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INDIAN ECONOMY

for

State Engineering Services Exams, SSC, PSUs, Banking, RRB and Other Exams

by Mr. B. Singh

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Preface

This comprehensive textbook on **Indian Economy** provides all the requirements of the students, i.e., comprehensive coverage of theory, fundamental concepts and objective type questions articulated in a lucid language. This concise presentation will help the readers grasp the topics of **Indian Economy** with clarity and apply them with ease to solve objective questions quickly.

This book covers the syllabus of States Engineering Services Exams including APPSC, MPPSC, MPSC, BPSC, UPPSC; SSC, PSUs, Banking, RRB and other examinations. All the topics are given the emphasis they deserve so that mere reading of the book clarifies all the concepts. The book incorporates theory as well as previous years' questions of various State Engineering Services Examinations, UPSC ESE, etc. It also contains plenty of objective type questions for practice. This book has been very well targeted for aforementioned exams covering all the aspects of subject matter required for these examinations.

We have put-in our sincere efforts to present detailed theory and MCQs without compromising the accuracy of answers. For the interest of the readers, some notes, do you know and interesting facts are given in the comprehensive manner.

Our team has made their best efforts to remove all possible errors of any kind. Nonetheless, we would highly appreciate and acknowledge if you find and share with us any printing and conceptual errors. It is impossible to thank all the individuals who helped us, but we would like to sincerely thank all the authors, editors and reviewers for putting-in their efforts to publish this book.

B. Singh (Ex. IES)

CMD, MADE EASY Group

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BASICS OF ECONOMY

1

Introduction

Economics is the science of analyzing the production, distribution and consumption of goods and services. In other words, what choices people make; how and why they make them when making purchases.

The study of economics can be categorized into Microeconomics and Macroeconomics.

- **Microeconomics** is the study of economics at the individual or business level; how individual people or businesses behave given scarcity and government intervention. Microeconomics includes concepts such as supply and demand, price elasticity, quantity demanded and quantity supplied.
- **Macroeconomics** is the study of the performance and structure of the whole economy rather than individual markets. Macroeconomics includes concepts such as inflation, international trade, unemployment, and national consumption and production.

Factors of Production

Factors of production is an economic term to describe the inputs that are used in the production of goods or services in the attempt to make an economic profit.

The factors of production include land, labour, capital and entrepreneurship.

The factors of production

1. Land : Natural resources
2. Labour : Human skill and effort
3. Capital : Equipment and materials
4. Enterprise : Organisation and undertaking production

Together produce goods and services

Land

- Land is an economic resource encompassing natural resources found within a nation's economy. This resource includes timber, land, fisheries, farms and other similar natural resources.
- Land is usually a limited resource for many economies. Example: India has 15% of the global population but only 2.4% of the global land.

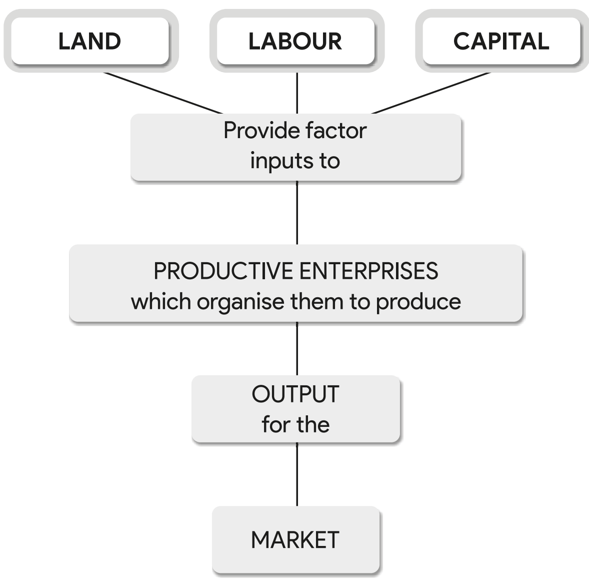
Labour

- Labour represents the human capital available to transform raw material or national resources into consumer goods.
- Human capital includes all able-bodied individuals capable of working in the nation's economy and providing various services to other individuals or businesses.
- This factor of production is a flexible resource as workers can be allocated to different areas of the economy for producing consumer goods or services.

