has led to ozone depletion.”

Ans: true

19. which of the following is not used as strategy for sustainable development?

- (a) Use of bio-gas
- (b) Use of solar power
- (c) Use of thermal power
- (d) Use of hydel power

Ans: (c)

20. Read the following statements carefully and choose the correct alternatives from the following:

Statement 1 : environment includes all the biotic factors that influence each other.

statement 2 : biotic elements include non - living elements like air, water, land etc.

Alternatives:

- (a) Both the statement are true
- (b) Both the statement are false
- (c) Statement 1 is true but statement 2; is false
- (d) statement 2 is false but statement

Ans: (c)

21. 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

Ans: (c)

22. Effects of global warming:

- (i) extinction of species
 - (ii) melting of polar ice
 - (iii) frequent tropical storms
 - (iv) increase in use of pesticides
- (a) (i) and (ii) (b) (ii) and (iii)
(c) (i) ,(ii) and (iii) (d) all of these

Ans: (c)

23. " soil erosion causes extinction of plant life and microorganisms ".

(true/ false)

Ans: true

24. " environment supplies resources which are strategic for production"

(true / false)

Ans: true

25. ----- (renewable / non-renewable) resources are those which get exhausted with extraction and use.

Ans: non-renewable

26. Read the following statements - assertion (a) and reason (r).

choose one of the correct alternatives given below :

Assertion (a). Promotion of natural resources,conservation,preserving regenerative capacity of ecological system,reducing environmental degradation, and avoiding the imposition of environmental risks on future generations would lead to sustainable development.

Reason (r). Sustainable development meets the basic needs of all, particularly the poor majority, for employment, food, energy, water, housing and ensures growth of agriculture, manufacturing, power and services to meet these needs.

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.

Ans: (b)

27.read the following statements - assertion (a) and reason (r).

choose one of the correct alternatives given below :

Assertion (a). Supply demand reversal of environmental resources is a major global environmental issue. It refers to a situation of environmental crisis where demand of environmental resources is much more than their supply.

Reason (r). Prior to industrialisation, urbanisation and phenomenal increase in population, the rate of resource extraction was less than the rate of regeneration of environmental resources. After industrialisation and increase in population, there is heavy pressure on the absorptive capacity of the environment.

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.

Ans: (a)

28. Read the following statements - assertion (a) and reason (r).

choose one of the correct alternatives given below :

Assertion (a). Lack of education leads to massive usage of renewable and non-renewable sources of energy.

Reason (r). Due to illiteracy, people do not realise the importance of environmental resources and are not aware of saving environment.

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.

Ans: (a)

29. Read the following statements - assertion (a) and reason (r).

choose one of the correct alternatives given below :

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.

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.

Ans: (a)

30. Read the following statements carefully and choose one of the correct alternatives given below:

Statement 1. Deforestation is a continuous and substantial decrease in the forest cover.

Statement 2. If there is loss to forest cover, it fails to act as a good indicator of quality of land.

Alternatives:

(a) both the statements are true.

(b) both the statements are false.

(c) statement 1 is true, but statement 2 is false. (d) statement 2 is true, but statement 1 is false.

Ans: (a)

Case based question

read the following article and answer the questions on the basis of same:

environmental degradation and disturbed ecosystems aggravate disasters and their impacts such as 2020's covid-19 pandemic, super cyclone and a deadly pest attack, one after the other. This is the year of reflection, to sit back and analyze what has infuriated nature so much that it is unfolding such shocks.

Nature is a sort of given that never demands anything in return. It's the source of all food, air, and water. But today the planet that has been tendering our civilizations has turned ill and needs time for recovery. Our carbon footprint has become so large that it would take 1.6 earths to meet the demand that humans make on nature each year.

Today's greatest environmental threats are climate change, species' extinction, biodiversity loss, pollution, water stress, draining of natural resources, soil degradation, and deforestation. It will take combined action from business, cities, citizens and countries to improve the environment's health. Governments and green organisations are trying for that but the task needs individual contribution.

31. Greatest environmental threats in present times:

(a) biodiversity loss (b) pollution (c) species extinction (d) all of these

Ans: (d)

32. Due to environmental degradation and distributed ecosystems, our planet earth has turned ill and needs time for _____(extinction/recovery).

Ans: recovery

33. Prior to industrialisation and phenomenal increase in population, the demand for environmental resources was _____(less/more) than their supply.

Ans: less

34. Measure to control environmental degradation _____.

(a) population control (b) pollution control
(c) both (a) and (b) (d) neither (a) nor (b)

Ans: (c)

Case based question

Read the following hypothetical text and answer the given question:

Sustainable development is the synonymous in the minds of many with the colour green and for good reasons. Twenty years ago, at the first earth summit at rio de janeiro, 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 every 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 mahabubulhaq 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.

35. Which of the following is not one of the ways to attain the goal of sustainable development ?

(a) use of cleaner fuels (b) use of traditional knowledge and practices
(c) spreading awareness (d) sticking to methods to promote inequalities.

Ans: (d)

36. State whether the given statement is true or false:

as per the undp report education and health are the broader issues of human development.

(true/false)

Ans: true

37. Sustainable development and economic growth are _____(directly/indirectly) Related.

Ans: directly

38. Sources of electricity are _____.

- (a) Water (b) oil, coal (c) gas (d) all of these

Ans: (b)

39. Power generated using water :

- (a) Atomic power (b) thermal power (c) hydroelectric (d) none of these

Ans: (c)

40. Electricity boards at present are running into huge losses. These losses are due to:

- (a) theft of electricity (b) transmission and distribution losses
(c) wrong pricing of electricity (d) all of these

Ans: (d)

41. Non - conventional sources of energy:

- (1) solar energy (2) wind energy (3) bio -energy (4) coal
(a) (1) & (2) (b). (1) &(4) (c) (3) & (4) (d) (1) , (2) & (3)

Ans: (d)

42. _____ is cused by high levels of bromine and chlorine compounds in the atmosphere .

