

EDUCRAT ECONOMY CRASH COURSE

- ECONOMIC ACTIVITY AND FACTOR OF PRODUCTION
- CONCEPT OF GDP, GNP, NDP AND NNP
- CONCEPT OF BASE YEAR AND SLOWDOWN
- IOCR
- TRICKLE DOWN THEORY
- LORENTZ CURVE
- AGRI>MANUFACTURING>SERVICE SECTOR
- MARKET ECONOMY
- L.P.G. REFORMS
- DISINVESTMENT VS PRIVATISATION VS STRATEGIC SALE
- PPP MODELS – BOT, MOT, EPC, HAM
- PROFIT SHARING VS REVENUE SHARING
- INVESTMENT MODELS – INCLUDING FDI & FPI
- GLOBALISATION
- WORLD BANK (AIM & GROUP) VS IMF (AIM & SDR)
- SPECIAL ECONOMIC ZONE
- SUPPLY DEMAND CURVE
- FISCAL AND MONETARY CONTROLS
- STAGFLATION
- EXCHANGE RATE & NEER
- PURCHASING POWER PARITY
- MER VS PPP-ER
- B.O.P.
- DEVALUATION VS DEPRECIATION
- J CURVE
- PLANNING OF ECONOMY-FYP
- B.O.P. CRISIS
- CURRENCY CONVERTIBILITY
- EMPLOYMENT, UNEMPLOYMENT AND POVERTY
- AGRICULTURE SUBSIDIES AND CONCEPT OF MSP
- PDS AND EXCLUSION – INCLUSION ERROR
- W.T.O.

(A)

Economic Activity

Profit motive

goods and services created

[No profit motive

↓
not economic activity

eg. UPSC, NGO]

↑
new form

→ eco (us) other activities

↓
may not contribute to GDP factor

- Economic good : profit
- Public good : no profit motive + no exclusion criteria for all
- Social goods : particular class [eg. goods for disabled]

→ Public good — ①

eg. Road → Toll Tax/Plaza → Economic good — ②

Public → economic

→ LPG subsidy

eg. initially for all

← People with income (X)

→ Social good — ②

Public good — ①

Public → Social

→ Economic goods → revenue
↓
increase GDP

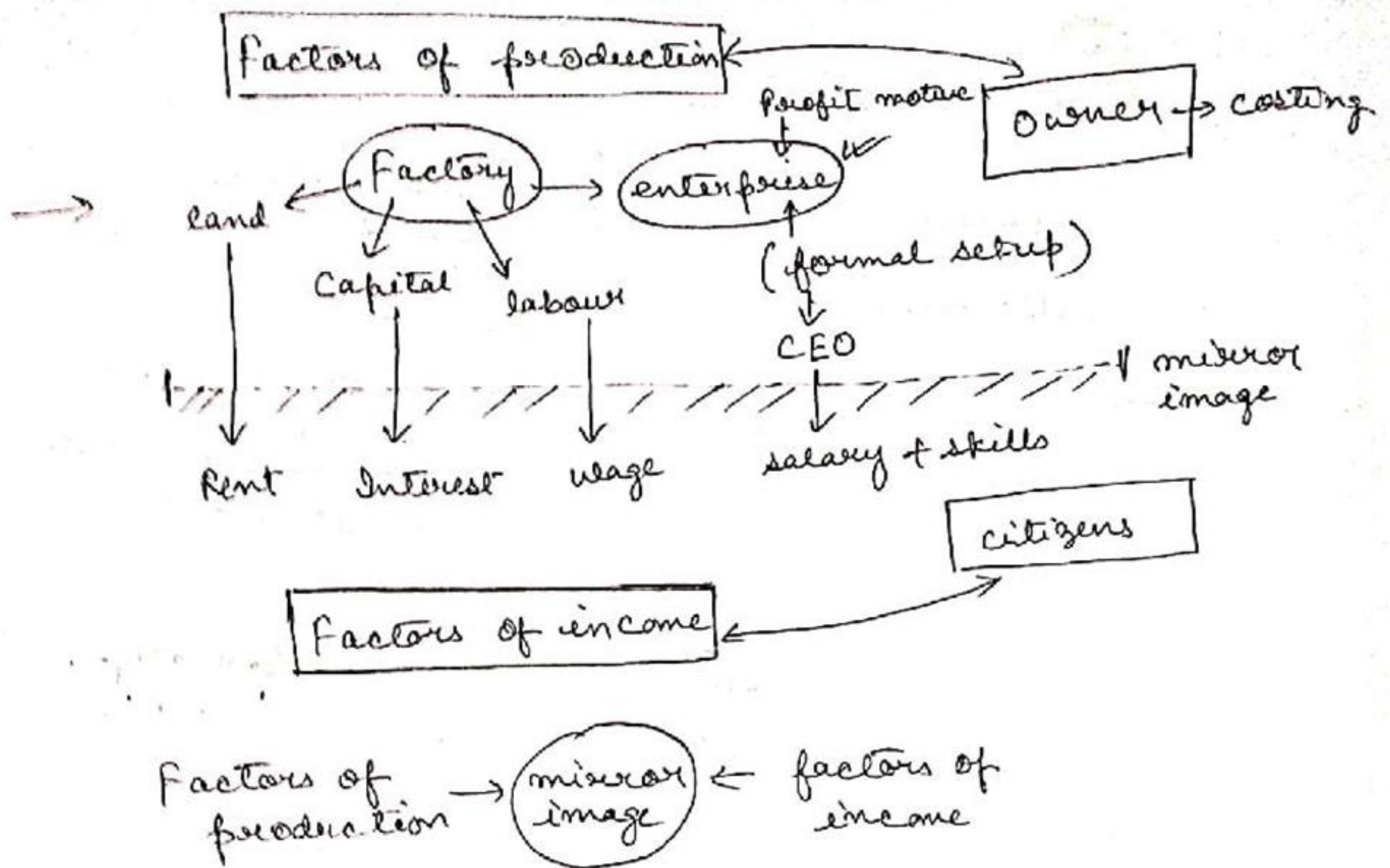
Public + Social initiatives

E.g. goods → Profit of private companies → tax → govt

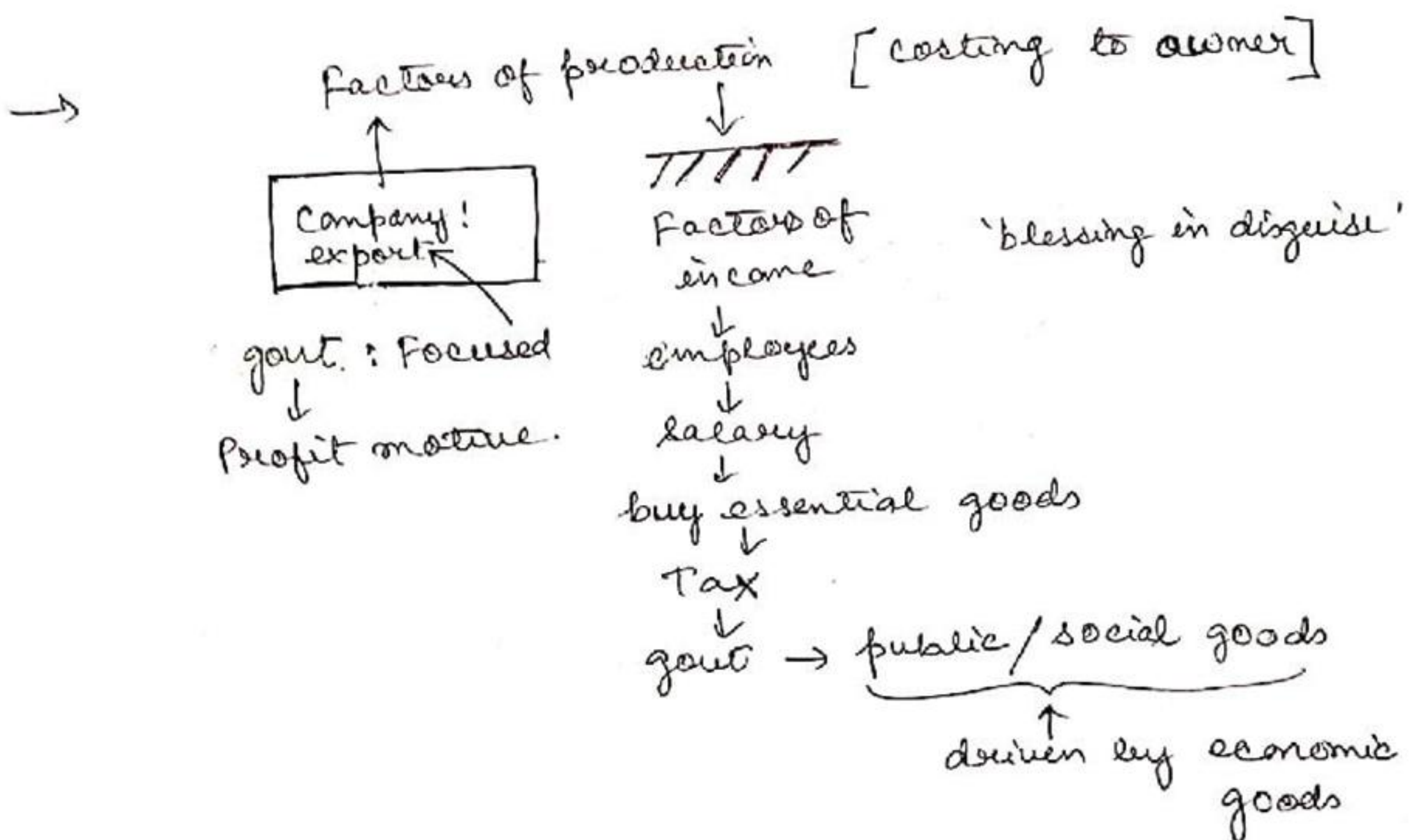
↓
end of profit → country collapse

gauge GDP size

↓
Socialist principle can't be sustained
welfare philosophy sustained (X)



- Public + social goods → No enterprise concept.
- Economic good - enterprise = non-economic goods



- Corporate tax → reduce → savings in account
↓
invest in business
← new branches
← Factors of production
Factors of income

→ growing of economy

① Employment opportunities (↑)

↓

→ get jobs q/c to skills

+

→ spread across all the sectors

- skilled ✓
- semi-skilled ✓
- unskilled ✓
- non-educated ✓

→ Will to work more

↓

paid more

② Factors of production (↑)

↓

Factors of income (↑)

③ Value addition (VA)

eg → 2011 : → 2020

Basic
Nokia
1110

Smart
phones

2000

2020

Potato
export

Lays
export

VA

④ Tax (↑) → GST (↑) + Income Tax (↑)

collection

(Increase in
tax collection)

spend in Public +
Social goods.

Emp opportunities

us

employment

↓

no. of people
employed.

• skilled

↓

unskilled → unsuitable
(employment
not
emp opportunity)



(B) Concept of GDP

→ Output ← Economic activity → measure: (GDP)



→ GDP — Gross Domestic Product

$$\sum Q \times P = GDP$$

Q = goods - services quantity.

P = Price

→ Domestic: Produced within country.

→ Remittance (X)

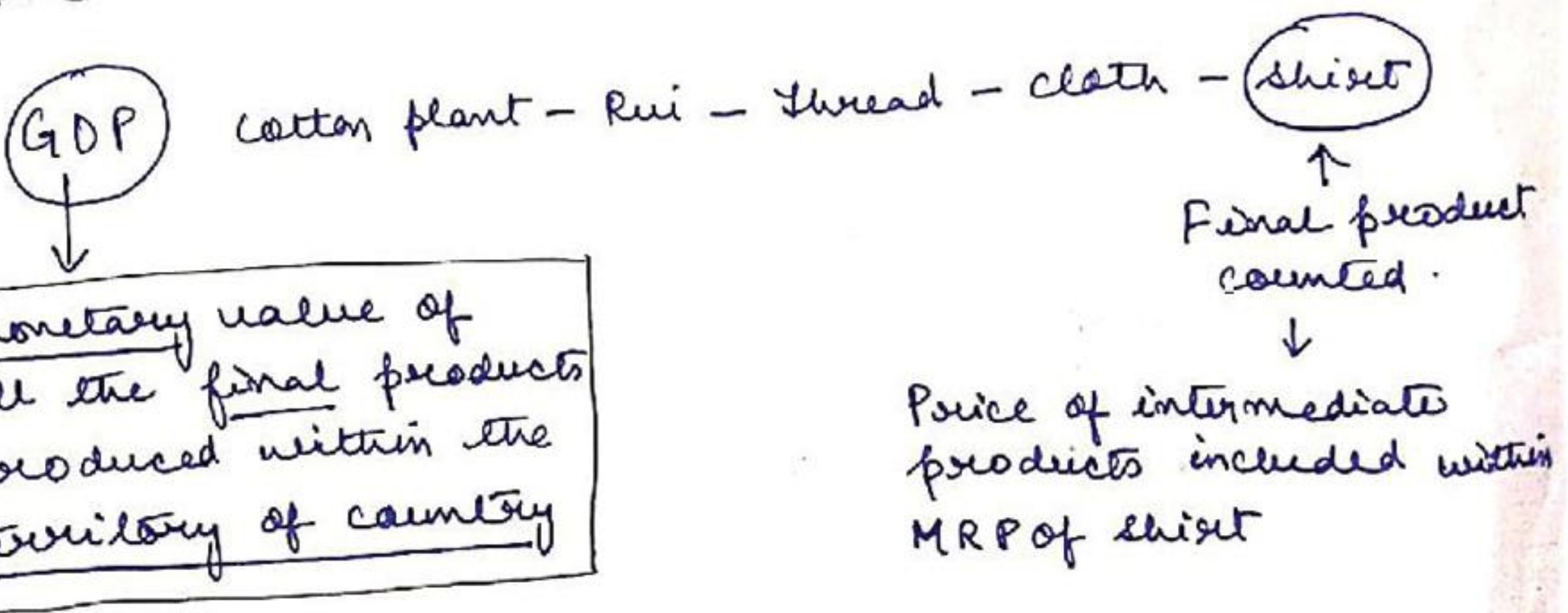
→ Company within territory of India: production.

a) Indian company. eg TATA (✓)

b) Foreign company. eg Pepsi-India (✓)

c) F. company. eg. Vodafone-India (✓)

GDP calculation: Foreign-Indian doesn't matter.



✓ **GDP**: Monetary value of all the final goods and services produced in domestic countries.

→ Final goods: not the intermediate goods that

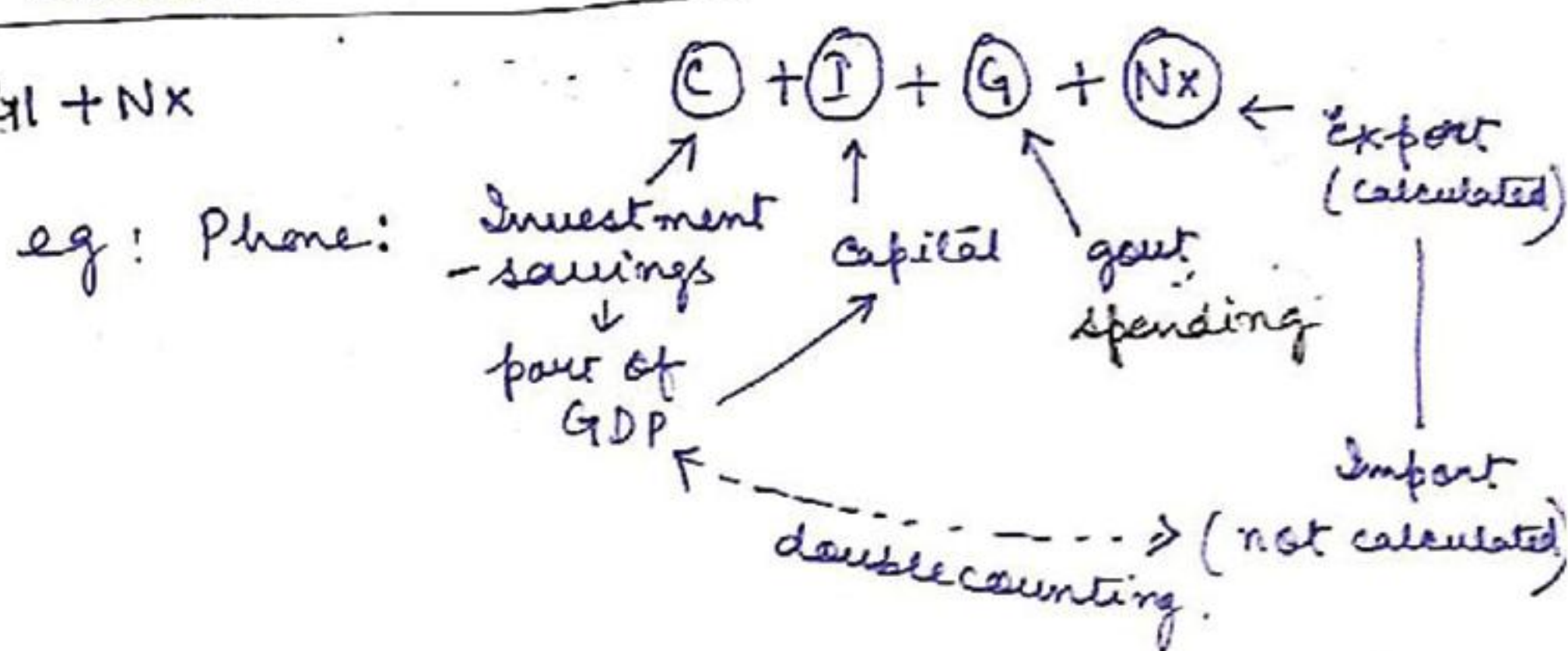


have been used in the production of final product. Otherwise it will lead to double counting.

$$GDP = C + I + G + Nx \rightarrow \text{Net export}$$

\downarrow consumption expenditure
 \downarrow government spending
 \downarrow Investment