- Human capital can also be improved through training or educating workers.

Capital

- Capital has two economic definitions as a factor of production.
- Capital can represent the monetary resources companies use to purchase natural resources, land and other capital goods.
- Capital also represents the major physical assets individuals and companies use when producing goods or services. These assets include buildings, production facilities, equipment, vehicles and other similar items.



The organisation of Production

Entrepreneurship

- Organisation, as a factor of production, refers to the task of bringing land, labour and capital together.
- It involves the establishment of coordination and co-operation among these factors. The person in charge of an organisation is known as an organiser or an entrepreneur.
- The entrepreneur is the person who takes the charge of supervising the organisation of production and of framing the necessary policy regarding business.

Types of Goods

Final (Finished) Goods

- The commodity produced by an enterprise is being sold out to the consumers. In the process the commodity goes under various transformations through productive processes into other goods before being sold to the consumers for Final Use. Such an item that is meant for final use and will not pass through any more stages of production or transformation is called a Final Good.
- *For example:* A car sold to a Consumer is a final good; the components such as tyres sold to the car manufacturer are not; they are intermediate goods used to make the final goods. The same tyres, if sold to a consumer, would be final goods.

Final goods are divided into 2 Categories

1. **Consumption Goods:**
   - Tangible goods that are produced and subsequently purchased for direct consumption to satisfy the current human needs or wants.
   - *Example:* Food, Clothing, Cigarettes, Pen, TV Set, and Radio etc.
   - Similarly, services rendered to consumers by hotels, retailers, barbers etc. are Consumer Services as they satisfy the immediate needs of the consumers.

Consumer Goods are divided into two categories:

Durable Goods: This can be used in consumption again and again over a considerable period of time. e.g., chair, car, fridge, shoes, TV set etc.

Non-Durable Goods: are like single-use goods which are used up by consumers in a single act of consumption, e.g., milk, fruits, matches, cigarettes, coal, etc.

2. Capital Goods

- Capital goods are fixed assets of producers which are repeatedly used in production of other goods and services. Alternatively durable goods which are bought for producing other goods but not for meeting immediate needs of the consumer are called capital goods.
- These goods are of durable character.
- *For Example:* tools, implements, machinery, plants, tractors, buildings, transformers, etc.

Intermediate Goods

- Goods that are used by a business in the production of other goods or services. It is also referred to as producer goods. Intermediate Goods are used to make Consumer Goods.
- *For Example:* Timber and steel rods are intermediate products because they are sold by the timber merchant or the steel dealer to the builder who uses them to produce the final product - a house or a building.

Final Goods	Intermediate Goods
Used for final consumption	Not used for final consumption
Made by using intermediate goods.	Used as raw material for production of final goods.
They are finished goods.	They are unfinished goods.
Value is calculated for GDP.	Not calculated, as the value of final goods included the value of intermediate goods.
Ex. Biscuits are final goods.	Ex. Flour, milk and sugar are intermediate goods used in making biscuits.

Difference between Services and Goods

Basis	Services	Goods
Nature	An activity or process. e.g., watching a movie in a cinema hall	A physical object. e.g. video cassette of movie
Type	Heterogeneous	Homogenous
Intangibility	Intangible e.g., doctor treatment	Tangible e.g., medicine
Inconsistency	Different customers having different demands e.g., mobile services	Different customers getting standardized demands fulfilled. e.g., mobile phones
Inseparability	Simultaneous production and consumption. e.g., eating ice-cream in a restaurant	Separation of production and consumption e.g., purchasing ice cream from a store
Inventory	Cannot be kept in stock. e.g., experience of a train journey	Can be kept in stock. e.g., train journey ticket
Involvement	Participation of customers at the time of service delivery. e.g., self-service in a fast food joint	Involvement at the time of delivery not possible. e.g., manufacturing a vehicle

Types of Economy

In Terms of Role of State

Capitalist

The capitalistic form of economy has its origin in the famous work of Adam Smith – An Enquiry into the Nature and the Causes of the Wealth of Nations (1776). He stressed on 'laissez faire' state i.e., non-interference by the government.