- (a) global warning (b) water pollution (c) ozone pollution (d) none of these

Ans: (c)

43. _____ is the total planetary inheritance and the totality of all resources.

- (a) air pollution (b) sustainable development
(c) ozone layer (d) environment

Ans: (d)

44. Central pollution control board was set up in:

- (a) 1968 (b) 1974. (c) 1978. (d) 1972

Ans: (b)

45. Factor casing environmental pollution :

- (a) air pollution. (b) population explosion.
(c) water contamination (d) all of these

Ans: (d)

46. _____ will lead to sustainable development.

- (a) promotion of natural resources
(b) preserving regenerative capacity of ecological system.

(c) reducing environmental degradation

(d) all of these

Ans: (d)

47. Global environmental issues causing environmental crisis :

(a) global warning

(b) ozone depletion

(c) both (a) and (b).

(d) neither (a) nor (b)

Ans: (c)

48. Cause of environmental degradation. :

(1) increasing urbanisation

(2) poverty

(3) increase in pollution

(4) organic farming

(a) (1) & (2)

(b). (1) &(4)

(c) (3) & (4)

(d) (1) , (2) & (3)p.

Ans: (d)

49. Effects of global warning. :

(1) extinction of species.

(2) melting of polar ice

(3) frequent tropical storms

(4) increase in use of pesticides

(a) (1) & (3)

(b) (2) & (3)

(c) (1) , (2) & (3)

(d) all of these

Ans: (c)

50. Ujjwala yojana targets provision of free————— (lpg gas cylinders / electricity) to rural india.

Ans: lpg gas cylinders

51.match the following items given in column a with those in column b.

Column a	Column b
(1)non-conventional sources of energy	(a) Gbd
(2)conventional sources of energy	(b)coal,petroleum
(3)an indicator to measure number of people dying prematurely	(c)morbidity
(4)urban-rural divide	(d)solar energy,wind energy
(5)proneness to fall sick	(e)regional bias

(a)(1)-(d);(2)-(b);(3)-(a);(4)-(e);(5)-(c)

(b)(1)-(b);(2)-(a);(3)-(d);(4)-(c);(5)-(e)

(c)(1)-(c);(2)-(b);(3)-(e);(4)-(a);(5)-(d)

(d)(1)-(a);(2)-(e);(3)-(c);(4)-(b);(5)-(d)

Ans: (a)

52.match the following items given in column a with those in column b.

Column a	Column b
(1)economic infrastructure	(a)enhances quality of human resources
(2)social infrastructure	(b)promotes economic development
(3)commercial sources of energy	(c)firewood,agricultural waste
(4)non-commercial sources of energy	(d)coal,petroleum

A)(1)-(a);(2)-(d);(3)-(c);(4)-(b)

(b)(1)-(b);(2)-(a);(3)-(d);(4)-(c)

(c)(1)-(c);(2)-(b);(3)-(d);(4)-(a)

(d)(1)-(a);(2)-(d);(3)-(c);(4)-(b)

Ans: (b)

53.choose the correct pair of statements given in column a and column b.

Column a	Column b
(1)thermal power	(a)power generated from radioactive elements
(2)hydroelectric power	(b)power generated from the waters of speedily flowing rivers and high dams
(3)nuclear power	(c)power generated by using coal,oil and natural gas

(a)(1)-(a)

(b)(2)-(c)

(c)(2)-(b)

(d)(3)-(c)

Ans: (c)

54. match the following items given in column a with those in column b.

Column a	Column b
(1)chipko movement	(a)pollution
(2)environmental degradation	(b)protection of forests
(3)rational use of environmental resources	(c)photovoltaic cells
(4)solar power	(d)sustainable development

(a) (1)-(a);(2)-(d);(3)-(c);(4)-(b)

(b) (1)-(d);(2)-(a);(3)-(b);(4)-(c)

(c) (1)-(c);(2)-(b);(3)-(d);(4)-(a)

(d) (1)-(b);(2)-(a);(3)-(d);(4)-(c)

Ans: (d)

statement 2 : due to depletion of ozone layer, more ultra violet radiation comes to earth and causes damage to living organisms.

Alternatives:

- (h) Both the statement are true
- (i) Both the statement are false
- (j) Statement 1 is true but statement 2; is false
- (k) Statement 2 is false but statement 1 is true

Ans: (d)

Section - B

61. Mention the functions performed by the environment. (3)

Ans.environment performs four important functions:

- 1.supplies resources
- 2.assimilates wastes
- 3.sustains life
- 4.provides aesthetic services

62. Define carrying capacity of environment. (3)

Ans. The environment is able to perform its functions without any interruption as long as the demand on these functions is within its carrying capacity.

Carrying capacity means to fulfill the following conditions:

- (i)extraction of resources should be less than the rate of regeneration of resources;and
- (ii)wastes generated are within the assimilating (absorption) capacity of the environment.

63.What is bio-diversity loss ? (3)

Ans .The high density of population,livestock and the competing uses of land for agriculture,forestry , human settlements, industries etc.exert an enormous pressure on the country's finite resources, which puts a strain on the eco-system resulting in extinction of plants and animal species.this loss in known as bio-diversity loss.

64. **Explain briefly steps and strategies for sustainable development.** (6)

Ans: possible strategies to achieve sustainable development in india are:

- (i) use of non-conventional sources of energy
- (ii) encouraging use of cleaner fuels
 - (a) rural areas:
 - (b) urban areas:
- (iii) wind power
- (iv) solar power through photovoltaic cells
- (v) setting mini-hydel plants
- (vi) traditional knowledge and practices
- (vii) organic farming
- (viii) biocomposting

65. "ujjwala yojana has been a game changer for rural india". state any three conventional fuels being targeted under the lpg cylinder distribution scheme(ujjwala yojana).