$\rightarrow C + I + Nx$



Drawback of GDP calculation

eg. garden \rightarrow vegetables \rightarrow consumed

\downarrow
expenses to prepare garden

\downarrow
labour charges - 0

\rightarrow not defined monetary value
 \downarrow
not counted in GDP

\rightarrow **GNP** (N) \rightarrow National - **Gross National Product**

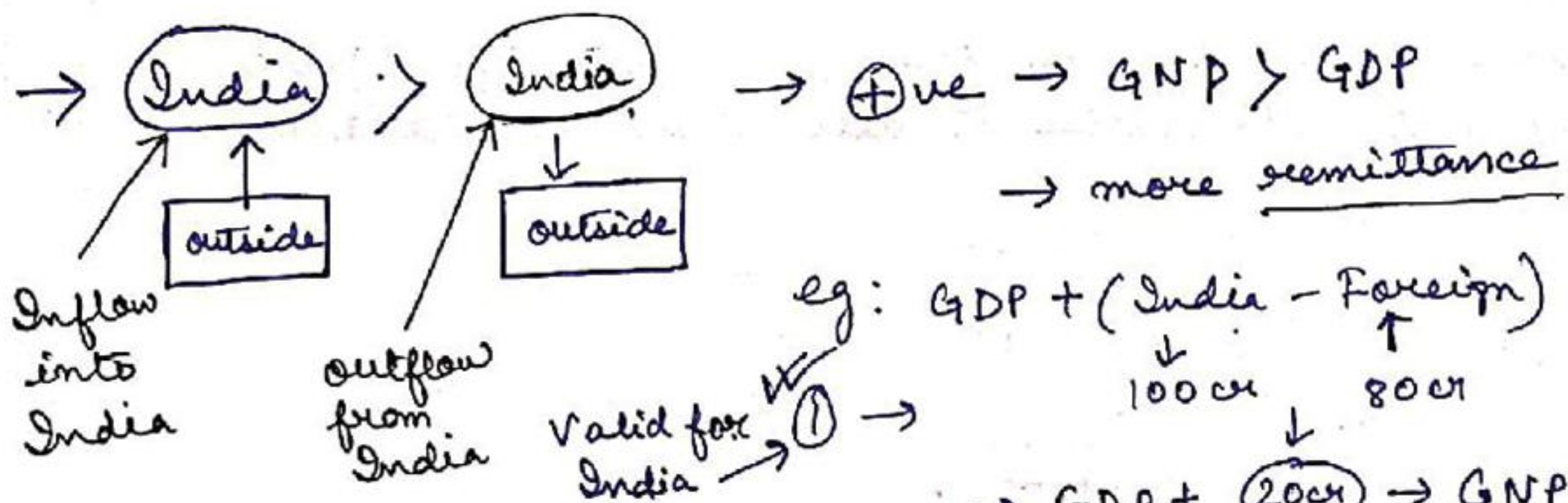
(N) \rightarrow National : Produce \checkmark
NRI \rightarrow Sending money \checkmark

GDP - where produced
GNP - who produced

$GDP \pm \boxed{\uparrow}$ -
 \rightarrow Factors of income coming to India

$\boxed{\uparrow} = GNP$
 \uparrow Factors of foreign income going out of country

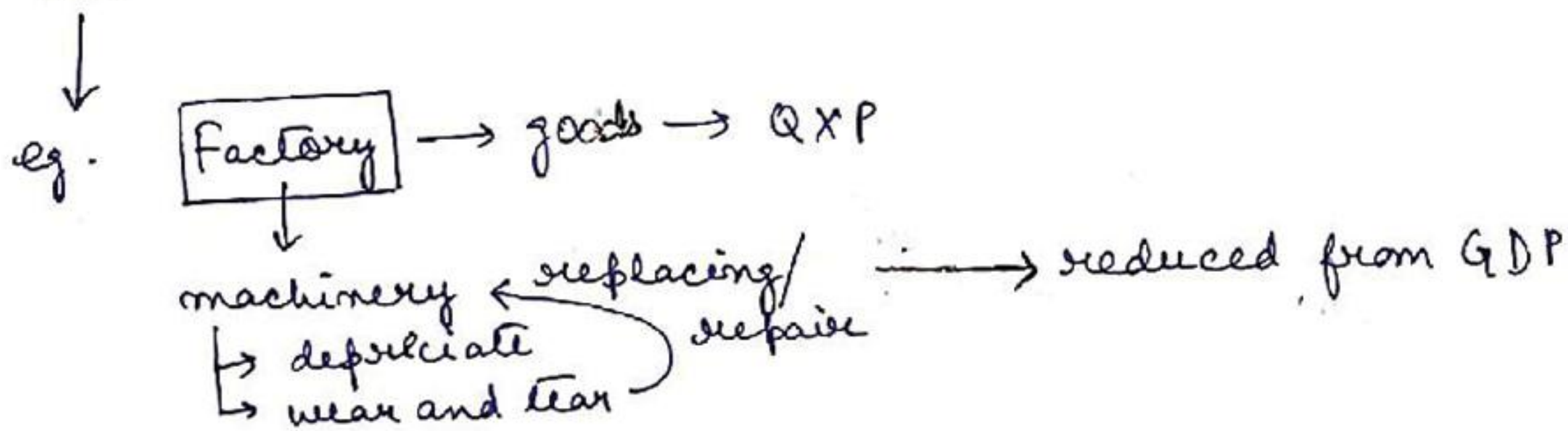
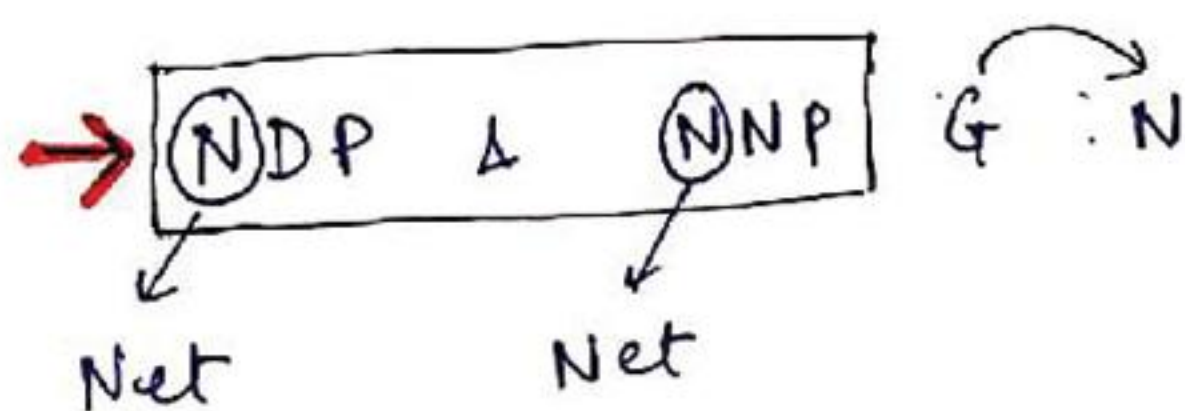
$GNP = GDP \pm \Delta$ - Going out! too much: GNP (\downarrow)
 $\Delta = \text{Incoming} - \text{Outgoing}$
 $\text{F-I} \quad \text{F-I}$
 \rightarrow National (Indians): outside \rightarrow India
 \rightarrow Foreigner: India \rightarrow outside



⊕ $GNP > GDP$
 [not always]
 [depends on country]

② → $GDP + (India - Foreign)$
 50 lakhs ↓ 90 lakhs ↑
 → $GDP - 40 lakhs = GNP(\downarrow)$

$GNP \rightarrow GDP \pm \text{Net factor of income}$
 ↳ maybe $>, <, = GDP$



$$Net = GDP - Loss = NDP$$

$$GNP - Depreciation cost = NNP$$

→ Real scenario
 Real gauge
 Real measure } → NNP (Also, referred to as national income)



(GNP)

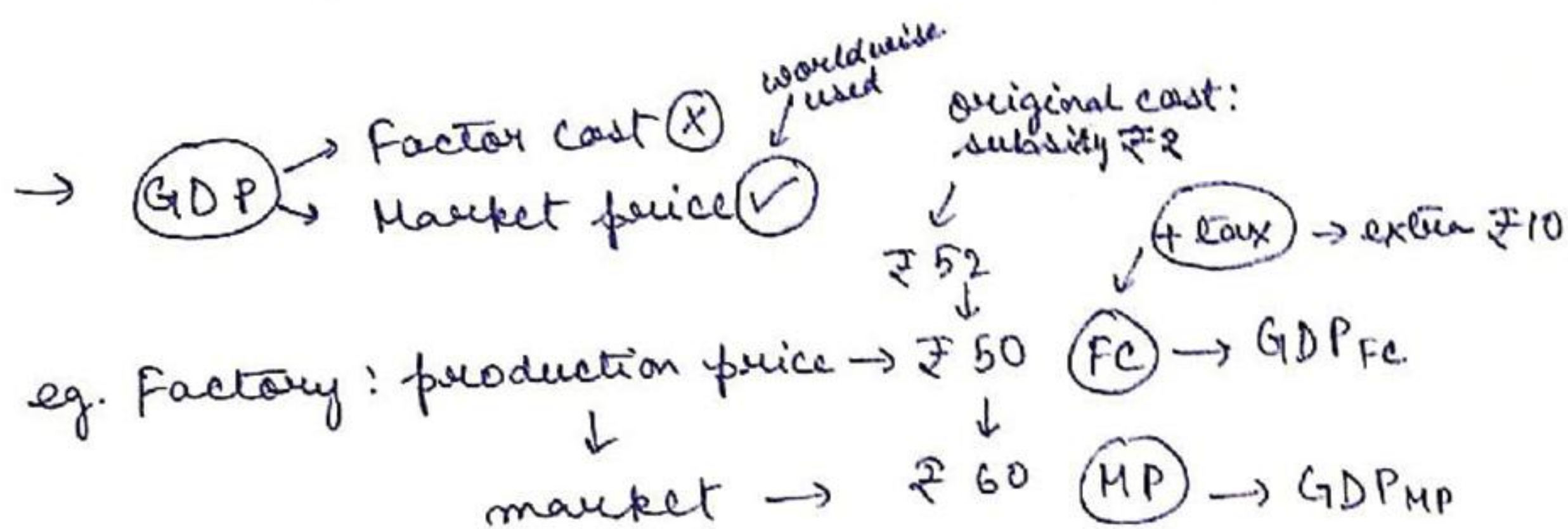
vs

(GDP) ✓

NNP X
NDP X

Not factor of
income from abroad

- ① Govt not responsible for remittance (GNP → included)
GDP → Govt accountable if GDP (↓)
→ To compare with GDP of other countries
(Common parameter)



$$GDP_{FC} = GDP_{MP} - \text{Tax} + \text{subsidy}$$

$$= 60 - 10 + 2 \rightarrow 52$$

$$GDP_{MP} = GDP_{FC} + \text{tax} - \text{subsidy}$$

$$\rightarrow GDP_{MP} (\uparrow) = \text{tax} (\uparrow)$$

$$\rightarrow GDP_{MP} (\uparrow) = \text{subsidy} (\downarrow)$$

⇒ GDP_{MP} → at constant price ✓
→ at current price.

2014	2019	auxiliary industry: imported
car = 300 = 3 lakhs ₹	car = 250 = 4 lakhs ₹	no significant improvement, production (↓)
GDP = ₹ 900 lakhs (2010) → ₹ 750 lakhs	GDP = ₹ 1000 lakhs (2010) → ₹ 625 lakhs	GDP (↑) = current price
when calculated fixing 2010	(2010) → 1 car = ₹ 2.5 lakhs	constant amount (fixed) → 2010; so that
	2010 → 2014 → 2019 → calculation. ↓ 1 car → ₹ 2.5 lakhs	GDP does not look (↑) if production (↓)



2010 → 2011-12 → Base year.

For new products after 2011-12 → New base year.

Criteria:

① 4-5 yrs back year → 2014

② Normal year - 2014

2020 → not normal year

• epidemic

• agriculture poor

normal → not much inflation
year

→ Base effect

$$\text{Growth Rate} = \frac{\text{Final} - \text{Initial}}{\text{Initial value}} = \frac{\overset{\textcircled{F}}{40} - \overset{\textcircled{I}}{20}}{20} = 100\% - \textcircled{1} \text{ case}$$

$$= \frac{40 - 10}{10} = 300\% - \textcircled{2} \text{ case}$$

① Not normal year
↓
change
↓
GR

→ eg. 2020 - ①
2015 - ② → change → GR

$$\Rightarrow \frac{\text{GDP}_{2020} - \text{GDP}_{2015}}{\text{GDP}_{2015}}$$

→ Base year situation will impact final year.

⇒ growing economy → GDP (↑)
GR (↑) 5% - 6% - 8%

slowdown → GDP (↑)

GR (↓) 5% - 4% - 3%

[No country in the world]

①

balloon



← growing economy
↓
new jobs creation.

②

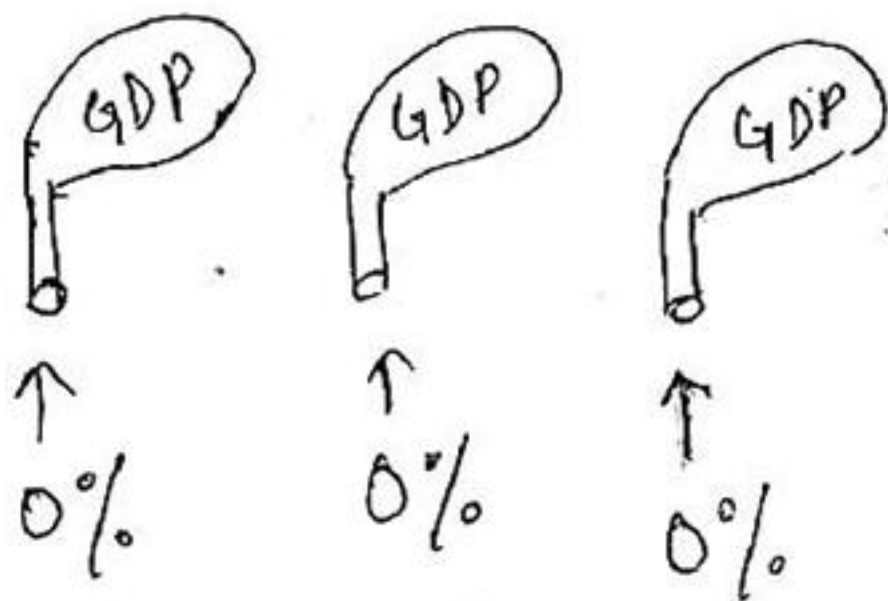


← rate (↓), grow slowly,
↓
GDP (↑)

← slowdown - no new jobs creation
China - existing jobs (↓) less chance

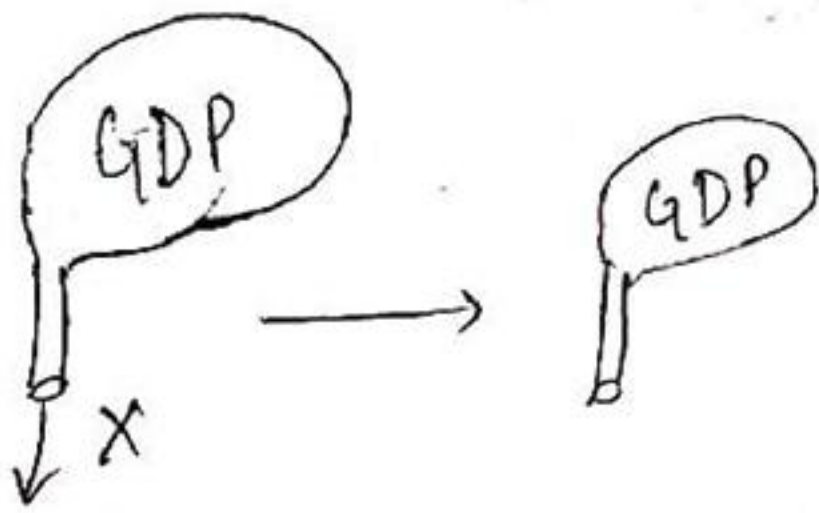


③ → Stagnating economy \Rightarrow GDP $(\uparrow) \times$
 $\rightarrow GR = 0\%$



Germany, France, Italy
• job loss

④ → Contracting economy \Rightarrow GDP (\downarrow)
 $GR \rightarrow -2\%$



$GR \rightarrow -2\%$

\downarrow

3×2

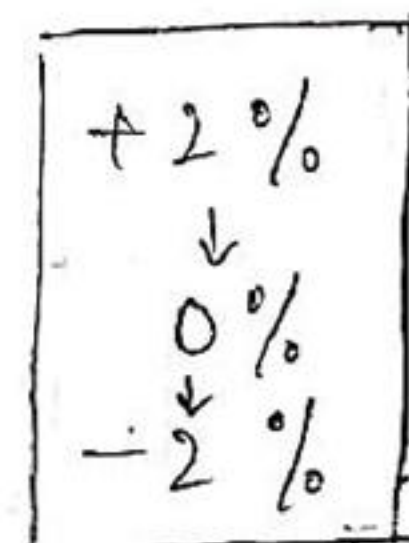
$= 6$ mons

\downarrow
continued

\downarrow
Recession.

\downarrow
India \rightarrow C_1
 \rightarrow C_2
 \rightarrow C_2

• job loss.