The decisions of what to produce, how much to produce and at what price to sell ,are taken by the market, by the private enterprises in this system with the state having no economic role.

Socialist

The socialistic form of economy was rooted in the ideas of historical change proposed by the German philosopher Karl Marx (1818-83). More specifically, this kind of economic system first came up in the erstwhile USSR after the Bolshevik Revolution (1917) and got its ideal shape in the People's Republic of China (1949).

Mixed Economy

It is an economic system that features characteristics of both capitalism and socialism. A mixed economic system allows a level of private economic freedom in the use of capital, but also allows for governments to interfere in economic activities in order to achieve social aims.

In Terms of Per Capita Income

The World Bank classifies economies based on their GNI (Gross National Income) per capita. The categories are given below:

Categorisation of Economy	
Economy	**Per Capita GNI (2016)**
Low-Income	$1,005 or less
Lower Middle-Income	Between $1,006 and $3,955
Upper Middle-Income	Between $3,956 and $12,235
High-Income	$12,236 or more

Low-and middle-income economies are usually referred to as developing economies, and the Upper Middle Income and the High Income are referred to as Developed Countries. India is categorized in the Lower Middle Income Category with per capita GNI of $1680 as per World Bank.

Model Adopted by India

- The leaders of Independent India had to decide the type of economic system most suitable for our nation, which would promote the welfare of all rather than a few.
- Among the different types of economic systems, socialism appealed to Jawaharlal Nehru the most. However, he was not in favour of the kind of socialism established in the former Soviet Union where all the means of production, i.e. all the factories and farms in the country, were owned by the government and there was no private property.
- It was not possible in a democracy like India for the government to change the ownership pattern of land and other properties of its citizens in the way that it was done in the former Soviet Union.
- After Independence, India opted for the Mixed Economy. In the process of organizing the economy, some basic and important infrastructural economic responsibilities were taken up by the State Governments (centre and state) and rest of the economic activities were left to private enterprise i.e. the market.
- But once the country started the process of economic reforms in early 1990s, the prevailing state-market mix was redefined and a new form of mixed economy began to be practised.
- The redefined mixed economy for India had a declared favour for the market economy.
- Many economic roles, which were under complete government monopolies, were now opened for participation by the private sector.
- Examples are many - telecommunication, power, roads, oil and natural gas, etc. At the same time, social sectors such as education, healthcare, drinking water, etc. were given extra emphasis by the state.

Types of Countries in terms of Economy

Developed Country

- A developed country or industrialized country has advanced technological infrastructure.
- Development entails a modem infrastructure (both physical and institutional), and a move away from low value added sectors such as agriculture and natural resource extraction.
- Developed countries, in comparison, usually have economic systems based on economic growth in the secondary, tertiary and quaternary sectors and high standards of living.

Developing Country

- A developing country or underdeveloped country, is a nation with an underdeveloped industrial base, and a low Human Development Index (HDI) relative to developed countries.
- A developing country is a country that has not reached the Western-style standards of democratic governments, free market economies, industrialization, social programs, and human rights guarantees for their citizens.
- There is no universal criterion as to what makes a country developing or developed although there are general markers such as a nation's GDP per capita, HDI, demographic state etc.

Newly Industrialized Country (NIC)

- The category of newly industrialized country (NIC) is a socio-economic classification applied to several Countries around the world.
- Newly industrialized country (NIC) is one which has adopted the market model of growth; is showing rapid growth of economy for a considerable period of time; falls between a developed country and a developing country characterized by rapid export-driven economic growth and migration of workers from rural to urban areas. For example, India, Brazil, South Africa etc.
- NICs usually share some other common features, including:
  - A switch from agriculture to industrial economies, especially in the manufacturing sector.
  - An increasingly open-market economy, allowing free trade with other nations in the world.
  - Emerging MNCs.
  - Strong capital investment from foreign countries.