(3)

Ans: the conventional sources of energy cause environmental pollution therefore the government has introduced the 'ujjwala yojana' as a game changer for rural india by providing free lpg gas cylinders (cleaner fuel) to rural households.

The three conventional fuels targeted under ujjwala yojana are:

- (i) agricultural waste and dried dung
- (ii) firewood
- (iii) coal

66. "if conditions of carrying capacity are not fulfilled, then environment fails to sustain life and results in an economic crisis". explain.

(3)

Ans. if these conditions are not fulfilled, then environment fails to sustain life and results in an economic crisis. it is because:

- (i) the rising population of the developing countries and the affluent consumption and production standards of the developed world have placed a huge stress on the environment (in terms of its 2 functions of supplying resources and absorbing waste).
- (ii) many resources have become extinct and the wastes generated are beyond the absorptive capacity of the environment. absorptive capacity means the ability of the environment to absorb degradation without causing environmental damage.

67. Distinguishes between commercial sources and non- commercial sources of energy.

(4)

Ans. -

Commercial sources of energy	Non-commercial sources of energy
1. Commercial sources of energy have A market, as these are bought and sold.	1. Non-commercial sources of energy do Not have a market. These are generally free. These are found in nature/forests.
2. As these are bought and sold, these Command a price.	2. As these are available free of cost, these do not command a price. However, may be sold locally in rural and urban areas, but still do not generate profit, hence are non-commercial sources of energy in nature.
3. These sources are largely used for industrial and commercial purposes.	3. These are generally used for domestic consumption.
4. These sources of energy are generally exhaustible (with the exception of hydropower). example: coal, petroleum, electricity.	4. These sources are generally renewable. example: firewood, dried dung, agricultural waste.

68. Differentiate between conventional sources and non- conventional source of energy.

(4)

Ans-

Conventional sources of energy	Non-conventional sources of energy
1. These have been in use since long time. These are traditional sources of energy.	1. These are the new sources of energy and most of them are still in the experimental stages and being worked upon.
2. These sources are non-renewable.	2. These sources are renewable.
3. These are not environment-friendly as these pollute the environment.	3. These have environment-friendly features.
4. These are limited.	4. These are in abundance and can be renewed.

69. Mention the strategy for sustainable development.

(4)

Ans:

The strategies are:

- Use of non-conventional sources of energy
- Encouraging use of cleaner fuel
- Setting mini hydel plants
- Using traditional practices
- Biocomposting
- Biopest control

70. Define environment. explain briefly the functions of environment.

(4)

Ans: environment includes water, air and land and the interrelationship which exists among and between water, air, land and human beings and other creatures, plants, micro-organisms and property.

The environmental performers four vital functions. The are :

- (i) environment supplies resources
- (ii) environment assimilates (absorbs) waste
- (iii) environment sustainable life
- (iv) environment provides aesthetic services

71. Suggest some measures to control environmental degradation.

(6)

Ans: (i) population control

- (ii) pollution control
- (iii) eradication of poverty
- (iv) creating awareness among masses
- (v) management of solid waste
- (vi) adopting sustainable development

72. Define sustainable development. Explain briefly it's features.

(6)

Ans: sustainable development refers to the development strategy to meet the needs of the present generation without compromising the needs of future generations. It enables all generations (present and future) to make best use of the resources.

Features of sustainable development

- (i) sustainable rise in per capita income (real) and economic welfare
- (ii) ability of future generations to meet their needs
- (iii) rational use of environmental resources
- (iv) control on pollution

73. Explain briefly reasons of environmental crisis. (6)

Ans: various reasons are :

- (i) global warming.
- (ii) ozone depletion.
- (iii) overuse and misuse of environmental resources.
- (iv) opportunity cost of negative environmental impacts.
- (v) supply demand reversal of environmental resources

74. What are the challenges to the country's environment ? (6)

Ans: the challenges are

- (i) pollution.
- (ii) degradation of natural resources. It has two forms:
 - (a) deforestation
 - (b) land degradation
- (iii) biodiversity loss.
- (iv) management of fresh water and solid waste.

75. Explain state of india's environmental as regards to natural resources of india. (6)

Ans: india has abundant natural resources in terms of rich quality of soil, hundreds of rivers and tributaries, lush green forests, plenty of mineral deposits beneath the land surface, vast stretch of the indian ocean, ranges of mountains etc.

- The black soil of the deccan plateau is particularly suitable for cultivation of cotton, leading to concentration of textile industries in this region.
- The indo-gangetic plains-spread from the arabian sea to the bay of bengal-are one of the most fertile, intensively cultivated and densely populated regions in the world.
- Large deposits of iron-ore, coal and natural gas are found in the country. India alone accounts for nearly 8 per cent of the world's total iron-ore reserves.
- Bauxite, copper, chromate, diamonds, gold, lead, lignite, manganese, zinc, uranium, etc. Are also available in different parts of the country.

1. Which of the following is NOT an abiotic element?

- a) Water
- b) Plants
- c) Land
- d) Air

Ans: B) Plants

2. When resource extraction is more than resource regeneration, and absorption capacity of environment is exceeded, it results in _____:

- a) Environmental crisis
- b) Soil erosion
- c) Pollution
- d) Depletion of ozone layer

Ans: A) Environmental crisis

3. Which of the following are effects of global warming?

- a) Extinction of species
- b) Melting ice caps
- c) Stronger hurricanes and tropical storms
- d) All of the above

Ans: D) All of the above

4. _____ is the ability of environment to absorb degradation:

- a) Carrying capacity
- b) Global warming
- c) Absorptive capacity
- d) None of the above

Ans: C) Absorptive capacity

5. The ozone layer is depleting due to high levels of _____ & _____ compounds in the stratosphere:

- a) Carbon and methane
- b) Chlorine and bromine
- c) Methane and nitrogen
- d) Sulphur and carbon