2 quarters

1 quarter = 3 mons

PIGS nation
 $\swarrow \searrow$
Portugal \rightarrow Spain
Greece
Italy

\rightarrow depression
(1929, 1933)

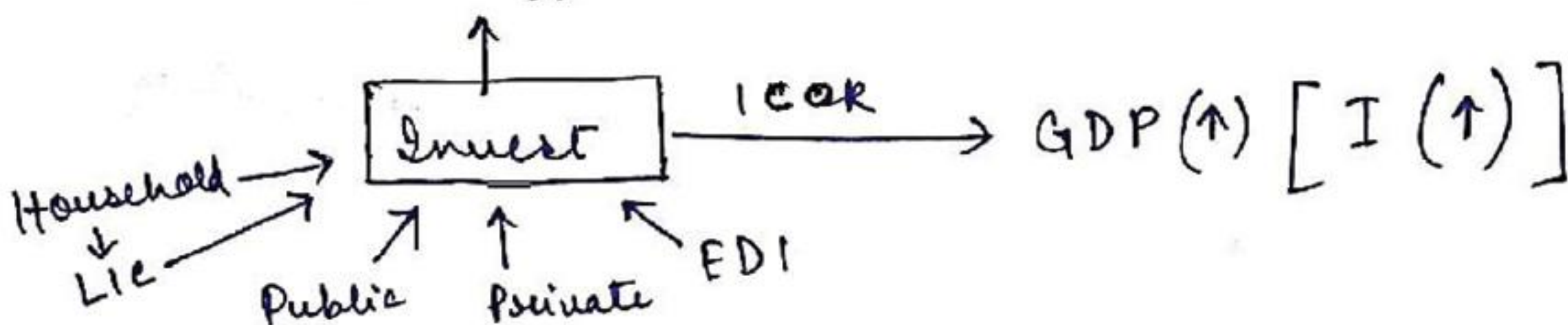
US, Japan, Europe

\downarrow
①



(C) ICOR - Incremental Capital Output Ratio

* different investment = different growth



* eg: Investment (different) = growth (different)

10000 ₹	2K ₹/month growth	① ICOR = 5
100000 ₹	5K ₹/month "	② ICOR = 4
10000 ₹	8K ₹/month " (output)	③ ICOR = 3

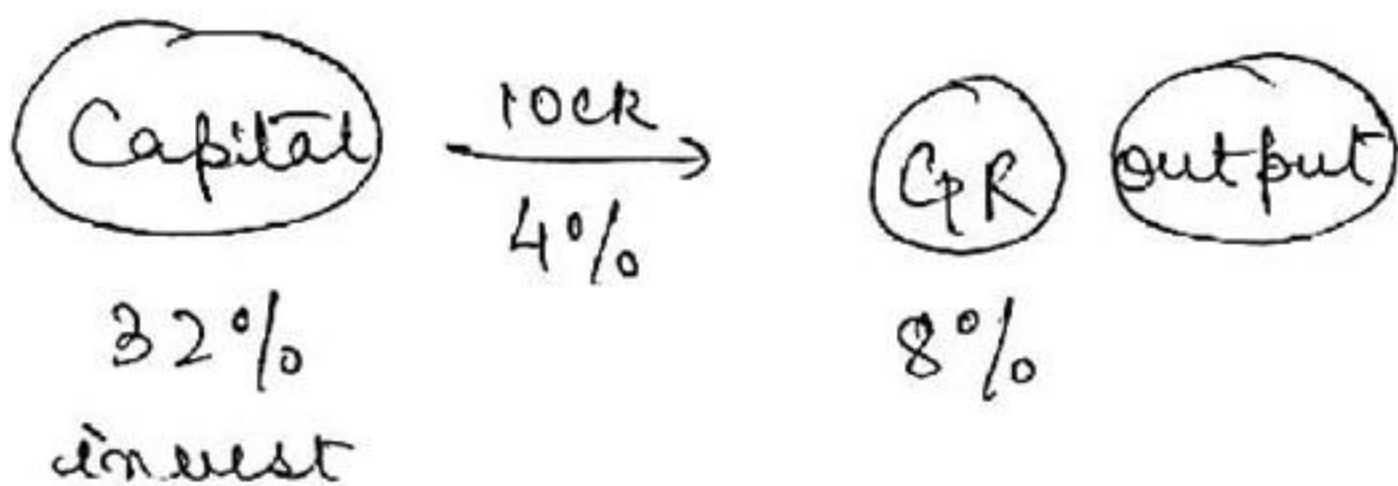
→ capital → output

→ ICOR = $\frac{\text{Capital}}{\text{output}}$

→ ICOR → numerically represented (2, 3, 4 ...)

→ more ICOR, less return

eg: Person, → 5 lakh → Agriculture → 50000/month
 → Industry → 1.5 lakh/month
 → UPSC → 40k → (X)
 ICOR ↑ more

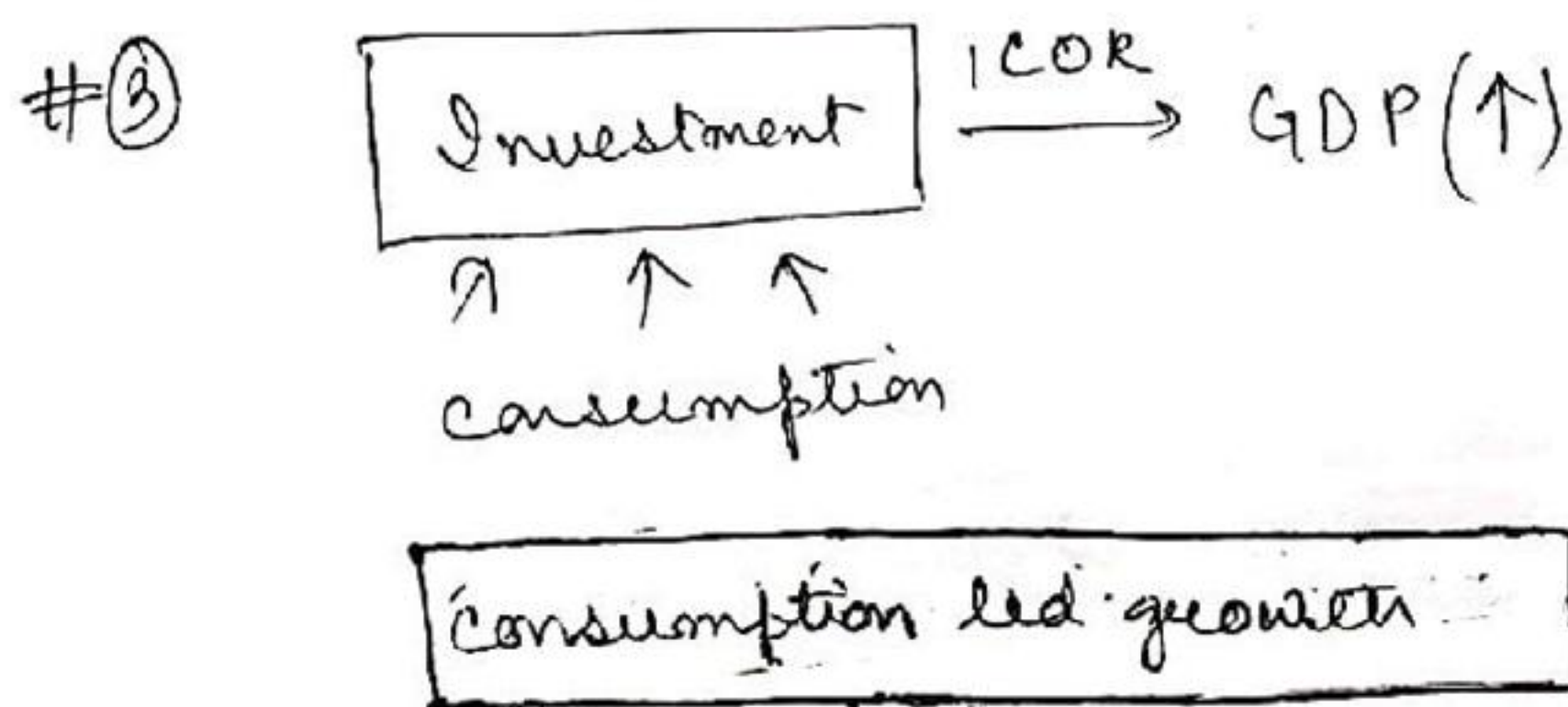
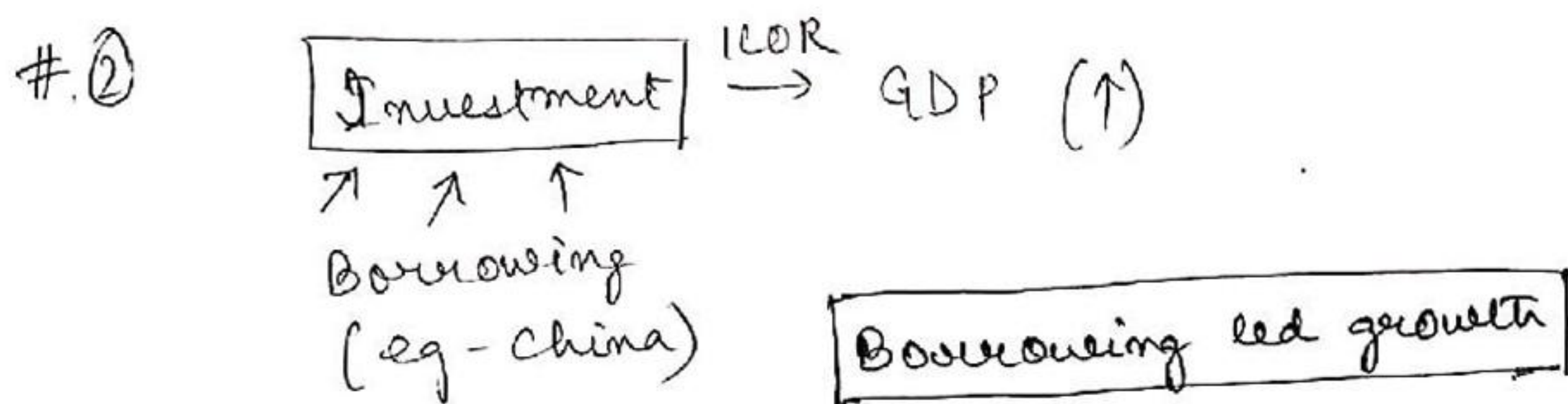
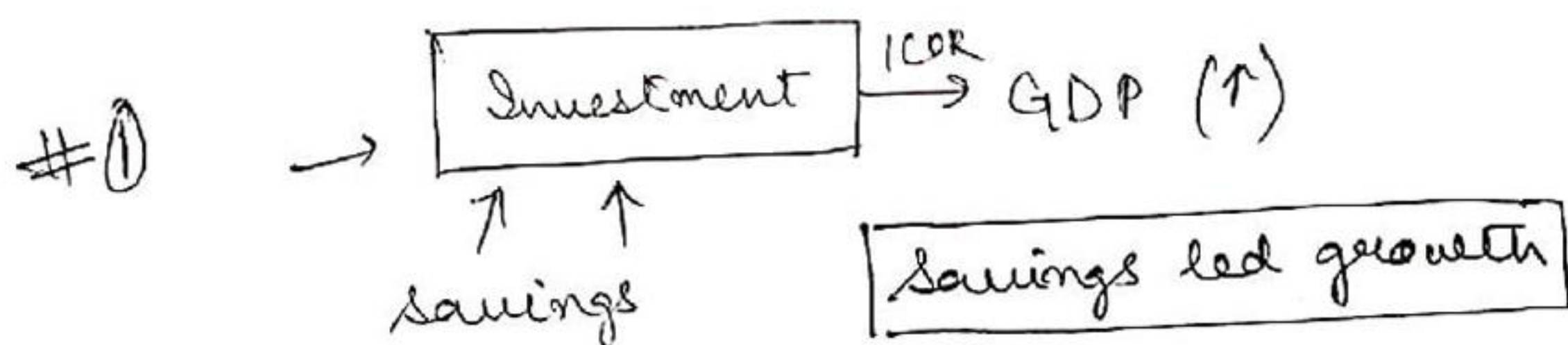


$$\Rightarrow ICOR = \frac{C}{O} = 4\%$$



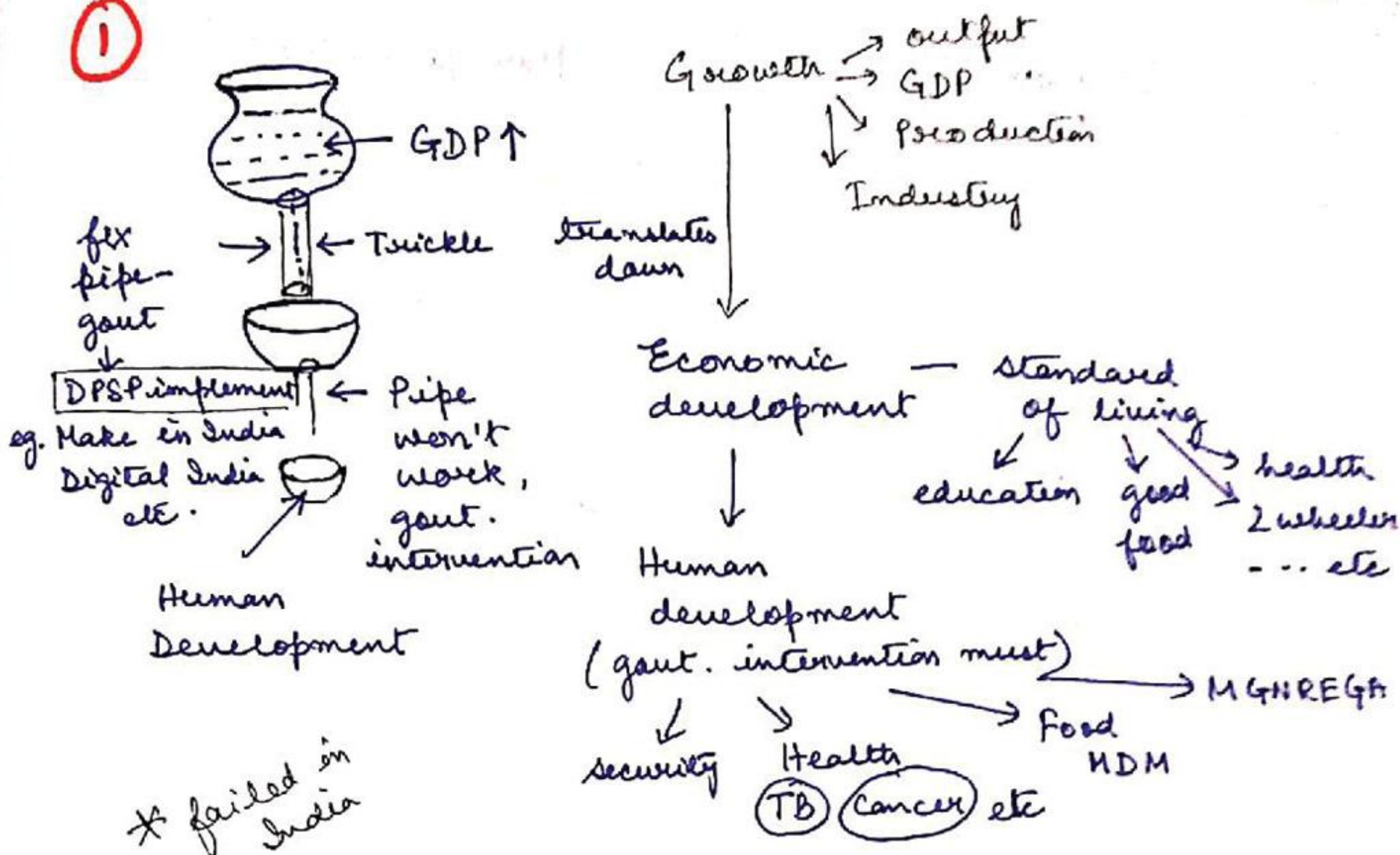
Service sector < Industrial sector
ICOR (2) ICOR \rightarrow (8)
 \downarrow 32%
less capital (32%) \downarrow [capital intensive]
 \downarrow 4%
more capital (16%)
[much less investment]

- \rightarrow ICOR tells if growth is feasible or not
- \rightarrow ICOR tells what investment is needed to achieve growth rate.
- \rightarrow India: ICOR \rightarrow average (4)