Least Developed Countries (LDCs) or Fourth World countries

- They are countries which according to the United Nations exhibit the lowest indicators of socio-economic development, with the lowest Human Development Index ratings of all countries in the world. The concept of LDCs originated in the late 1960s.

A country is classified as a Least Developed Country if it meets three criteria:

- Poverty, as of 2015 a country must have per capita less than US $1,035 to be included on the list, and over $1,242 to graduate from it.
- Human resource weakness (based on indicators of nutrition, health, education and adult literacy).
- Economic vulnerability (based on instability of agricultural production,. instability of exports of goods and services, economic importance of non-traditional activities, merchandise export concentration, handicap of economic smallness, and the percentage of population displaced by natural disasters).

Classification of Sectors of Economy

The contribution made by the different sectors of the economy, namely the agricultural sector, the industrial sector and the service sector in the GDP of the country makes up the structural composition of the economy.

In some countries, growth in agriculture contributes more to the GDP growth, while in some countries the growth in the service sector contributes more to GDP growth.

Sectors of Indian Economy are divided in following manner:

On the Basis of Nature of Job

Primary Sector:

- The primary sector involves the extraction of raw materials from the earth. Therefore, this is sometimes known as the Extraction Sector.
- Goods in this sector are produced by exploiting natural resources.
- People engaged in primary activities are called *red-collar workers*.

Secondary Sector:

- The secondary sector involves the transformation of raw materials into finished or manufactured goods.
- In this sector natural products change into other forms through ways of manufacturing associated with industrial activity.
- For example: cotton fibre to yarn and then clothes, sugarcane is used for making sugar, and iron ore is used for making iron and steel.
- People engaged in secondary activities are called *blue collar workers*.

Tertiary Sector:

- The service sector is concerned with the intangible aspect of offering services to consumers and business. But tertiary sector also involves retail of the manufactured goods. It also provides services, such as insurance and banking.
- Service sector also includes some essential services that may not directly help in the production of goods for example, teachers, doctors, and those who provide personal services such as washer men, barbers, cobblers, lawyers etc. This sector jobs are called *white collar jobs*.

Quaternary Sector:

- Quaternary Sector involves the research and development needed to produce products from natural resources.
- These are specialized tertiary activities in the 'Knowledge Sector' which demands a separate classification.
- The quaternary sector is the intellectual aspect of the economy.
- Elementary schools and university classrooms, hospitals and doctors' offices, theatres, accounting and brokerage firms all belong to this category of services.

Quinary Sector:

- Quinary sector includes the highest levels of decision making in a society or economy.
- This sector includes top executives or officials in such fields as government, science, universities, nonprofit, healthcare, culture and the media.

On the Basis of Working Condition

Organised Sector:

- In this sector, employment terms are fixed and regular, and the employees get assured work and social security.
- It can also be defined as a sector, which is registered with the government and a number of acts apply to the enterprises. Schools and hospitals are covered under the organised sector.
- Workers in the organised sector enjoy security of employment. They are expected to work only a fixed number of hours. If they work more, they have to be paid overtime by the employer.

Unorganised Sector:

- An unorganised worker is a home-based worker or a self-employed worker or a wage worker in the unorganized sector.

INDIAN ECONOMY

Previous Years' Questions & Practice Questions

1. What were the parameters adopted by Suresh Tendulkar Committee to estimate poverty in India?

(a) Money required for stipulated minimum calorie intake

(b) Spending on transport and housing

(c) Spending on food, education, health, electricity, clothing and footwear

(d) None of the above

[APPSC (AEE) : 2016]

Ans. (c)

2. What is "The Limits to Growth" ?

(a) Limits set by Society on growth

(b) Limits set by Industry Cartels on growth

(c) A 1972 book on computer simulation of growth with finite resource supplies

(d) Government's inability to improve growth

[APPSC (AEE) : 2016]

Ans. (c)

3. As recommended by the 14th Finance Commission, the primary route for transfer of resources from Centre to States shall be through