Ans: B) Chlorine and bromine

6. CFCs are used as _____ substances in appliances:

- a) Heating
- b) Neutralizing
- c) Cooling
- d) None of the above

Ans: C) Cooling

7. Depletion of the ozone layer led to signing of the _____:

- a) Montreal Protocol
- b) Kyoto Protocol
- c) Maastricht Treaty
- d) Vienna Convention

Ans: A) Montreal Protocol

8. Which of the following are causes of land degradation?

- a) Shifting cultivation
- b) Improper crop rotation
- c) Emission of CFCs
- d) Both a) and b)

Ans: D) Both a) and b)

9. The Central Pollution Control Board was set up in the year:

- a) 1976
- b) 1974
- c) 1985
- d) 1991

Ans: B) 1974

10. India signed the Montreal Protocol in the year:

- a) 1991
- b) 1998
- c) 1992
- d) 1994

Ans: C) 1992

11. _____ is the observed and projected increase in the average temperature of earth's atmosphere and oceans:

- a) Global warming
- b) Ozone depletion
- c) Biodiversity loss
- d) Deforestation

Ans: A) All of the above

12. _____ is the main reason for soil erosion:

- a) Biodiversity loss
- b) Air pollution
- c) Ozone depletion
- d) Deforestation

Ans: D) Deforestation

13. Sustainable development can be achieved by:

- a) Usage of cleaner fuels
- b) Control of biopest
- c) Usage of bio-compost
- d) All of the above

Ans: D) All of the above

14. Biodiversity is defined as the _____ among living organisms from all sources:

- a) Similarity b) Variability
- c) Proportion d) None of the above

Ans: B) Variability

15. The Montreal Protocol was signed by members of _____:

- a) World Trade Organization b) UNESCO
- c) United Nations d) UNICEF

Ans: C) United Nations

16. Which of the following is a component of environment?

- (a) Living elements only (b) Non-living elements only
- (c) Both (a) and (b) (d) None of these

Ans: C) Both a and b

17. Which of the following is not considered as an element of environment?

- (a) Air (b) Land
- (c) Weather (d) Electricity

Ans: d) Electricity

18. Which of the following is a cause of environmental degradation?

- (a) Population explosion (b) Increasing urbanization
- (c) Rapid industrialization (d) All of these

Ans: d) All of these.

19. Sustainable development is that development which satisfies the need of:

- (a) Present generation only (b) future generation only
- (c) both (a) and (b) (d) none of these

Ans: b) future generation only

20. Which of the following is a necessary condition of sustainable development?

- (a) Increase in the quality of life (b) Reduction in the level of pollution
- (c) Conservation of the stock of natural capital (d) All of these

Ans: d) All of these

21. An increase in real income along with equitable distribution is called:

- (a) economic growth (b) economic development
- (c) sustainable development (d) none of these

Ans: a) Economic growth

22. Which of the following statements highlight the significance of environment?

- (a) It offers resources for production (b) It enhances quality of life
- (c) It sustains life (d) All of these

Ans: d) All of these

23. The basic problem related to environment is:

- (a) problem of pollution (b) problem of excessive exploitation of natural resources
- (c) Problem of degeneration (d) both (a) and (b)

Ans: d) both (a) and (b)

24. Which of the following factors contribute to air pollution?

- (a) Smoke emitted by industries
- (b) Poisonous gases emitted in the process of chemical treatment of the materials
- (c) Emission of gases by motorvehicles
- (d) All of these

Ans: d) All of these

25. Industrial waste streaming into the rivers contributes to:

- (a) Air pollution (b) Water pollution
- (c) Land pollution (d) Noise pollution

Ans: b) water pollution

26. Principal cause of environmental pollution is:

- (a) Population explosion (b) rapid industrialization

(c) Increasedurbanization(d) all of these

Ans: d) all of these

Fill in the Blanks

Choose appropriate word and fill in the blank:

1. Resources are those which can be replenished.(Renewable/Non-renewable)
2. Carrying capacity of environment refers to the situation when generation of waste exceed the absorption capacity of environment. (does/does not)
3. Pollution causes hypertension, asthma, respiratory problems. (Air/Water)
4. Thermal power houses discharging ash mixed with water is an example of pollution. (Water /soil)
5. forestry aims at reversing the process of deforestation. (Social/Ecological)
6. Alkalinity and salinity of soil is caused by. (Water logging/water pollution)
7. _____is the strategy of sustainable development.(Shift to organic farming/Output efficient technology)
8. _____is a situation referring to a gradual but consistent increase in globaltemperature.
(Global warming/Ozone depletion)
9. Population control go a long way in combating environmental degradation.(Can/cannot)
10. Sustainable development requires the use of(output-efficient technology/input-efficient technology)

Answers

1. Renewable
2. Does not
3. Air
4. Water
5. Social
6. Water logging
7. Shift to organic farming
8. Global warming
9. Can
10. input-efficient technology.

ASSERTION/REASON AND CASE BASED QUESTIONS

Read the following statements: Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

1. Assertion (A): The use of chlorofluorocarbons (CFC) is banned throughout the world.

Reason (R): CFC is supposed to be the main reason for ozone depletion.

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

Ans – a)

2. Assertion (A): Presently, global atmosphere is warming up.

Reason (R): The depletion of the stratospheric ozone layer has resulted in an increase in ultraviolet radiation reaching the earth.

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

Ans – b)

3. Assertion (A): In India, land suffers from different types of degradation.

Reason (R): In India, there are appropriate management practices to avoid land degradation.

Alternatives:

- a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
 - b) Both Assertion and Reason 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
- Ans – c)

4. Assertion (A): The crude oil reserves are going down for the entire world and the 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.

- a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
 - b) Both Assertion and Reason 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
- Ans – b)

5. Assertion (A): Affluence in living standards is causing environmental degradation.

Reason (R): Increase in wealth increases the demand for goods and services.