Trickle Down Theory

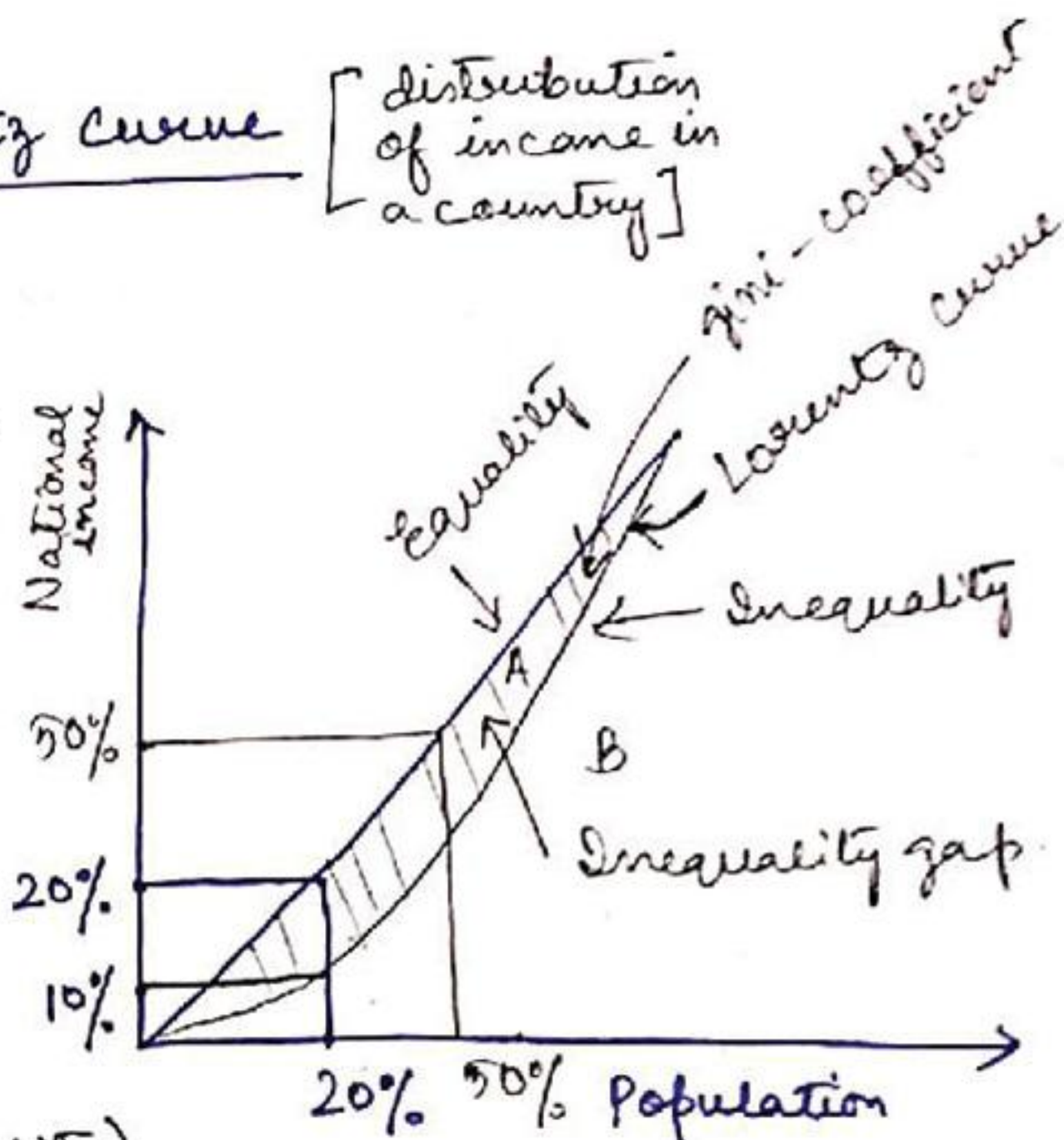
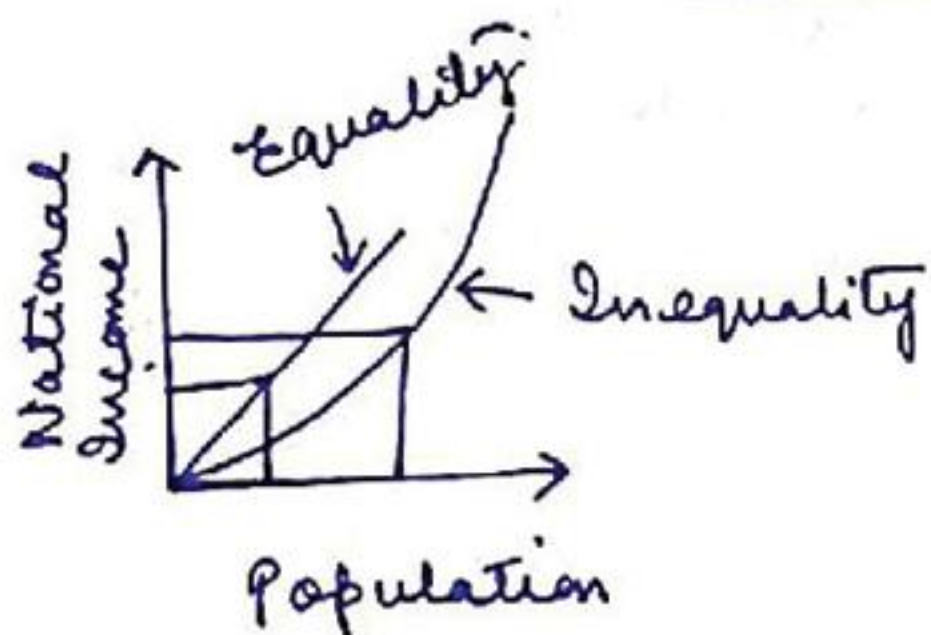
①



②

Lorentz Curve

[distribution of income in a country]



(degree of income inequality)
gini co-efficient →

→ 0 → 1
equality → inequality
0.25, 0.75 . . .

[if $A = 0$,
gini co-efficient 0]
if $B = 0$, g.c = 1 → inequality



③ Agriculture → Manufacturing → Service sector

Industry

→ ① Produce industrial goods. - steel, coal etc.

→ ② Criteria: Raw material

- land
- labour
- unskilled / skilled labour

→ We focused on industries in 5 yrs plan, not on manufacturing goods.

Manufacturing

→ ① Consumer goods. TV, fridge, AC, mobile etc

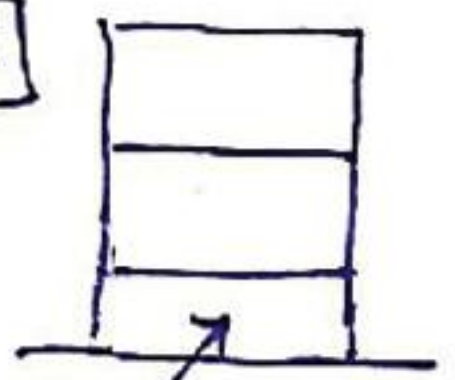
→ white
black
brown...

→ ② Cheap labour

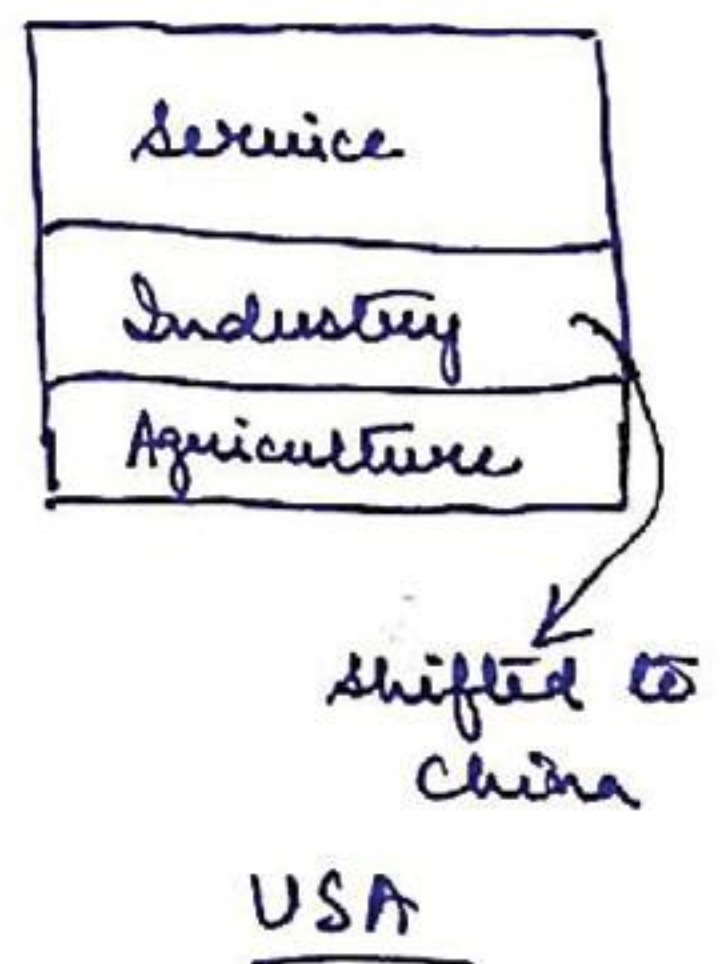
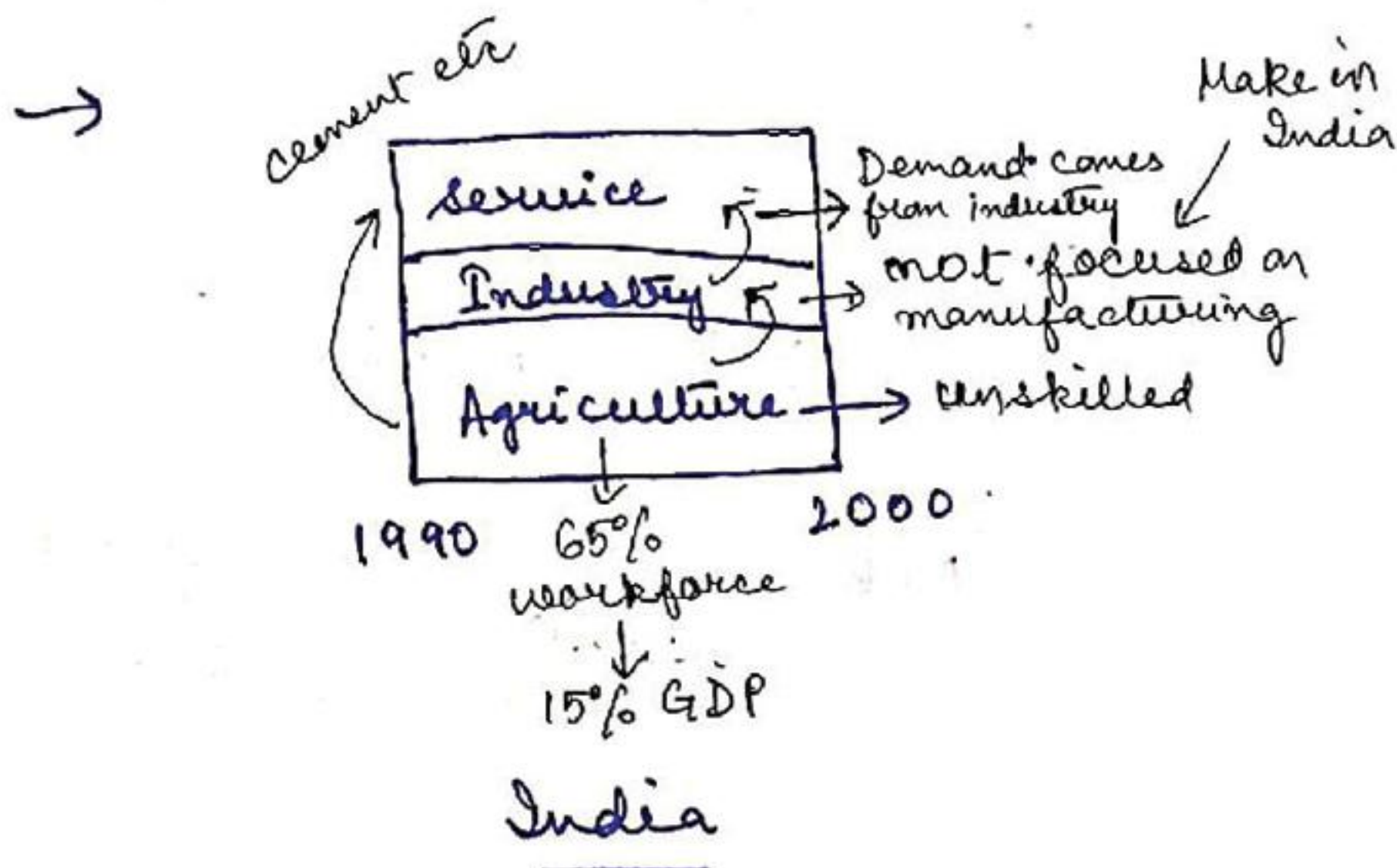
- land → outskirts
- Raw material easily available
- unskilled
↓
skilled

Service sector

- Infrastructure [eg. IT, situated at a place well-connected with roads etc]
- land price - sensitive → they can go vertical
- skilled / unskilled
eg. Engg. eg: B.Com



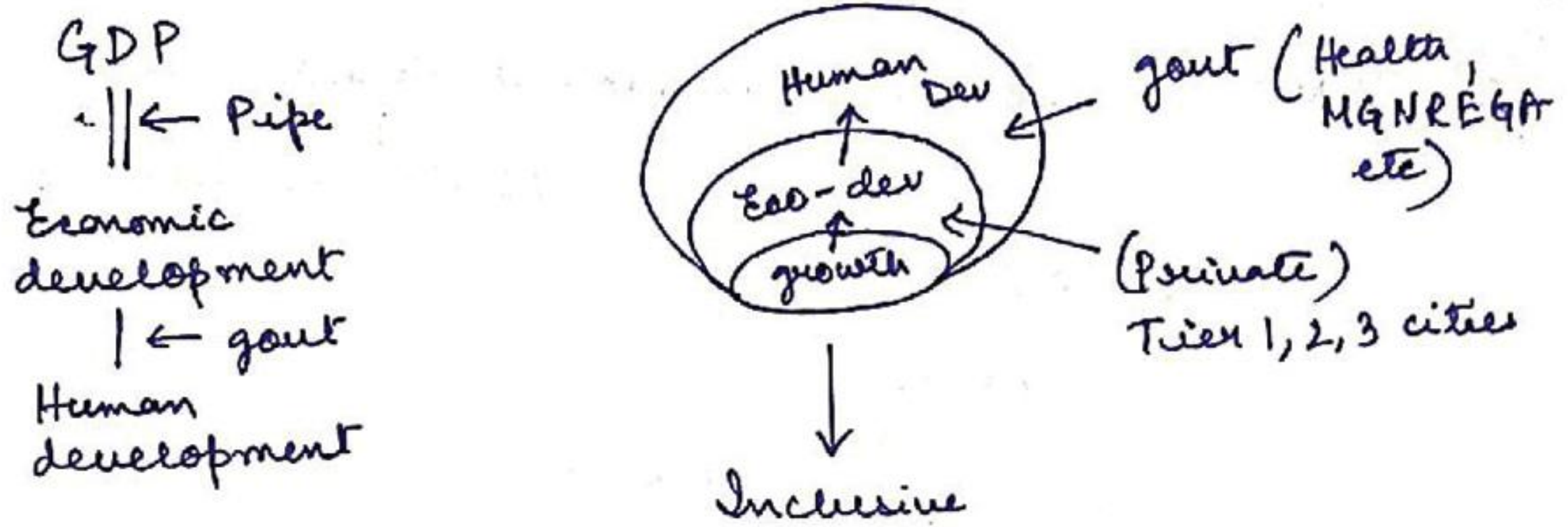
multistoried





④

Inclusive growth



- Manufacturing
- govt laws/policies
- Frugal engineering (affordable by all)
eg. Nano
- Reverse engg
- Innovative engg

growth
(not inclusive) →

- no economic development
- no human development
- inequality was increasing

Reason:

- no channel for growth to percolate → laws policies etc
- Needed: govt intervention → if not

↓
right proportion
economic growth
rural-urban

Human dev X less

→ Role of govt - welfare state

- ① Channel creation → favourable laws → industries
- ② Direct intervention (Human Development)
- ③ Act as redistributer/recirculator of growth
- ④ equitable distribution.



6

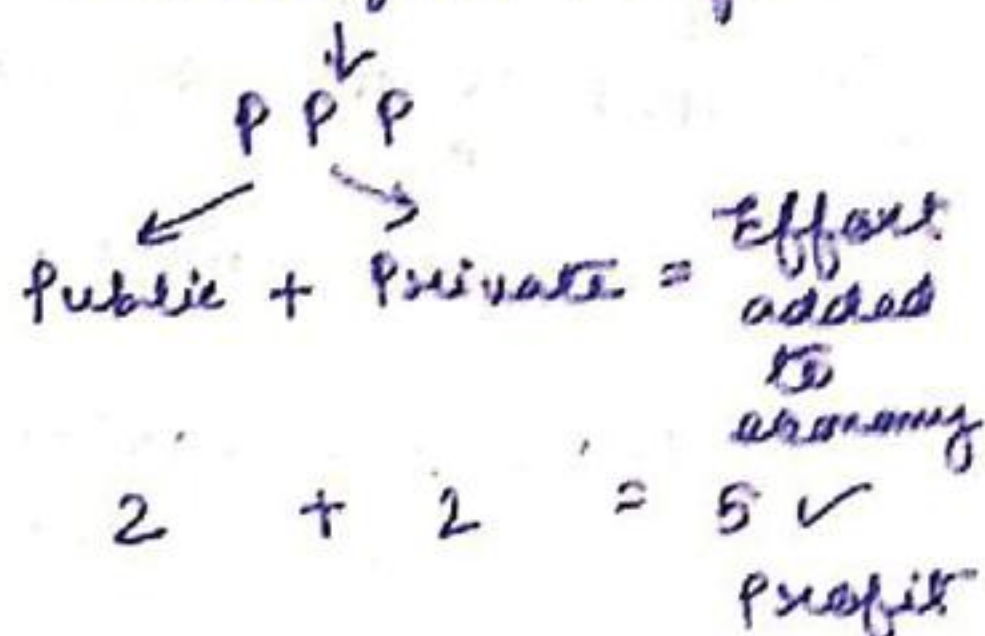
Public-Private Partnership
P-P-P

LPG reform - 1991
long haul process

India: closed economy → open economy

Private (1947)

- Nascent
- Not much capital → PSU: Privatization reform



Model (P P P)

- ① Efficiency in execution → completion of project on time.
- ② quality → Put → Regulatory clearance → Top class quality
→ Public + Interministerial regulation
- ③ National importance.

Types:

① BOT: Build-Operate-Transfer:

eg: Road.

Govt: Detailed Project Report (DPR)

Put: Build → Operate → Transfer to Govt.

- Govt — Private (MCA agreement)
↓
invest 50 cr + profit 50 lakhs (Toll tax)

② DBFOT: Design - Build - Finance - Operate - Transfer

↓
Put. eg: Most Airports.

③ MOT: Modernize/Maintain - Operate - Transfer

eg: Bagdogra Airport → if modernize - MOT
airport stalls - utility charge - Profit.



④ TOT - Toll - operate - Transfer

eg: Road → maintain → put → widen/pitch → Tax
 Transfer ← Modernization cost ← Toll

Risk: Huge capital
 ↓
 Cost-time overrun
 ↓
 No clearance → Toll plaza suspend

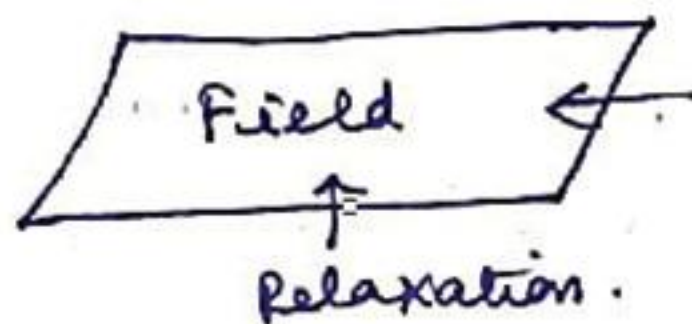
⑤ Hybrid Annuity model (HAM) = GOVT: PVT = 40:60 → Put

↑ so, this model ← unwilling to invest (seed capitalism, corruption etc)

⑥ EPC: Engineering Procurement and construction

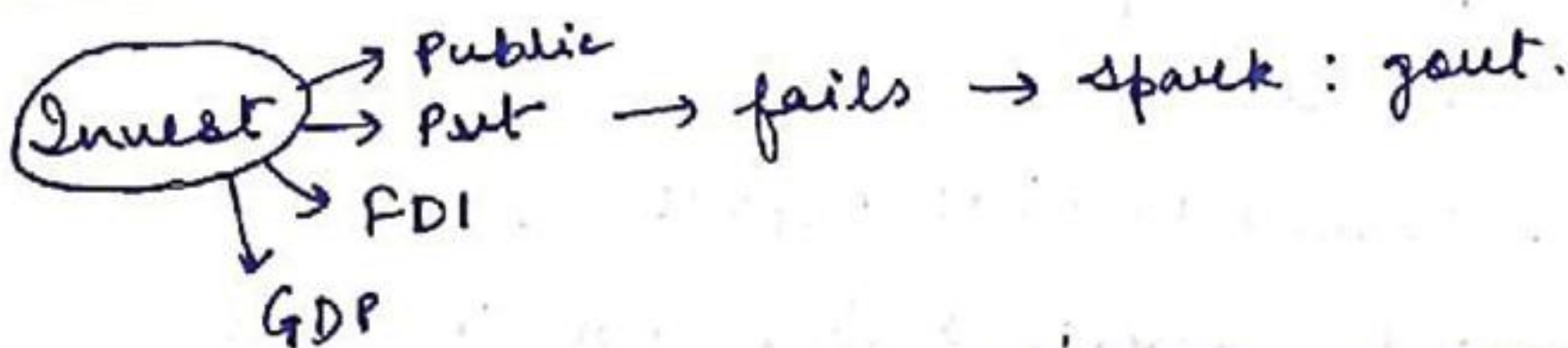
govt - 100% ; PVT - Engineering skills / Technology Management skills.