(a) Devolution of taxes

(b) On the basis of population

(c) On the basis of economic backwardness

(d) None of the above

[APPSC (AEE) : 2016]

Ans. (a)

4. Small scale industries

(a) produce small items

(b) have small machines

(c) use small machines

(d) deal with small capital, few workers and small bulk of raw materials

[BPSC (AE) : 2001]

Ans. (d)

5. Which is a nationalized bank?

(a) HDFC Bank

(b) Federal Bank

(c) Citi Bank

(d) Dena Bank

[BPSC (AE) : 2006]

Ans. (d)

6. What is NSE?

(a) National Saving Exchange

(b) National Storage Engine

(c) National Statistics Economy

(d) National Stock Exchange

[BPSC (AE) : 2006]

Ans. (d)

7. Who performs the Central Banking in India?

(a) Reserve Bank of India

(b) Central Bank of India

(c) State Bank of India

(d) Finance Ministry

[BPSC (AE) : 2006]

Ans. (a)

8. In banking, the full form of RTGS is

(a) Rapid Transfer Gross Scheme

(b) Rapid Transfer Gross Settlement

(c) Real Time Gross Settlement

(d) Real Time Gross Scheme

[BPSC (AE) : 2017]

Ans. (c)

9. The term Recession refers to the
(a) high employment,
(b) high unemployment
(c) high supply and demand
(d) low supply and demand

[BPSC (AE) : 2019]

Ans. (b)

10. The ultimate goal of economic science is to
(a) improve the living standard of people
(b) obtain the highest possible GDP
(c) minimize the unemployment
(d) obtain equilibrium between inflation and employment

[BPSC (AE) : 2019]

Ans. (a)

11. Match the following pairs :

	A (Finance Commission)		B (President)
1.	Ist Finance Commission	(i)	Dr. Vijay Kelkar
2.	Vth Finance Commission	(ii)	K.C. Pant
3.	Xth Finance Commission	(iii)	K.C. Niyogi
4.	XIIth Commission	(iv)	Mahavir Tyagi

	1	2	3	4
(a)	(iv)	(iii)	(ii)	(i)
(b)	(i)	(ii)	(iii)	(iv)
(c)	(iii)	(iv)	(ii)	(i)
(d)	(ii)	(i)	(iv)	(iii)

[MPSC (AE) : 2014]

Ans. (c)

12. Which of the following is not a factor of Human Development Index (HDI)?
(a) Life Expectancy
(b) Road and Rural Development
(c) Literacy
(d) Infant Mortality

[MPSC (AE) : 2017]

Ans. (b)

13. Which of the following statements regarding call money market is not correct ?
(a) Call money market is centred in Mumbai, Kolkata and Chennai.
(b) Call money market is also known as Inter bank market.
(c) Call money market is the most appropriate indicator of liquidity position of money market.
(d) Borrowing/lending transactions in call money market are carried out for three days.

[MPSC (AE) : 2017]

Ans. (d)

14. Consider the following statements:
1. The wholesale price index is thus a measure of inflation on an economy wide scale.
2. The consumer price index is the retail price average of a basket of goods and services directly consumed by the people.
3. GDP deflators which distinguishes between personal growth in income and price rise.

Which of the statements given above is/are incorrect?
(a) Only 1 and 2 (b) Only 3
(c) Only 1 (d) Only 2 and 3

[MPSC (AE) : 2017]

Ans. (b)

15. Consider the following statements:
1. Indian planning is indicative economic planning.
2. Indian planning is physical planning.
3. Indian planning is social planning.

Which of the statements given above are correct?
(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) All of the above

[MPSC (AE) : 2019]

Ans. (d)

16. To which country India exported the most, before independence?
(a) Russia (b) Japan
(c) Britain (d) U.S.A.

[MPSC (AE) : 2019]

Ans. (c)

17. How much annual growth rate was targeted in Tenth Five-Year Plan of India?
(a) 7 per cent (b) 8 per cent
(c) 9 per cent (d) 10 per cent

[MPSC (AE) : 2019]

Ans. (b)