- a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
 - b) Both Assertion and Reason 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
- Ans – a)

6. Assertion (A): Sustainable development is essential for the economic growth of the country.

Reason (R): Sustainable development ensures that environment-friendly measures are adopted for carrying out the production process.

- a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
 - b) Both Assertion and Reason 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
- Ans – a)

7. Assertion (A): Sustainable Development must be adopted to save the environment from degradation.

Reason (R): It is a matter of discussion among different countries of the world.

- a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
 - b) Both Assertion and Reason 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
- Ans – c)

8. Assertion (A): Sustainable development is critical to well being of human society.

Reason (R): Environmentally sound policies do not harm the environment or deplete the natural resources.

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

Ans – b)

9. Assertion (A): Non-renewable resources are abundant in nature.

Reason (R): Non-renewable resources will get exhausted after several years of usage.

a) Both Assertion and Reason are true and Reason (R) is the correct

explanation of Assertion (A)

b) Both Assertion and Reason 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

Ans – d)

10. Assertion (A): All resources are not exhaustible.

Reason (R): Renewable resources can become non-renewable.

a) Both Assertion and Reason are true and Reason (R) is the correct

explanation of Assertion (A)

b) Both Assertion and Reason 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

Ans – b)

CASE STUDY

Read the following hypothetical text and answer the given questions: Sustainable development is the synonymous in the minds of many with the colour green and for good reasons. Twenty years ago, at the First Earth Summit at Rio de Janeiro, 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 Ul 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.
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.
3. Sustainable development and economic growth are _____ (directly/indirectly) related. (choose the correct alternative)
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.

ANSWERS:

- Q.1 d) Sticking to methods to promote inequalities.
Q.2. True
Q.3 Directly
Q.4 a) Both Assertion (A) and Reason (R) are true.

DESCRIPTIVE QUESTIONS

1. Define economic growth.

Ans. Economic growth refers to long -term increase in real per capita income.

2. Define economic development.

Ans. Economic development refers to long -term increase in real per capita income, along with equitable distribution.

3. What is the main difference between economic development and sustainable development?

Ans. Economic development refers to long -term increase in real per capita income, along with equitable distribution for the present generation.

Sustainable development refers to increase in real per capita income, along with equitable distribution both for the present and future generations.

4. Give two examples of biotic components of environment.

Ans. Plants and animals.

5. Give two examples of abiotic components of environment.

Ans. Water and air.

6. Define carrying capacity of environment.

Ans. Carrying capacity of environment refers to the situation when:

(i) Exploitation of resources does not exceed the regeneration of resources, so that the resource endowment is not depleted, and

(ii) Generation of wastes does not exceed the absorption capacity of environment, so that environment is not polluted .

7. Do you agree with the view that the use of public transport in place of personal transport reduces environmental degradation?

Ans. It is absolutely correct that the use of public transport in place of personal transport reduces environmental degradation. First, it reduces environmental pollution. Because, when we switch over

from personal transport to public transport, the number of vehicles on the road is significantly reduced. This reduces air pollution as well as sound pollution. Second, we economise the use of non-renewable energy (petrol and diesel) which avoids environmental degradation.

8. Write two observations on how carrying capacity of environment is being challenged in India.

Ans. (i) There is unabated/unchecked flow of industrial waste into the rivers and other water bodies in the country.

(ii) There is a massive unauthorized construction (unmindful of the rules and regulations), leading to air pollution that impairs the quality of life.

9. How is sustainable development different from non-sustainable development?

Ans. Non-sustainable development is that process of growth which focuses on the pace of growth without accounting for environmental degradation. Sustainable development is that process of growth which focuses on the pace of growth but always accounts for the environmental degradation.

10. How migration from rural to urban areas leads to environmental degradation? Write one significant observation.

Ans. Migration from rural to urban areas leads to a stress on civic amenities, housing in particular. Often forests are invaded for the construction of houses. It implies deforestation and deforestation implies environmental degradation.

11. What is sustainable development?

Ans: Sustainable development is that process of economic development which aims at raising the quality of life of both present and future generations, without threatening natural endowment and environment.

12. Analysis & Evaluation

Do you agree with a view that environmental degradation is an avoidable opportunity cost of development? Write your observations as a student of economics.

Ans. Opportunity cost is the sacrifice made for enjoying an opportunity. This may be categorized as: (i) Avoidable, and (ii) unavoidable. It is unavoidable when, for example, wheat is grown on a piece of land in place of rice. Loss of output of rice is an unavoidable opportunity cost of producing Wheat. Opportunity cost is avoidable when, for example excessive smoke is emitted (than the permissible-limit), because of the poor maintenance of the vehicles. Other examples of avoidable opportunity cost are: (i) Deforestation occurring due to illegal tree-felling, (ii) Water pollution and loss of aquatic life due to drainage of industrial waste into the rivers, (iii) Illegal construction of residential houses, causing excessive exploitation of water resources of a particular region, (iv) Illegal mining leading to extinction of water bodies, and so on. Briefly, avoidable opportunity cost occurs in terms of environmental pollution and environmental degradation. This is avoidable opportunity cost of development. Development process becomes sustainable only when this avoidable opportunity cost is actually avoided.

13. Challenge of poverty must be addressed prior to the challenge of environmental degradation. State your views.

Ans. It is true that the challenge of poverty must be addressed prior to the challenge of environmental degradation. This is because poverty itself is a significant source of environmental degradation.

Here are some examples:

(i) It is because of poverty that the rural and tribal population resorts to tree-felling to obtain Wood for domestic fuel. It causes environmental degradation in terms of deforestation.

(ii) It is because of poverty that the slums are across all parts of the country. This also contributes to environmental degradation, by way of excessive exploitation of Underground water and by way of excessive release of domestic waste into the water bodies.

(iii) It is because of poverty that population growth is enormously high in India. The poor consider additional child more as an earning hand and less as amiability. Therefore, they have large families. But, the rapidly expanding population adds to environmental pollution as well as Environmental degradation (excessive exploitation of natural resources).