⑦ Plug and Play: Power sector.



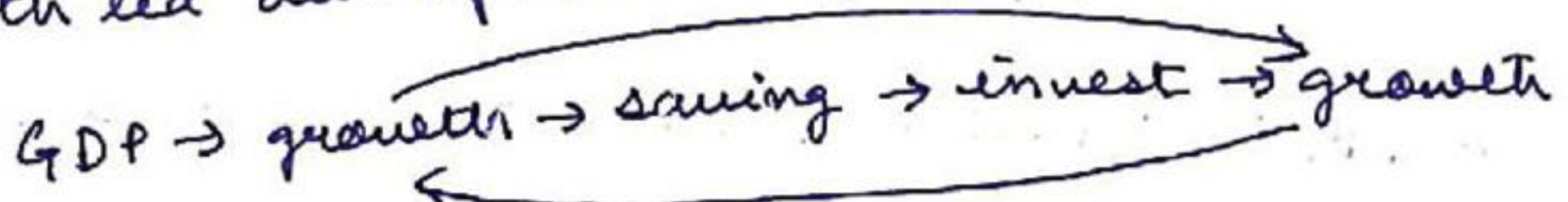
Come and set up industry
 PVT: bring economic development to nation.

⑦ Investment model:



slow down → nobody invest → same money.

① Growth led development model: general model



② Autonomous investment:

↓ growth → direct spending by government → there should be return.

eg: MGNREGA:
 not autonomous:
 no return.

* crisis: govt will decide which one (Investment) to go for.



③ * Pump-priming:

govt: investment

govt spend

Tax/Income Rate reduce

→ People will save → Buy

↓
Boost economy

④ Directed investment:

govt → X ; PSU - IOCI eg → spend → (Invest) X

1991 - Competitive invest [invest - Put, Reduced - Cost - Tech]

PSU
↓
no tech,
no innovation

Put
tech → UBER etc.

Rely

put companies ↔ compete
↓
innovation

⑤ PPP (Leverage investment)

* Suzuki → India

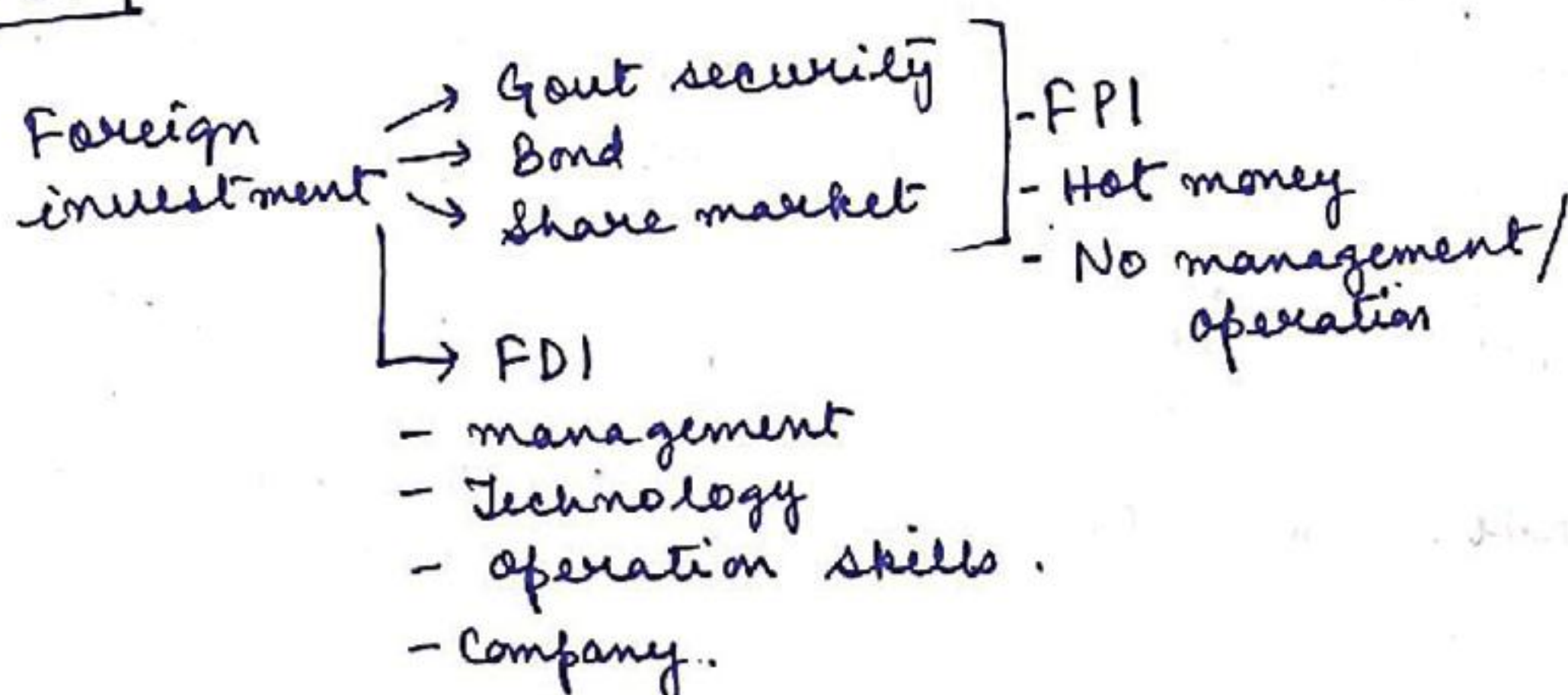
↓
Suzuki India

⑥ induced investment → FDI

Money

Employment

⑧ FDI



26% FDI - Management

51% FDI - Management + Operation

100% FDI - New company

→ Package Deal - FDI

→ Money + skill + tech + management → FDI → Chain reaction.

⑨ Privatization / Disinvestment:

LPG

→ Privatization: 50% of a company to private players — improve management/efficiency

→ Disinvestment : 50% (less) ✓
- aim : raise money management / efficiency
→ not transferred.

* Disinvestment doesn't lead to privatization; different aims

→ Strategic sell/st. disinvestment → Major chunk of share
↓
Management + operation skills
(not necessarily 51%)
Strategic investor - 26% share

⑩ PSC / RSC

Profit Sharing

eg → Put company Profit
 ↓ ↓
 100 cr + 50 lakhs

Revenue

50% 50%

- put. wants to go for this

Revenue Sharing

сг-100 см - руб.

dayl- 10% - 90% ← Put
gout → 20% - 80%

50% - 50%

- govt wants to go for this.



11

globalization

1st WC : US, UK, Japan etc

↔
Transnational

2nd WC : USSR ; 3rd WC : India China.

MNC : 1st W. country → company → 2nd/3rd WC

* Not on equal footing.

eg : USA → India

⇒ Old times:

① USA/UK → high tariff (↑) → trade hindrance | India: ↑ tariff

② quota → developing (tariff) → not more than 1000kg from India
↓
trade hindrance.

GATT : (1947 - signed) → general Agreement on Trade and Tariff.

① Not all trade is bad, not all trade is about colonization.

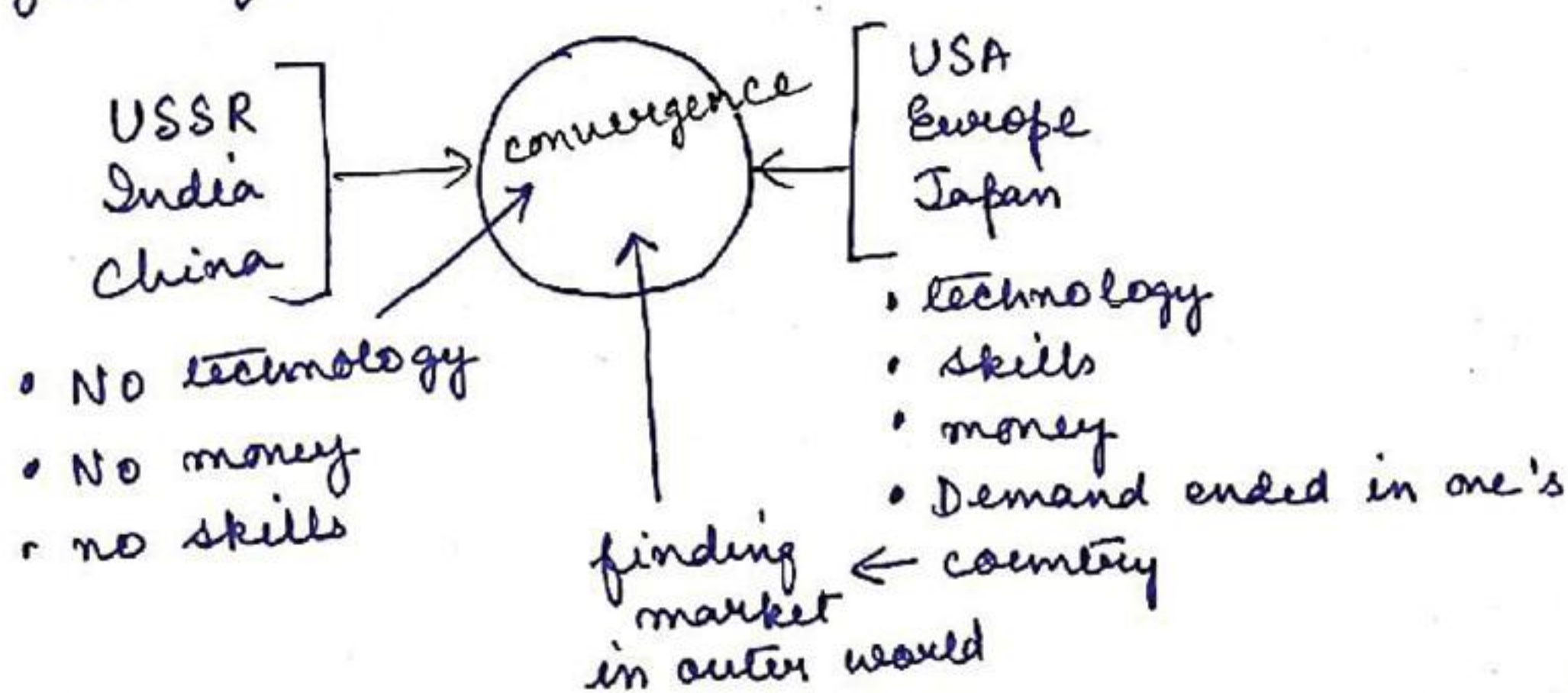
② If agreed on trade: bound tariff → one has to tell previously about maximum tariff.

③ quota → (X)

* closed economy → deadlock

↓
everything domestic.

globalization was a natural need.





→ Era of dominance → Dependence of 3rd world countries

every country ← era of interdependence
dependent on one another.

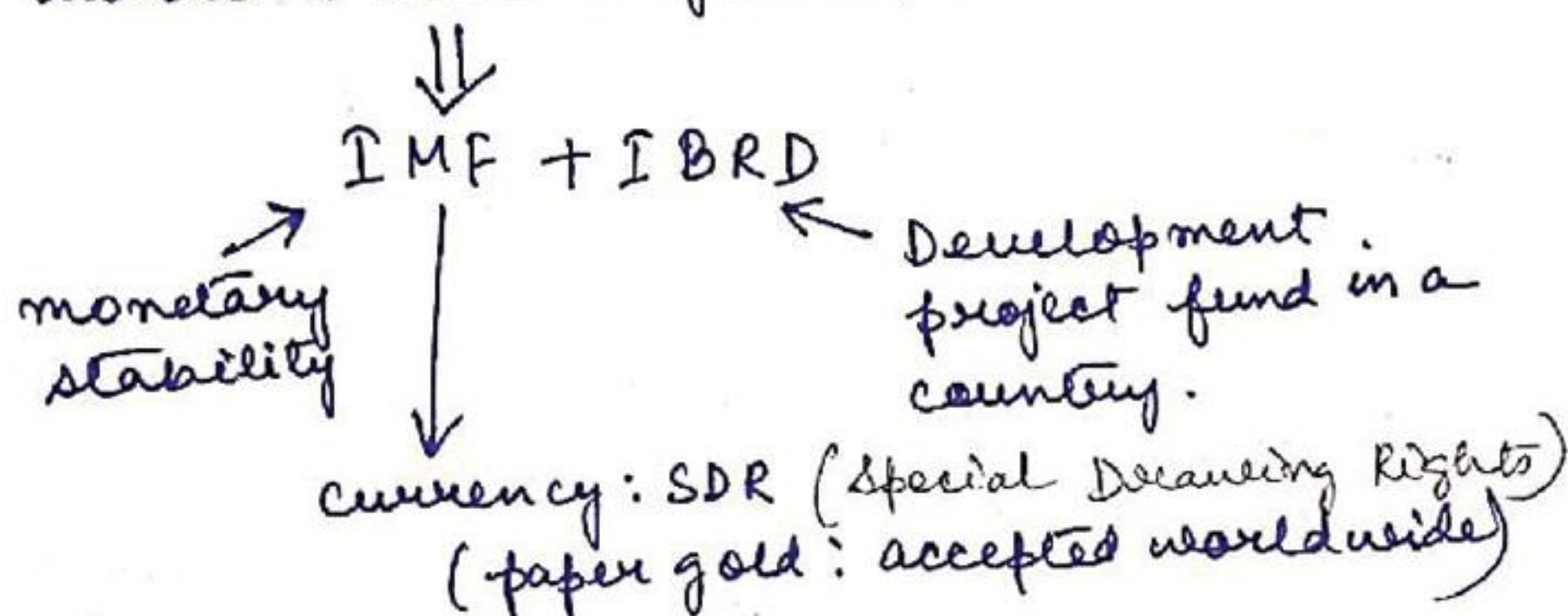
→ global village: product identity; no country identity.
eg: i-phone → interested in product / not country.

12

World Bank

→ WWI: debt / Inflation

→ WWII: aware: same inflation, slowdown



→ \$ = 41.73%

Euro = 30.93%

Yen = Pound = 8.%; Remnibi = 10.92%

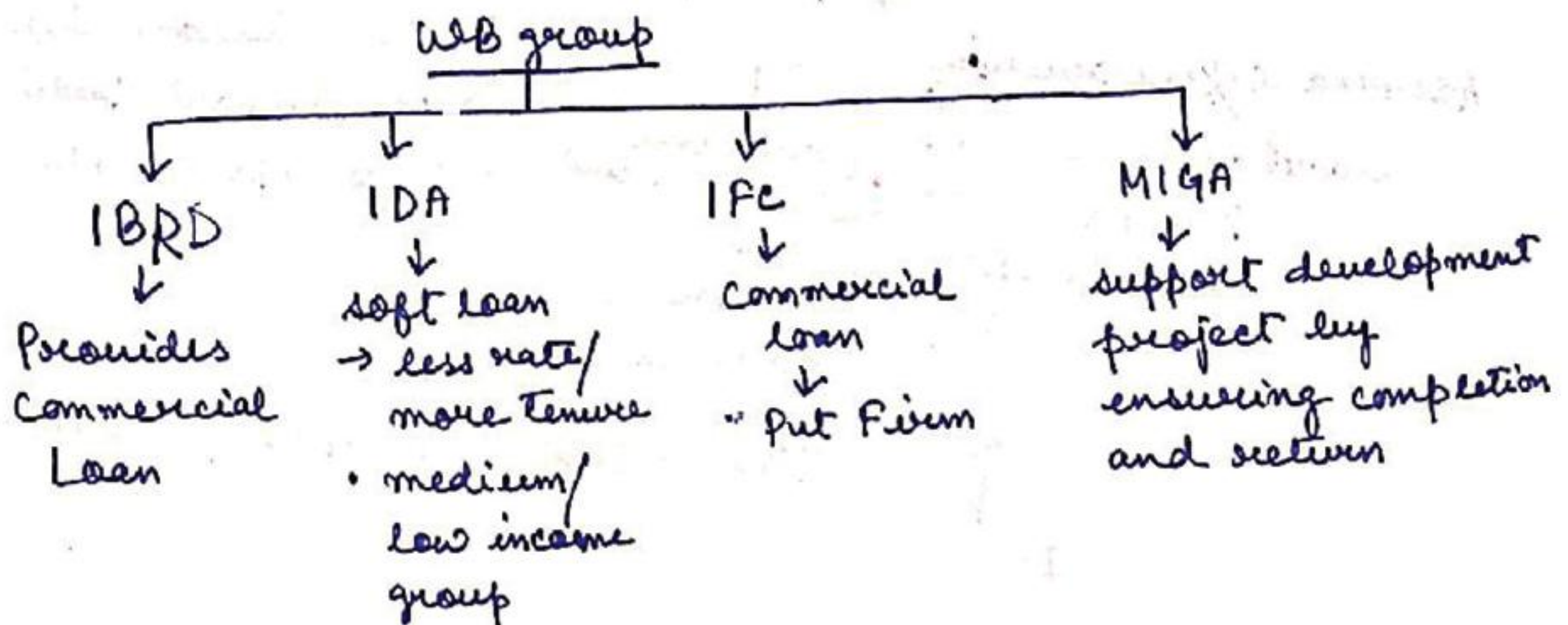
→ Objective: Monetary stability
Exchange rate stability
BOP crisis

→ Executive director → Bangladesh } Represented by India.
→ Bhutan
→ India

→ IMF quota: India = 2.7% } - GDP share (50%)
Voting = 2.6% } - Participation in world trade
- Openness in economy
- International resource

→ Objectives of IBRD:

- Provide long term capital
- reduce poverty - middle income countries.
- Provide expertise for technical knowledge



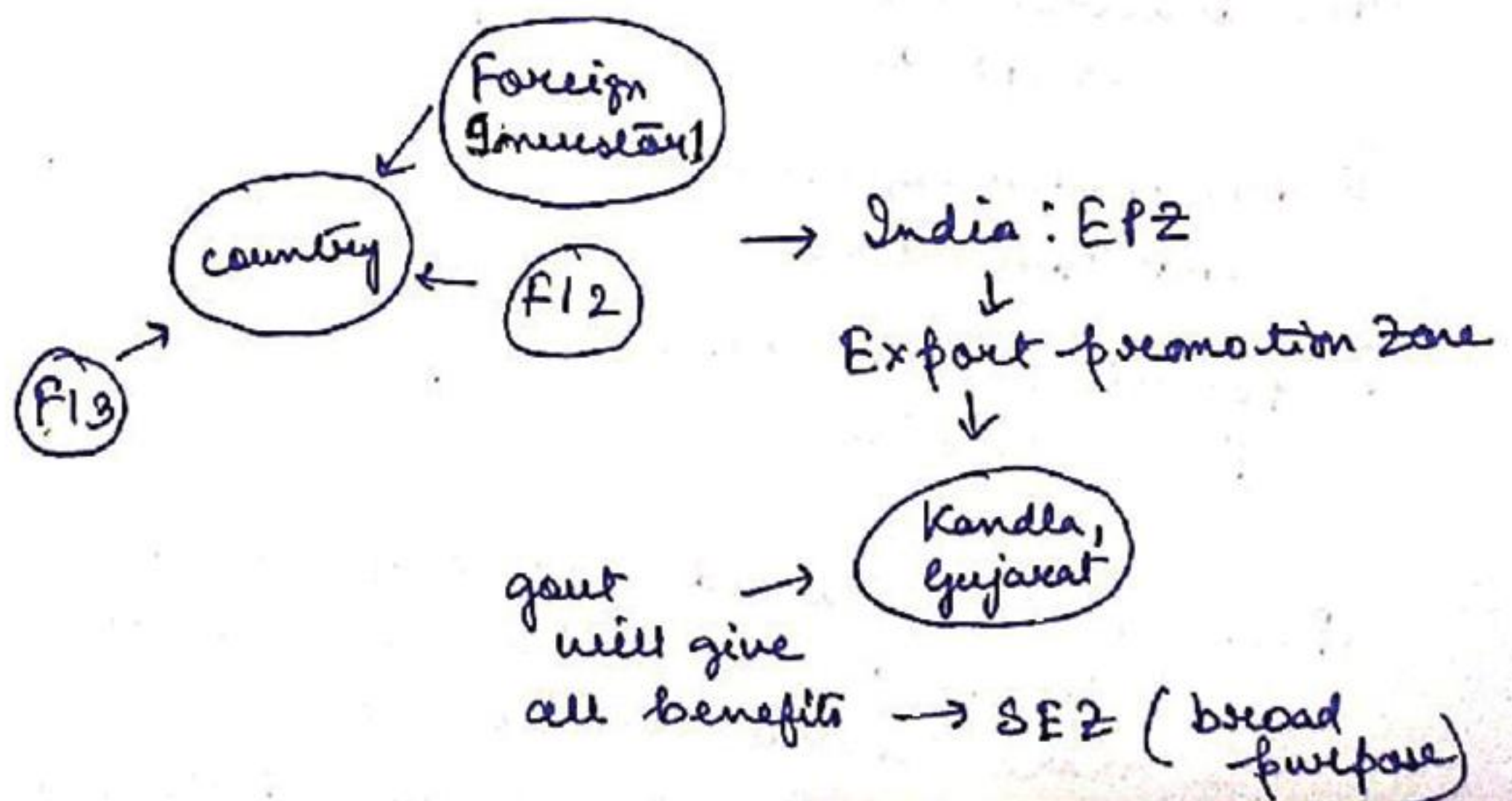
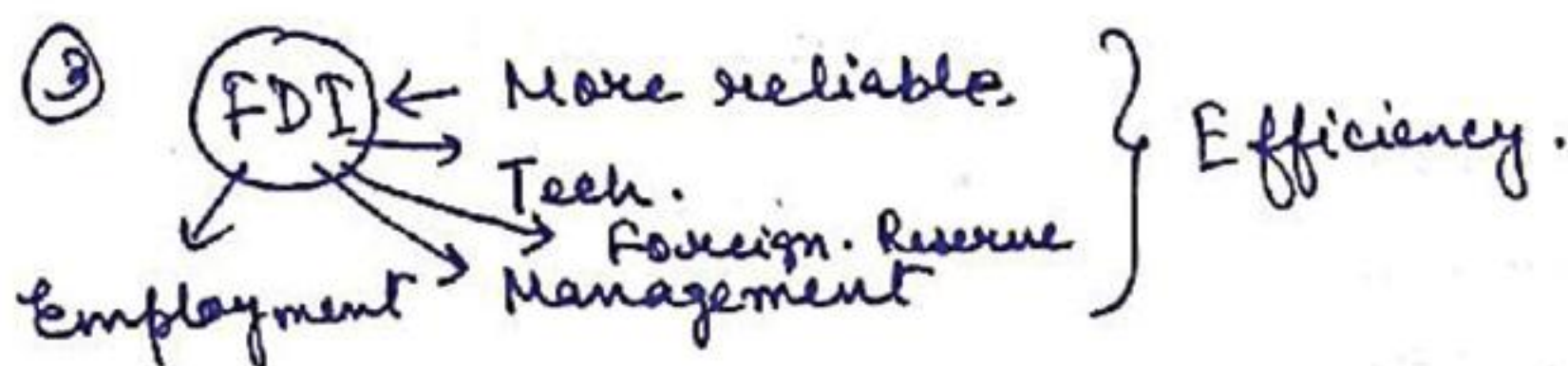
*
→ ICSID - Solve investment disputes (India not signed)

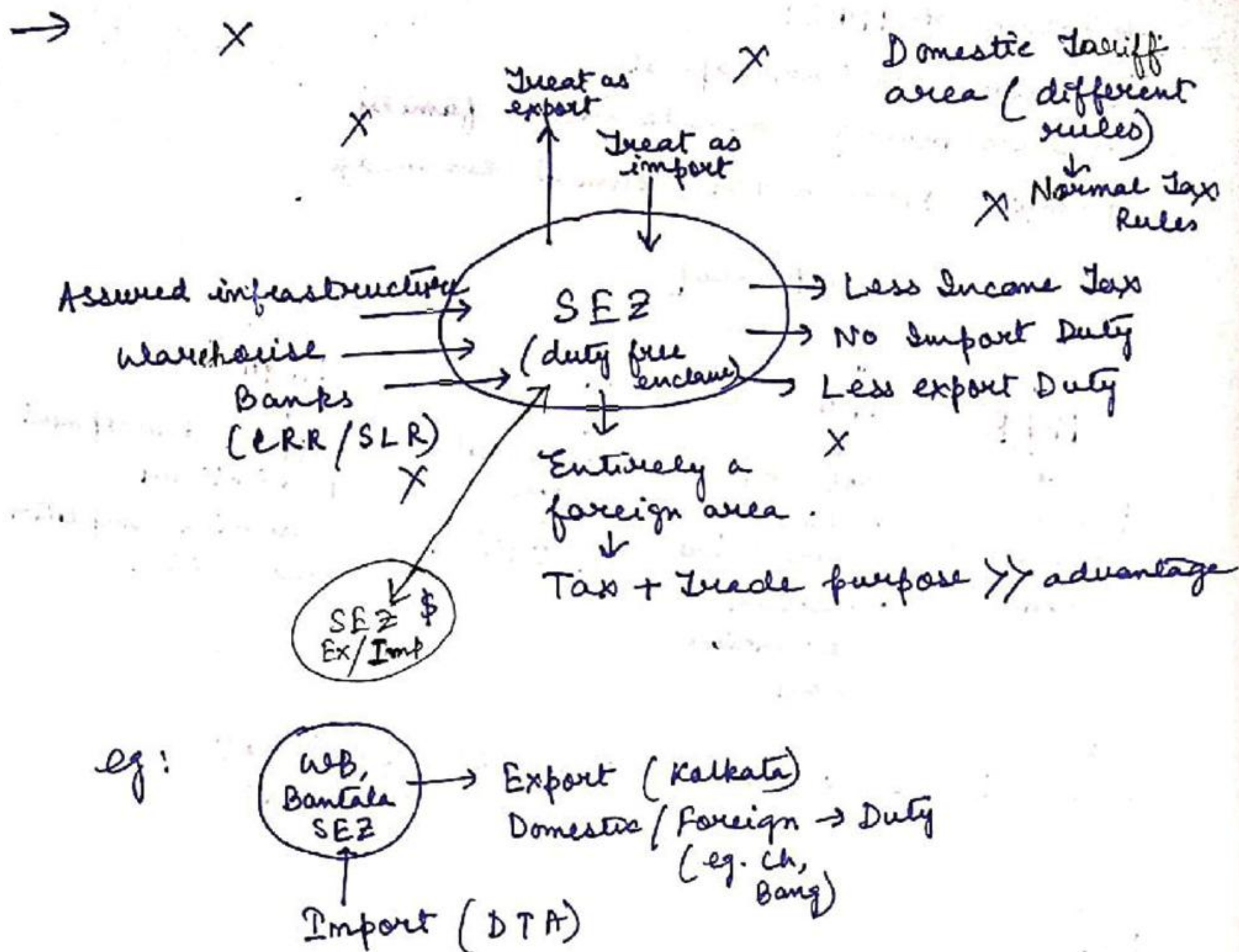
13 SEZ

- ① Product identity ; no country identity.
- ② globalization : transport / communication link

Agri → Man → Service
↓
globalization.

Investment made by a company in a country into business interests located in another country.





SEZ: Areas which offer tax and other incentives in business to promote economic activities

→ Benefit

- ① Economic activity boost
- ② Employment
- ③ Investment → Domestic
→ Foreign
- ④ Infrastructure boost (eg. Roads)
- ⑤ Rural development (related economy)
- ⑥ Pollution away from city
SEZ - outskirts.

Demerits

- ① MAT - debate
- ② SEZ - little area
- ③ Land issues

SEZ: Specially marked territory/enclave

- within national borders of a country
- more liberal economic laws
- encourage investment by private players.



MAT: 2m (Minimum Alternate Tax)

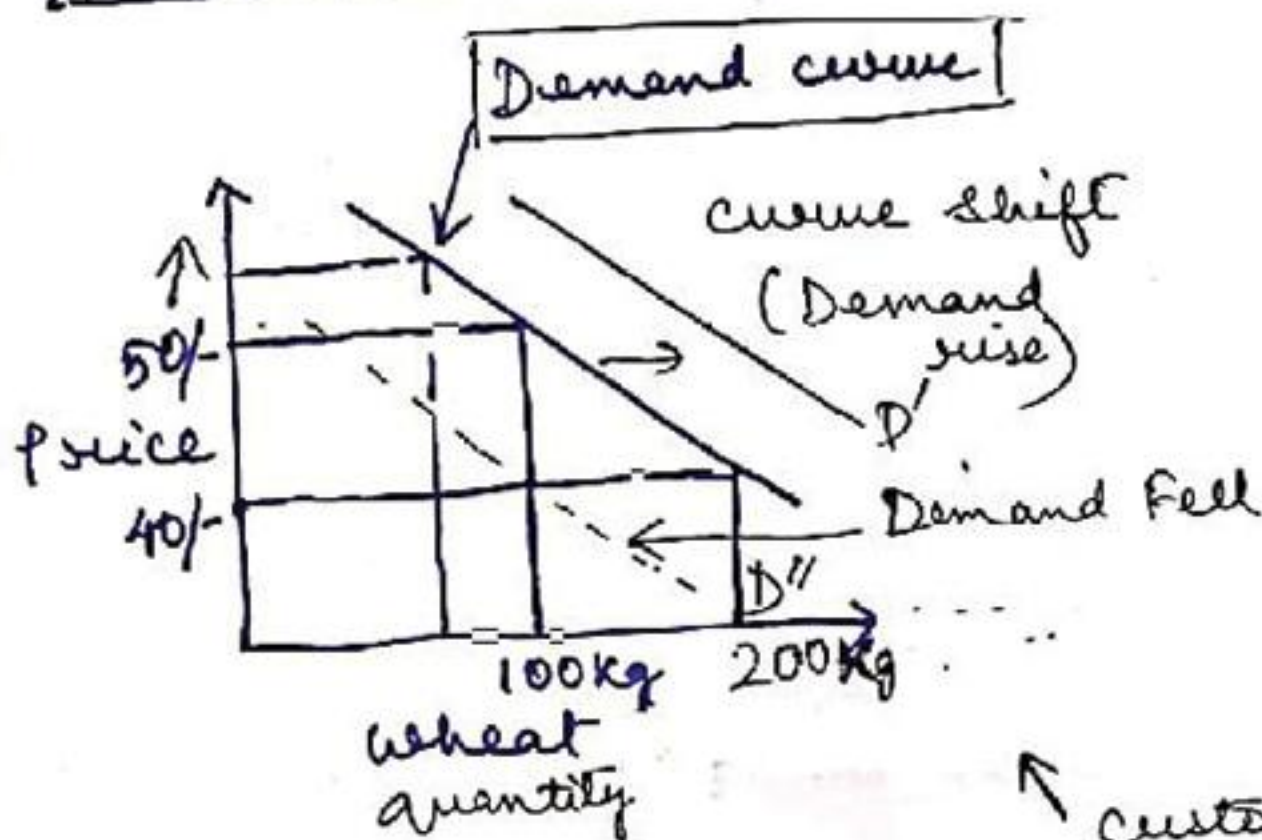
- Include all companies in income Tax loop
- No company can avoid paying income Tax.

↓
MAT if relaxed → SEZ less attractive → Debate!!