The above observations offer an ample of support to the hypothesis that poverty must be addressed as a serious challenge in case we want to address the problem of environmental degradation.

14. Sustainable development is a process to be adopted as a daily life activity. Write your observations.

Ans. It is an undisputed fact that sustainable development is a process to be practised as a daily life activity. Sustainable development is achieved when :

- (i) Environmental pollution is combated, and
- (ii) Environmental degradation is stopped.

In our daily life activity, we can contribute to tackling environmental pollution when:

- (i) We stop littering the road and public places,
- (ii) We maintain our vehicles according to the specified standards, so that emission of smoke is minimised, and
- (iii) We start relying more on public transport, so that vehicular traffic is reduced and pollution is minimised .

Likewise, we can contribute to minimizing environmental degradation when:

- (i) We recycle the waste, particularly of water and paper,
- (ii) We refrain from tree-felling to obtain fire wood,
- (iii) We do not build our residential houses in unauthorized areas, and
- (iv) As producers we use only the environment-friendly techniques relating to production, and disposal of the industrial waste.

15. HYV is a familiar concept to you. It caused a revolutionary change in agricultural productivity. But, at the same time, it has silently been contributing to the degradation of soil, implying environmental degradation. Give a thought to this paradox and write your suggestion to address it.

Ans. HYV technology induces environmental pollution as it is based on the extensive application of chemical fertilizers, insecticides and pesticides. This technology is crop-friendly, but not soil friendly. It erodes fertility of the soil and pollutes ground water. Organic farming is recommended as an alternative which is soil -friendly. But this technology is not crop-friendly. Crop productivity is significantly reduced when we shift from HYV- based conventional farming to organic farming. Accordingly, we have to strike a balance between the two technologies. We should shift to organic farming, keeping in mind the fact that the loss of productivity does not lead to food scarcity in the country

16. What are the functions of the environment?

Ans: The main functions of environment are as these:

- (i) Environment Offers Resources for Production: Environment includes physical resources (Minerals, wood, water, soil and others) which are available to us as a free gift of nature. These Resources are used as inputs for production. In fact, production is simply the process of conversion of natural resources into useful things.
- (ii) Environment Sustains Life: Environment includes sun, soil, water and air which are essential ingredients for the sustenance of human life. Absence of these elements of environment implies the end of life.
- (iii) Environment Assimilates Waste: Production and consumption activities generate wastes. This occurs mostly in the form of garbage. Environment absorbs it.
- (iv) Environment Enhances Quality of Life: Surroundings include rivers, oceans, mountains and deserts. Man enjoys these surroundings, adding to the quality of his life.

17. Identify six factors contributing to land degradation in India.

Ans: Following factors contributing to land degradation in India:

- (i) Deforestation.
- (ii) Unsustainable fuel wood and fodder extraction.
- (iii) Shifting cultivation.
- (iv) Encroachment of forest lands.
- (v) Forest fires and overgrazing.
- (vi) Lack of soil -conservation measures.]

18. Explain how the opportunity costs of negative environmental impact are high.

Ans: Opportunity costs of negative environmental impact include two principal elements:

- (i) Loss of production capacity of future generations (owing to excessive exploitation of natural resources by the present generation), and
- (ii) Environmental pollution (in terms of air pollution, water pollution and sound pollution). Both these elements of opportunity cost tend to assume exponential growth in the pursuit of rapid GDP growth. Consequently, the growth process itself becomes un-sustainable, besides causing a massive set-back to the quality of life (in the wake of environmental pollution). The opportunity cost of negative environmental impact is so high that it is being considered as an emerging challenge of the growth process.

19. Outline the steps involved in attaining sustainable development in India.

Ans: Following steps have been taken for attaining sustainable development in India:

- (i) Use of input-efficient technology.
- (ii) Use of environment-friendly sources of energy.
- (iii) Integrated rural development so that migration of rural population to urban areas is curtailed.
- (iv) Conversion of sunlight into solar energy and solar energy into electricity.
- (v) A focus on organic farming.
- (vi) Efficient management of the wastes.
- (vii) Stringent laws on the disposal of chemical effluents.
- (viii) Spread of awareness to conserve natural assets for inter-generational equity.
- (ix) Use of public means of transport.

20. Give two instances of:

Ans: (a) Overuse of environmental resources.

(b) Misuse of environmental resources.

(a) Examples of Overuse of Environmental Resources:

- (i) Excessive exploitation of fossil fuels.
- (ii) Excessive tree-felling to cope with the rising need of housing in urban areas.

(b) Examples of Misuse of Environmental Resources:

Ans: (i) Use of wood as a household fuel.

(ii) Use of rivers to absorb industrial effluents.

21. Explain the supply-demand reversal of environmental resources.

Ans: Environmental degradation owes a great deal to supply-demand reversal of resources over a period of time. Prior to industrialization, when the pace of life was slow, demand for natural resources did not exceed their supply. As industrialization progressed, there was a surge in human wants. Accordingly, there has been an exponential growth in demand for natural resources, leading to their overuse as well as misuse. Supply of resources has suffered a reversal from abundance to paucity. Demand, on the other hand, has reversed from manageable to unmanageable limits.

Unit 8: CH. 10 - Development Experience of India

A comparison with neighbours India and Pakistan India and China Issues: economic growth, population, sectoral development and other Human Development Indicators

- ★ India and Pakistan became independent nations in 1947, People's Republic of China was established in 1949.
- ★ All three countries had started planning their development strategies in similar ways.
- ★ While India announced its first Five Year Plan for 1951–56, Until March 2017, India has been following Five Year Plan- based development model.
- ★ Pakistan announced its first five year plan, now called the Medium Term Development Plan, in 1956. Pakistan is
- ★ working on the basis of 12th Five Year Development Plan (2018–23),
- ★ China announced its First Five Year Plan in 1953. Since 2018, China is working on 14th Five Year Plan (2021–25).
- ★ 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 rates and per capita incomes.