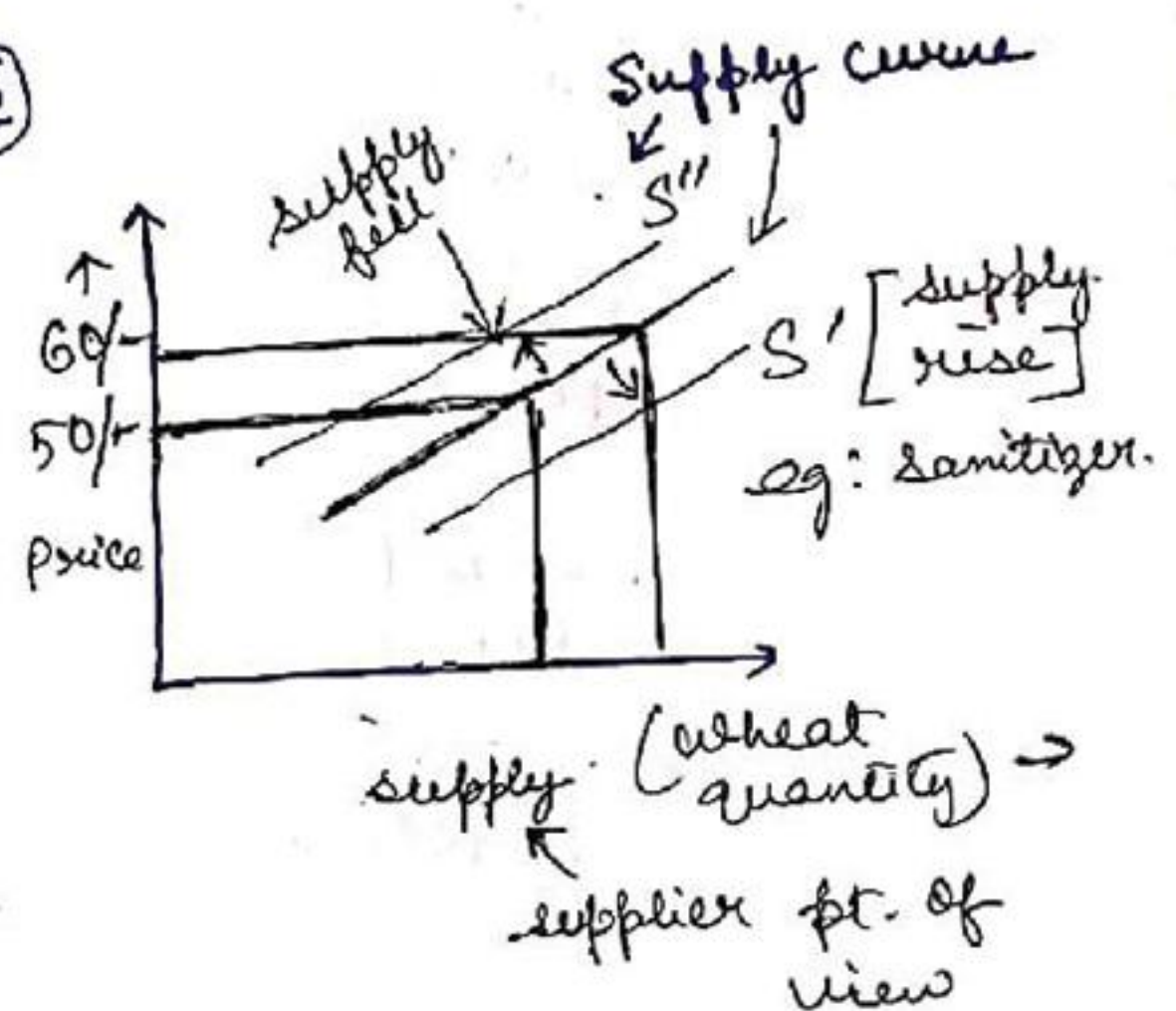
14

Supply-Demand Curve

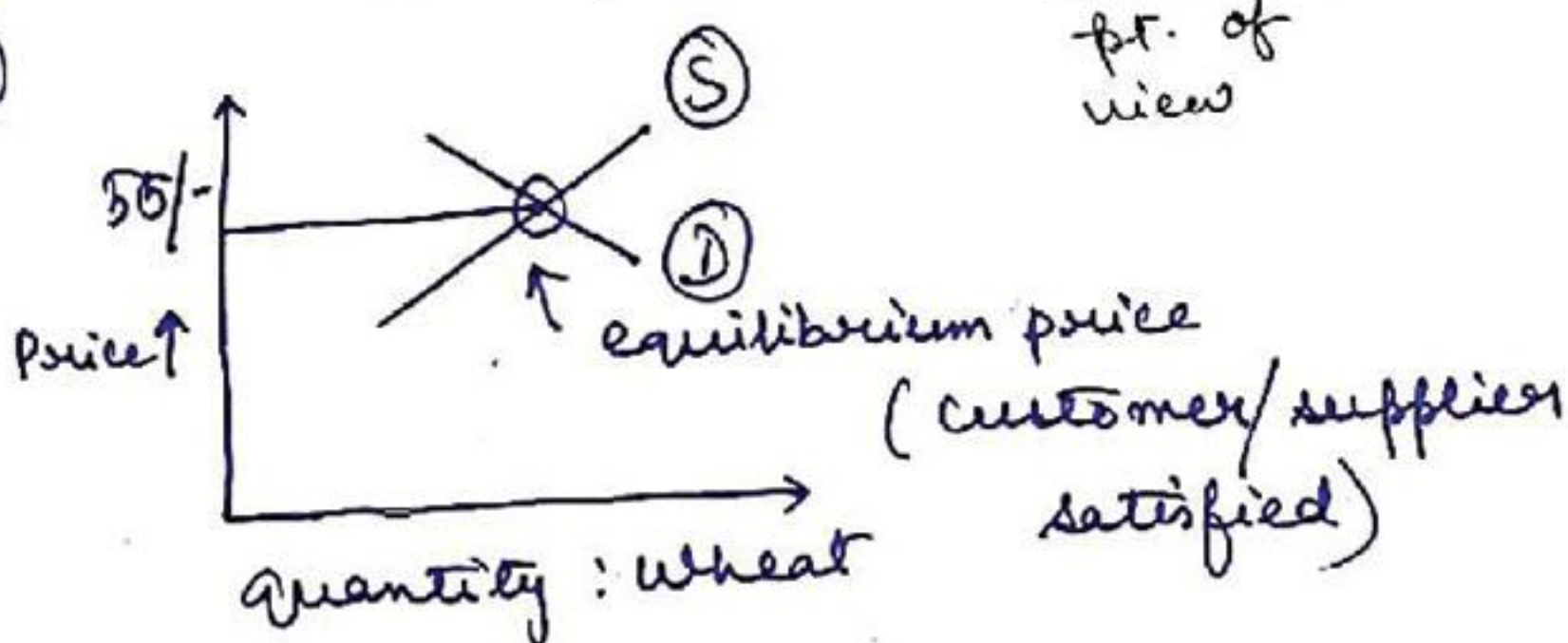
①



②



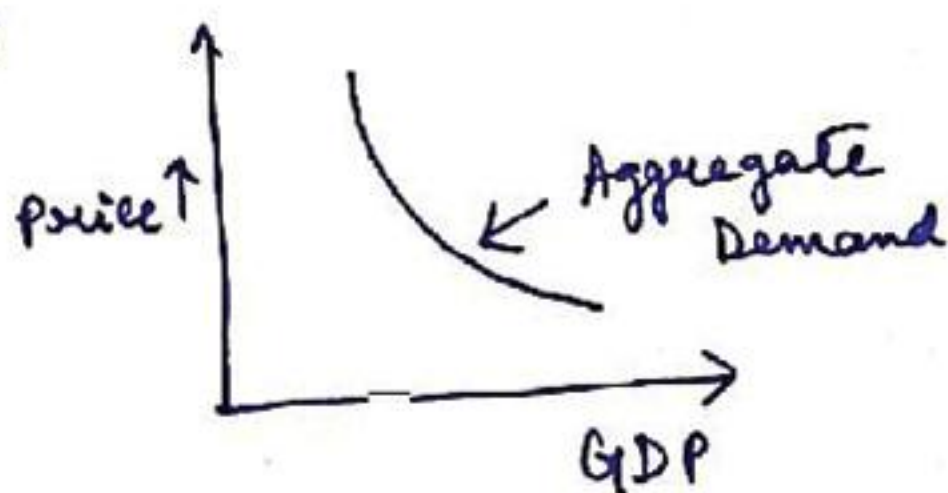
③



- 0-wastage
- optimal use of resource.

→ The Problem of Rupee:
B.R. Ambedkar

④



- Demand of all goods and services in the economy.
- increase/change in income.



(15)

Fiscal / Monetary Policy

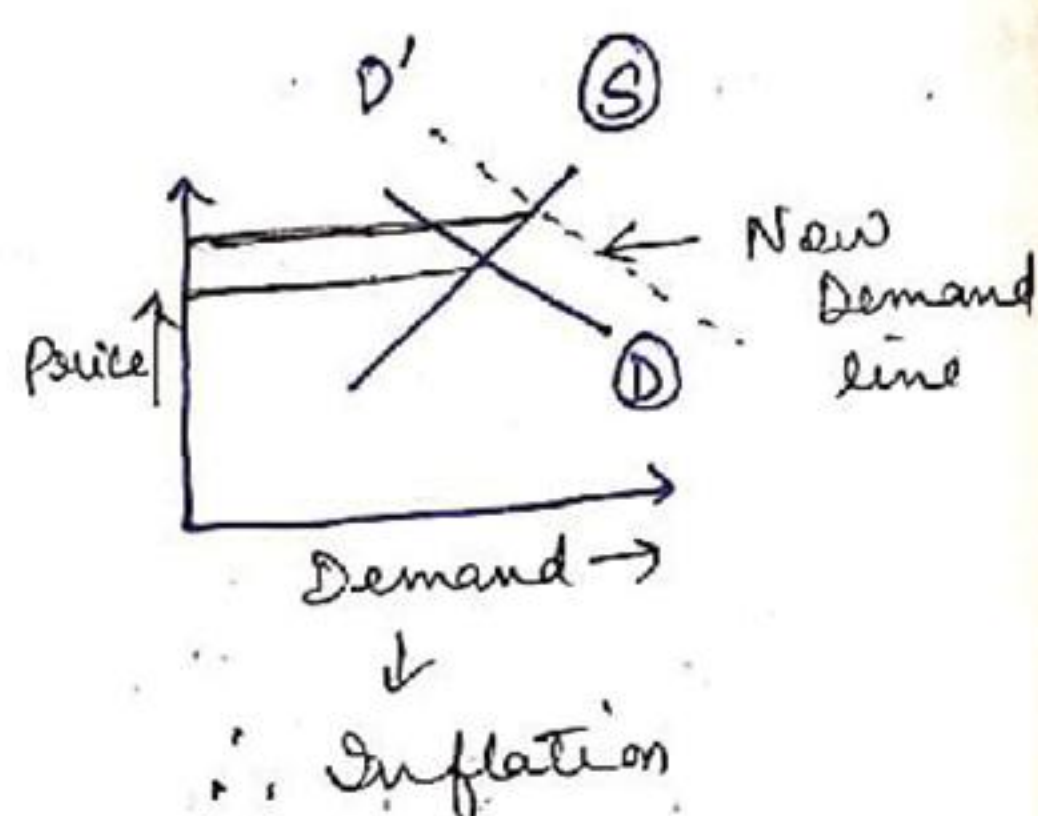
↓ ↓
gout RBI

① Fiscal Policy : gout. expenditure + gout Revenue.

→ Expansionary Policy → $GDP = C + G + I + NX$

• gout. expenditure >> gout. income.

$C + \textcircled{G} \uparrow + I + NX$
 ↓ ↓
 increase + I (↑)
 (C ↑) Invest
 ↓ in
 Money in Economy
 pocket
 ↓
 Demand
 Rise

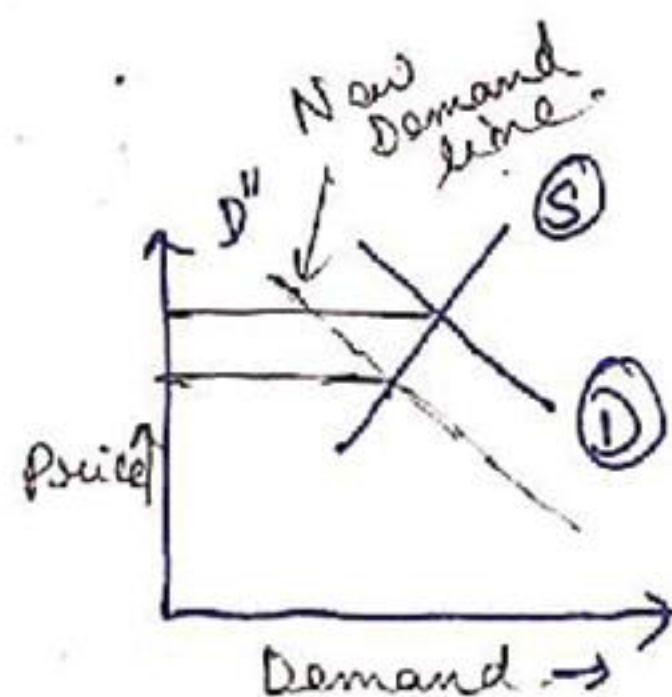


⇒ Expansionary Policy → Inc. in GDP + Inflation → Fiscal Deficit (↑)

→ Contractionary Policy:

gout. expenditure << Revenue

$GDP = C \downarrow + \textcircled{G} \downarrow + I \downarrow + NX$
 ↓ ↓ ↓
 less less less
 demand investment



less price,
less inflation.

⇒ C. Policy → GDP Less + contraction.

⇒ If, Inflation → Moderate ← Exp. policy
 5 → 6% (No harm)

⇒ If, Inflation → High ← Contraction.
 8-10% (Devaluation of money)

⇒ The money which is in circulation and such money which is not retaining with gout. or bank is the part of money supply - cash/ demand deposit
 (deposit easily available to us)

Monetary Policy \rightarrow RBI

→ Money supply less

↓
Repo rate less

↓
Bank : cheaper loans

↓
customer (less interest)

↓
Demand (↑)

Inflation (↑)

$$GDP = C + G + I + NX$$

$$= (\uparrow) \quad (\uparrow) \rightarrow \text{GDP}(\uparrow)$$

\rightarrow RBI \rightarrow Repo Rate (\uparrow) \rightarrow $GDP = C + G + I + NX$

\downarrow
MS (\downarrow) Money supply
CS (\downarrow)
D (\downarrow)

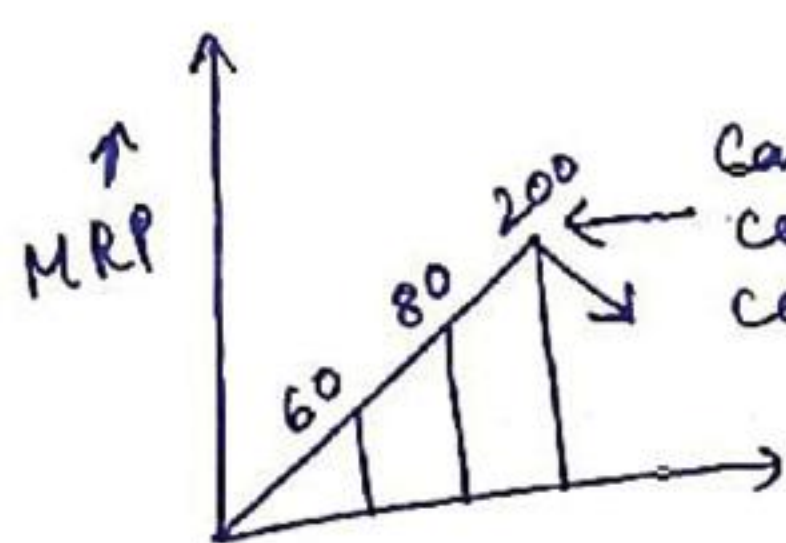
= (\downarrow) (\downarrow)
 $\hookrightarrow GDP (\downarrow)$

→ Inflation (↓)

Govt \rightarrow expenditure \leftarrow RBI inflation control

⑩ Supply side: [STAGFLATION]

→ Production cost may increase (↑)
eg. crude oil



Can increase cost upto a certain limit

↓
still not recovered (P-cost)
↓

can leave producing.

No investment
No employment
Job loss

No economy growth

+ costly

stagnant
economy

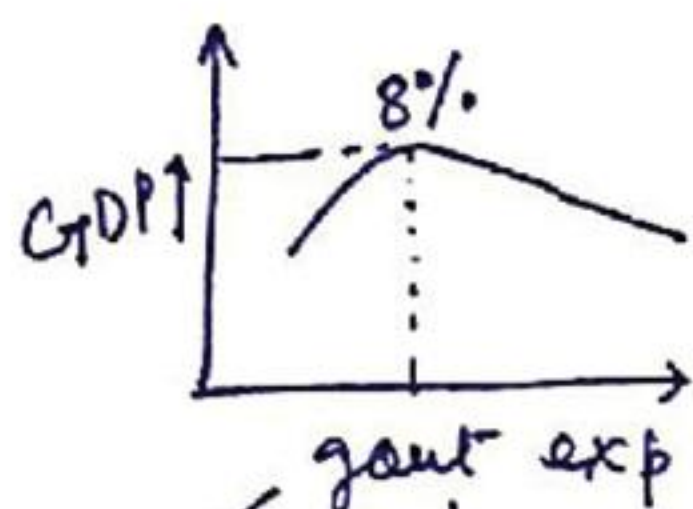
Inflation
+
Stagnant

stagflation



17

→ Rahn Curve



$$GDP = C + G + I + NX \rightarrow (\text{valid upto certain limit})$$

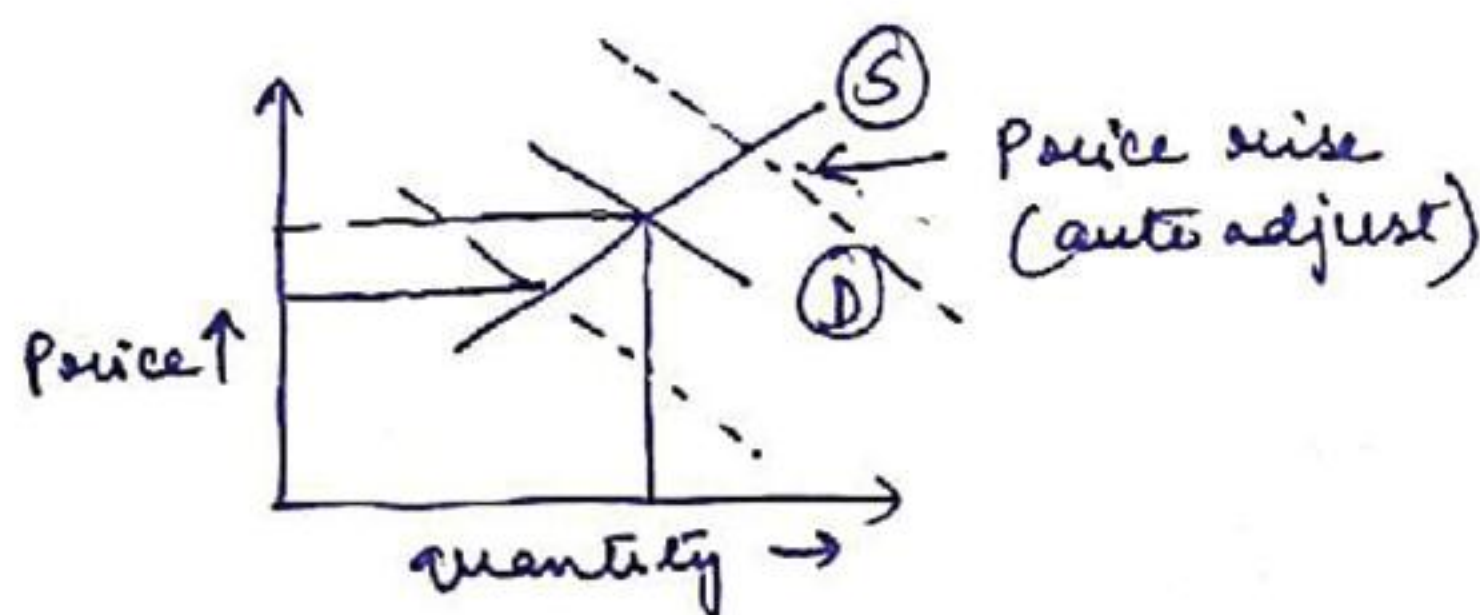
Tax : → Change Tax (↑) → Expand (↑)

↓
Corporate savings (↓)

↓
Investment (↓) → GDP (↓)

18 Market economy

- ① Capitalist - wealth creation + accumulation
- ② Socialist - govt. : protection th. laws/policies
- ③ Communist - goods → states → worker supreme
↓
monopoly, ignoring citizen/consumer.
- ④ Market economy - Pro Business
- Firms - Profit - Invest - goods - service



→ Consumer supreme | efficiency - innovation | competition



Market economy

- Free enterprise
- Freedom of contract
- Private property
- Profit
- Competition
- Consumer supreme.

↓
govt

- Transparent regulation
- Regulator to ensure fairplay
- legal enforcement of contract
- Unethical practice

→ LPG

- ① → De-licensing
- De-reservation
- De-control
- De-regulation.

②

PSU → open ← Pvt.

⑩ Exchange Rate (ER)

Value of a currency in terms of another currency

$\rightarrow \$ \rightleftharpoons \text{₹}$ (compare) $\rightarrow 1\$ \rightarrow 70\text{₹}$

\downarrow most accepted.