The Great Leap Forward (GLF)

- ★ Campaign initiated in 1958 aimed at industrialising the country on a massive scale. People were encouraged to set up industries in their backyards.
- ★ In rural areas, communes were started. Under the Commune system, people collectively cultivated lands.
- ★ In 1958, there were 26,000 communes covering almost all the farm population.
- ★ GLF campaign met with many problems. A severe drought caused havoc in China killing about 30 million people. When Russia had conflicts with China, it withdrew its professionals who had earlier been sent to China to help in the industrialisation process.

Great Proletarian Cultural Revolution

- ★ In 1965, Mao introduced the Great Proletarian Cultural Revolution
- ★ Under which students and professionals were sent to work and learn from the countryside.

Reforms

- ★ The reforms were introduced in China in year 1978.
- ★ China introduced reforms in phases.
- ★ **In the 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.
- ★ **In the later phase**, reforms were initiated in the industrial sector. Private sector firms allowed to produce goods. At this stage, enterprises owned by government (known as State Owned Enterprises—SOEs), 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 the rest were purchased and sold at market prices.

- ★ In order to attract foreign investors, special economic zones were set up.

Pakistan

- ★ Followed the mixed economy model with co-existence of public and private sectors.
- ★ In the late 1950s and 1960s, Pakistan introduced a variety of regulated policy framework (for import substitution-based industrialisation).
- ★ 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 mechanisation and increase in public investment in infrastructure in select areas, which finally led to a rise in the production of foodgrains.
- ★ In the 1970s, nationalisation of capital goods industries took place.
- ★ Pakistan then shifted its policy orientation in the late 1970s and 1980s when the major thrust areas were denationalisation and encouragement of private sector.
- ★ During this period, Pakistan also received financial support from western nations and remittances from continuously increasing outflow of emigrants to the Middle-east.
- ★ In 1988, reforms were initiated in the country.

Trends in Output Growth in Different Sectors, 1980–2015

Country	1980–90			2014–18		
	Agriculture	Industry	Service	Agriculture	Industry	Service
India	3.1	7.4	6.9	3.1	6.9	7.6
China	5.9	10.8	13.5	3.1	5.3	7.1
Pakistan	4	7.7	6.8	1.7	4.8	5.0

Some Selected Indicators of Human Development, 2017-2019

Item	India	China	Pakistan
Human Development Index (Value)	0.645	0.761	0.557
Rank (based on HDI)	130	87	154
Life Expectancy at Birth (years)	69.7	76.9	67.3
Mean years of Schooling (% aged 15 and above)	6.5	8.1	5.2
Gross National Income per capita (PPP US\$)	6,681	16,057	5,005
Percentage of People living Below Poverty Line (National)	21.9*	1.7**	24.3*
Infant Mortality Rate (per 1000 live births)	29.9	7.4	57.2
Maternal Mortality Rate (per 1 lakh births)	133	29	140
Population using at least basic Sanitation (%)	60	75	60
Population using at least basic drinking Water Source (%)	93	96	91
Percentage of Undernourished Children	37.9	8.1	37.6

Annual Growth of Gross Domestic Product (%), 1980–2017

Country	1980–90	2015–2017
India	5.7	7.3
China	10.3	6.8
Pakistan	6.3	5.3

Select Demographic Indicators, 2017-18

Country	Estimated Population (in million)	Annual Growth of Population	Density (per sq. km)	Sex Ratio	Fertility Rate	Urbanisation
India	1352	1.03	455	924	2.2	34
China	1393	0.46	148	949	1.7	59
Pakistan	212	2.05	275	943	3.6	37

Source: World Development Indicators 2019, www.worldbank.org

Sectoral Share of Employment and GVA (%) in 2018–2019

Sector	Contribution to GVA			Distribution of Workforce		
	India	China	Pakistan	India	China	Pakistan
Agriculture	16	7	24	43	26	41
Industry	30	41	19	25	28	24
Services	54	52	57	32	46	35
Total	100	100	100	100	100	100

Source: Human Development Report 2019 : Key Indicators of Asia and Pacific 2019.

CASE STUDY BASED QUESTIONS:

*** Read the following Case Study and answer the questions given below:**

1. The basic reason for fast industrial growth in China can be traced back to the reforms introduced in 1978. China introduced reforms in phases. In the initial phase, reforms were initiated in agriculture, foreign trade and investment sector. In agriculture commune lands were divided into small plots which were allocated (only for the use and not as ownership) to the individual households. They were allowed to keep all income from the land after paying stipulated taxes. In the later phase, reforms were initiated in the industrial sector. Private sector firms and township and village enterprises (enterprises which were owned and opened and operated by local collectives) were encouraged to improve production. At this stage, enterprises owned by the government (known as State-Owned Enterprises or SOEs), were made to face competition with the private sectors.

(I) Which type of economic system is followed in china?

[a] mixed economy [b] socialist economy [c] capitalist economy [d] none of these

(II) Arrange the following events occurred in China in chronological order and choose the correct alternative:

[i] Great Proletarian Cultural Revolution

[ii] Great Leap Forward Campaign

[iii] Introduction of Economic Reforms

[iv] First Five-Year Plan

[a] (ii) (iv) (iii) (i) [b] (iv) (ii) (i) (iii) [c] (ii) (iv) (i) (iv) [d] (iv) (i) (ii) (iii)

(iii) In terms of the sectoral contribution to GDP, the economy of China is relying more on:

[a] primary sector [b] secondary sector [c] tertiary sector [d] none of these

(iv) The collective farming in China was termed as:

- [a] SOEs [b] GLF [c] Common system [d] Economic reforms

2. In most areas of human development, China has performed better than India and Pakistan. This true for many indicators per capita GDP or proportion of population below the poverty line, health indicators such as mortality rates, access to sanitation, literacy, life expectancy or malnourished etc. Pakistan is ahead of India in reducing the proportion of people below the poverty line and also its performance in transferring labour force from the agriculture sector to the industrial sector and access to water is better than India. Contrary to it, India is ahead of Pakistan in the education sector and providing health services. India and Pakistan are ahead of China in providing improved water sources.

(i) Pakistan is ahead of India in _____ the proportion of people below the poverty line.

- [a] reducing [b] increasing [c] keeping constant [d] all of above

(ii) India is ahead of Pakistan in _____ sector.

- [a] service [b] health [c] education [d] both (b) and (c)

(iii) India and Pakistan are ahead of China in providing _____ water sources.

- [a] deteriorating [b] better [c] both [d] none of the above

(iv) Mortality rate is also known as _____.

- [a] birth rate [b] death rate [c] infant rate [d] none of the above

3. Global population grew roughly 2% per annum from 1960-2000, a level that is unsustainable in the long-term, as it translate into population doubling every 35 years. India's population is currently growing at a rate of 1.4% per year, far surpassing China's rate of 0.7%. The differential between India and China will result in India surpassing China with respect to population size in less than 20 years. While a cause for concern, global population growth has not met Malthus' pessimistic predictions of human misery and mass mortality. During the past few decades, rapid population growth has been accompanied by an unparalleled decline in mortality rates and by an increase in per capita income, both globally and in India.

(i) Lower population growth in China is a result of _____ policy.

- [a] one child [b] family planning [c] two child [d] none

(ii) Sex ratio in China and India is biased against _____.

- [a] males [b] females [c] both (a) and (b) [d] neither (a) nor (b)

(iii) China has allowed couples to have _____ children at present.

- [a] two [b] three [c] one [d] none

(iv) _____ has higher number of population living in urban areas than _____

- [a] Pakistan, India [b] India, Pakistan [c] India, China [d] China, Pakistan

OBJECTIVE TYPE QUESTIONS

4. During the period 2016-2020, China worked on _____ its Five Year Plan.

- [a] 12th [b] 13th [c] 14th [d] 15th

5. Which one of the following was Not the impact of one-child policy norm?

- [a] population growth reduced
[b] Burden of old aged people increased
[c] Working population reduced in China arresting the economic growth
[d] There was unrest among the people

6. Proportion of the people below poverty line is more in:

- [a] India [b] Pakistan [c] China [d] USA

7. The fertility rate is very high in

- [a] Pakistan [b] India [c] China [d] USA

8. One child norm was a feature of _____

- [a] France [b] India [c] Pakistan [d] China
9. _____ has the highest life expectancy.
[a] India [b] China [c] Pakistan [d] both (a) and (c)
10. When were economic reforms introduced in China?
[a] 1979 [b] 1977 [c] 1978 [d] 1980
11. Introduction of economic reforms in Pakistan took place in _____
[a] 1978 [b] 1980 [c] 1988 [d] 1991
12. Identify demographic indicator from the following:
[a] urbanisation [b] GNP [c] mean years of schooling [d] percentage of undernourished children

ASSERTION/REASON TYPE QUESTIONS

Read the following statements- Assertion [A] and 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 but 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): GLF campaign initiated in China in 1958 was aimed at industrialising the country on a massive scale.

Reason (R): Under the commune system, people collectively cultivated lands.

2. Assertion (A): China's industrial growth is a recent phenomenon.

Reason (R): China's industrial growth can be traced back to its reforms in 1978.

3. Assertion (A): India has failed to tackle poverty as much as China could .

Reason (R): India has failed to control its population growth resulting pushing people to BPL category.

4. Assertion (A): After a few decades, in China, there will be more elderly people in proportion to young people.

Reason (R): China has allowed couples to have two children.

5. Assertion (A): Dual price policy in China was an attempt to encourage industrialisation.

Reason (R): Special Economic Zones has been an attempt to attract foreign capital in the country.

6. Assertion (A): India's human development indicators are considered among the best in the world.

Reason (R): India has performed relatively well vis-a-vis other developing countries (including its Asian neighbours) in terms of economic growth.

7. Assertion (A): India adopted a mixed economy model of growth.

Reason (R): People's Republic of China as a growth model was established in 1949.

8. Assertion (A): For the year 2019, Human Development Index (HDI) ranking of India is higher as compared to China and Pakistan.

Reason (R): For the year 2019, Human Development Index (HDI) ranking of China is higher as compared to India and Pakistan.

9. Assertion (A): Annual growth rate of the population of China is the lowest as compared to India and Pakistan.

Reason (R): Low growth of population is the result of 'One-Child-Policy' introduced in China in the late 1970s.

10. Assertion (A): The Great Leap Forward (GLF) campaign initiated in 1958 was aimed at industrialising the country on a massive scale.

Reason (R): People were encouraged to set up industries in their backyard in 1958.

3/4/6 MARKS QUESTIONS

- | | |
|---|---|
| 1. What was the developmental path of India and Pakistan? | 3 |
| 2. What was the developmental path of India and China? | 3 |
| 3. What was the development strategy of China? Explain. | 4 |
| 4. What was the development strategy of Pakistan and India? | 4 |
| 5. What was the demographic indicators of India, and Pakistan? | 4 |
| 6. What was the development strategy of China and India? | 4 |
| 7. Explain the GDP and Human Development Indicators of India, Pakistan and China? | 6 |
| 8. Criticize on the development strategy of India and China. | 6 |

ANSWER KEY

- (i)-b , ii-b, iii-b, iv-c
- i-a, ii-d, iii-b, iv-b
- i-a, ii-b, iii-a, iv-a
- b
- d
- a
- a
- d
- b
- c
- c
- a

ASSERTION/REASON TYPE QUESTIONS

1-b, 2-d, 3-b, 4-b, 5-b, 6-d, 7-b, 8-d, 9-a, 10-a