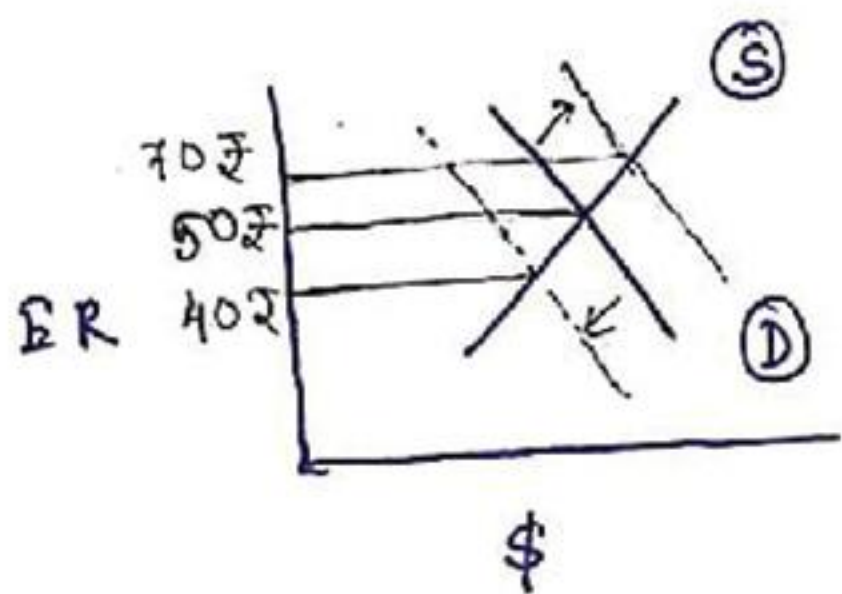
\downarrow more powerful

$\Rightarrow 1 \$ \text{ can buy } ₹ 70 / \text{cost of buying } 1 \$ = ₹ 70$

$$\therefore ER = 70 \text{ ₹}/\$$$

① Fixed ER : 70 F/\$ (fixed) irrespective of Demand-Supply

② Flexible / Market / Floating ER - fluctuate



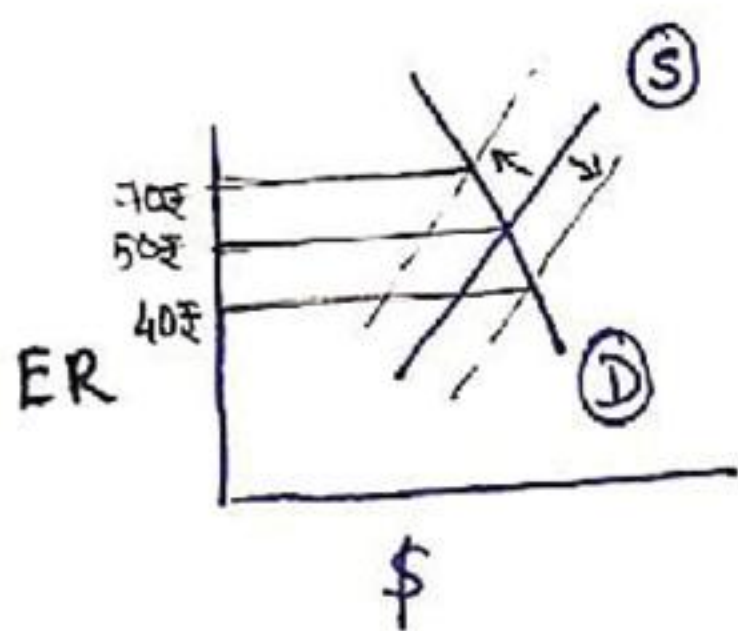
→ Demand of \$ (\uparrow)

= Rupee (↓) weak

→ Demand of \$ (\downarrow)

= Rupee strengthen

→ $\$ (\uparrow, \downarrow)$ = Fluctuation of E.R.



\$ \rightarrow\$ supply (\$\uparrow\$) \$\rightarrow\$ Rupee (\$\uparrow\$)

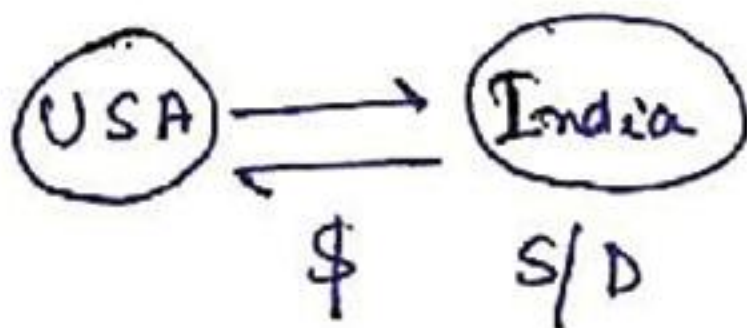
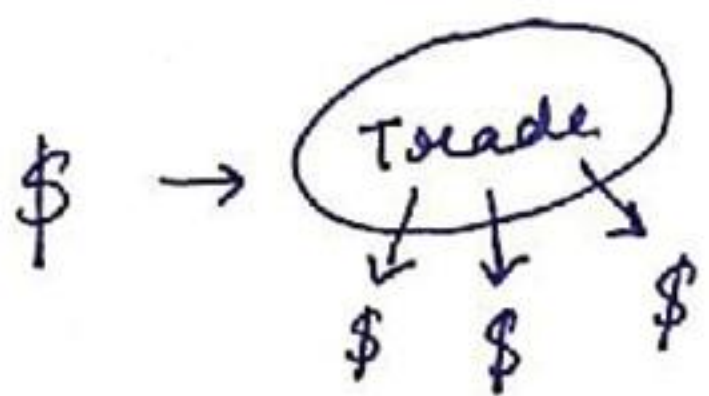
FDI/Export \rightarrow \$ (F strong)

③ Managed Floating / Market / Flexible ER.

RBI → adverse situation → RBI interfere
(adjust price discovery)

before 1991 : ER: fixed

Now : Managed .



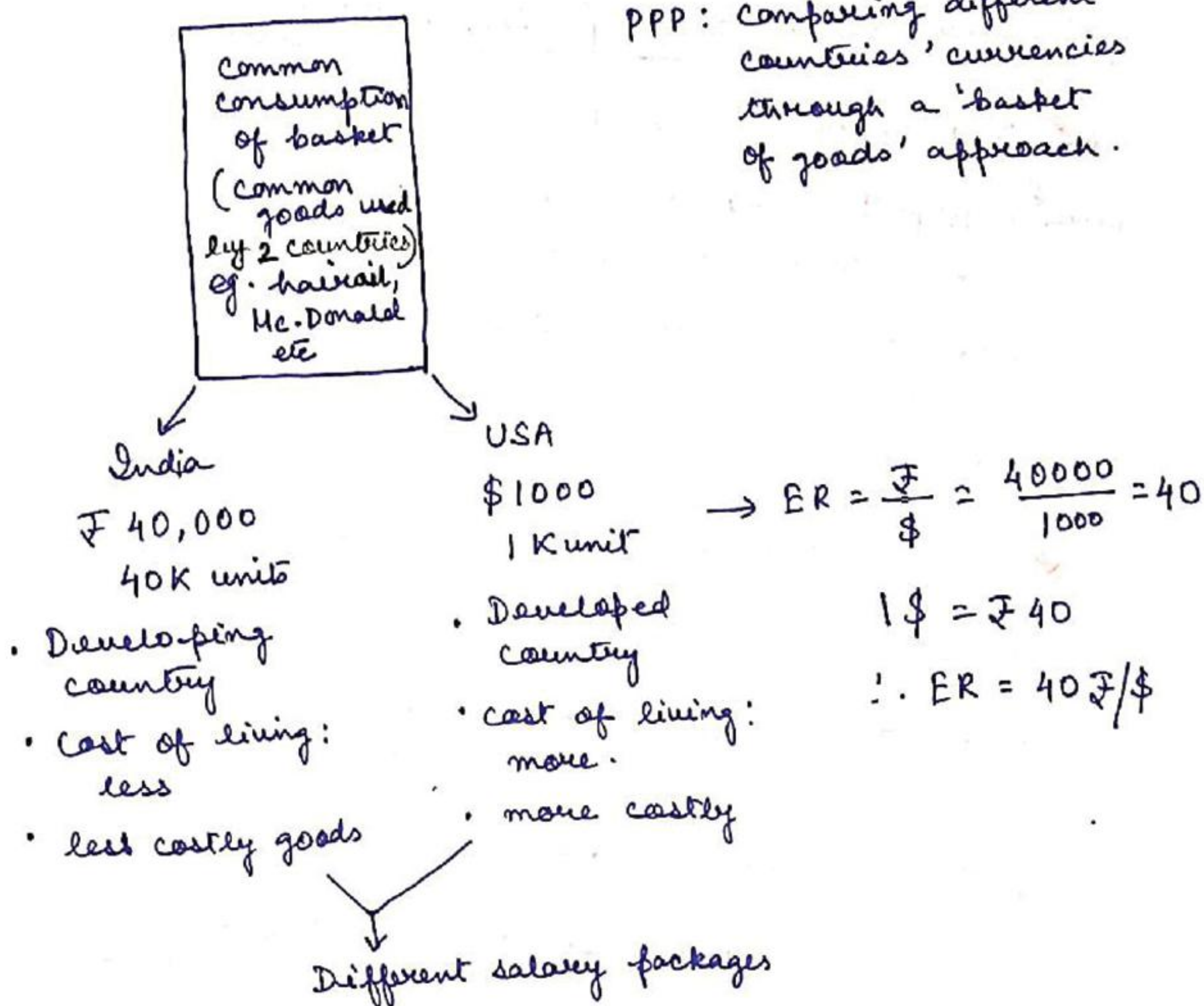


④ Purchasing Power Parity (P.P.P)

eg. $\frac{\text{Burger}}{\text{US}}$	$\frac{\text{Burger}}{\text{India}}$
$\frac{1\$}{1\$}$	$\frac{40\text{₹}}{40\text{₹}}$

Comparison: when an equal footing.

PPP: Comparing different countries' currencies through a 'basket of goods' approach.



Market ER \gg PPP-ER

70\$ \gg 40\$

But, $GDP_{MER} < GDP_{PPP-ER}$

(India: 3rd)

MER = 50 ₹/\$

PPP = 40 ₹/\$

In pocket = 100 ₹

$\therefore MER = 2\$$

PPP = 2.5\$

PPP is that price level in a country (India) with which an Indian can buy the same basket of goods which can be bought with 1\$ in US.



20) Balance of Payments: (BOP)

- ① Current account
 - ② Capital account
 - ③ International Reserve Account
- India

① Current account

② Net export (Visible Trade) $J > E \rightarrow -ve$

Difference $\text{Export} - \text{Import} = \text{savings in account}$.

$$\text{eg: } 500 - 200 = 300$$

But, $J > E$, no savings (Trade deficit)
 $= -ve$.

• Merchandise export.

③ Net Invisible $E > J \rightarrow +ve$

→ Net service export $(E - J)$

→ other country → Service ← From India

→ Net factor of income (productive service)

→ from outside → wages / salary / interest ← From India

→ Net transfer → official grant
→ Remittance

• Trade deficit < 0 i.e. $-ve$

Net invisible > 0 i.e. $+ve$

when added → $-ve$

CAD - Current Account Deficit → $-ve$

↓

④ → $-ve$

Invisible surplus → Trade deficit



BOP is a statement of all transactions made b/w entities in one country and rest of the world over a defined period.

② Capital account

① Short term external debt (old debt)
eg: $C_1 (2000) \rightarrow$ lend 50 cr $\rightarrow C_2 : 2021$ (loan: final stage of maturity)

② Net external assistance:
 \rightarrow official loan (govt) \rightarrow for now. (eg. 2020-21)

③ Net external commercial borrowing:
 \rightarrow Private \rightarrow external borrowing (ECB) \rightarrow capital A/c

④ Net banking capital:
(there is a column for NRIs in SBI bank)

⑤ Net foreign investment \rightarrow FDI (net)
 \rightarrow FPI

\rightarrow 5 capital A/c \rightarrow surplus (+ve)
current A/c \rightarrow Deficit (-ve)

⑥ surplus - BOP \rightarrow \$ saved in account

Foreign Reserve \leftarrow International Reserve A/c \leftarrow transferred

\rightarrow Crisis \rightarrow [surplus \rightarrow 0 \rightarrow -ve] (No money to repay loan)

\uparrow
Foreign Reserve

IMF \leftarrow BOP crisis \leftarrow If foreign reserve ends

\downarrow
India (1991 - No way to return loan)

\downarrow
4 Dec-91 \rightarrow 1st generation reform

\downarrow
Open up economy [L (PG) \rightarrow not imposed]



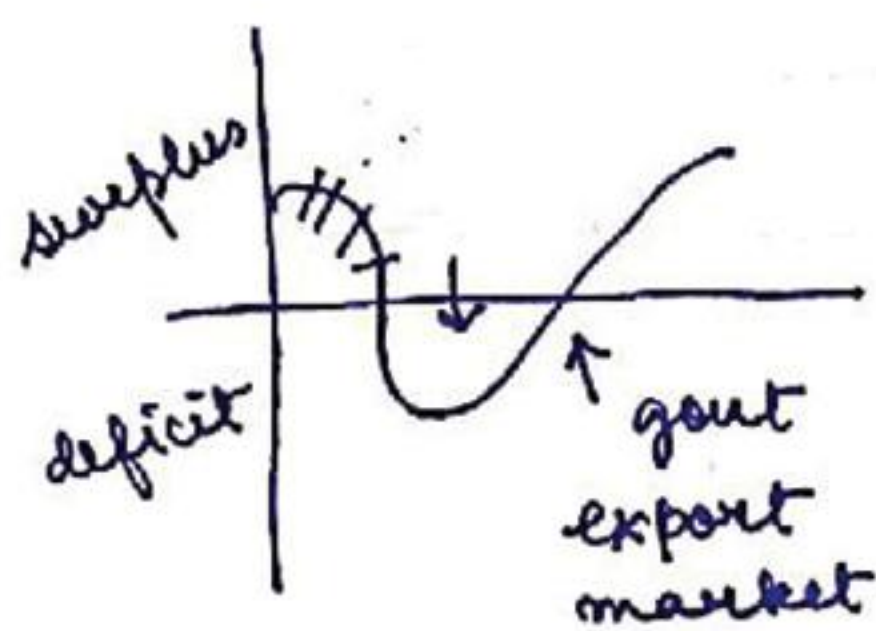
BOP crisis : If international reserves in a country are not enough to balance a combined deficit in current-capital account, it faces BOP crisis

- Solution :
- ① Improvement in current account deficit
 - ② " " capital account \rightarrow surplus
 - ③ Contractionary policy
 - ④ Currency devaluation - $\text{₹} \rightarrow$ weak \rightarrow increase in export
- \downarrow
 export boost (\uparrow) | $1\text{₹} = 60\text{₹} / 70\text{₹}$
 import (\downarrow) | \uparrow
exporter

- Polity is the guardian of economy.
- In international relation, there is no permanent friend, no permanent enemy, permanent is domestic / National interest

(21) J-curve !

A country's trade balance experiences J-effect if its currency is devalued. At first, Total value of Imports $>$ Exports \rightarrow trade deficit. But eventually this devaluation reduces price of its exports and consequently level of exports recover. Hence the country moves back to surplus.



$$ER: 50\text{₹}/\$ \rightarrow 70\text{₹}/\$ [E(\uparrow), I(\downarrow)]$$

\therefore India: $Ex(\text{cheap}) \leftarrow$ Countries will take time to find ex market.
 \downarrow
 $I(\text{costly})$



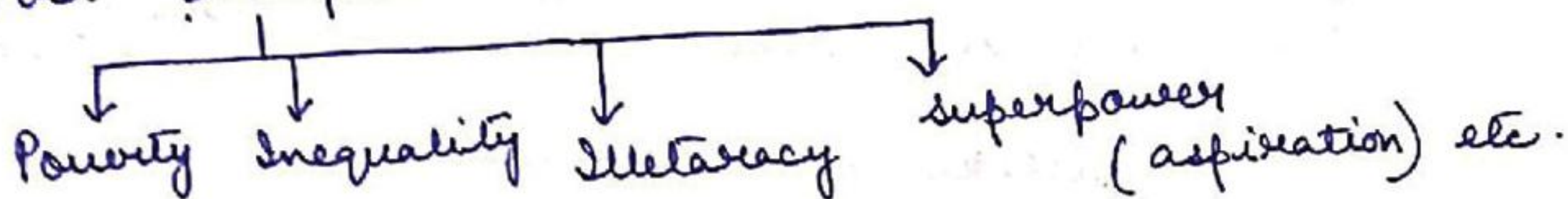
22

5-years planning.

→ Pre-Independence:

- (i) Agriculture (↓)
- (ii) Industry (↓): Consumer (✓) capital goods (x)
- (iii) Infrastructure (↓) → Railway ✓

→ Post-Independence:



→ 1st phase of planning (1951-1966)

→ Bombay plan: Inspired by USSR.

- ① Debate: Consumer goods (✓) capital goods (x)
(eg. coal, iron etc)
↑
favoured.

→ ② Harrod-Domar model → Savings + investment (COK)

→ ③ Mahalanobis model → Heavy industries (capital)
→ Unbalanced growth

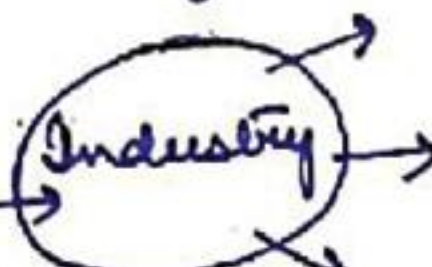
Equal focus to each
→ Balanced growth

↑
Not much resource

↓
we chose industry

↓
Heavy industry ✓

Concentrate on one sector



will spread to other sectors too
(similar to trickle down approach)

disagreed

→ Agriculture (assumption)

↓
Dams, industries etc

↓
Focus shifted



④ Inward oriented policy:

→ Focus on Indian development

• import substitution: should not import those articles that we can produce in India locally.

• Discourage import → Import duty (↑)

↓
'Infant industry argument' → Domestic promotion.

→ protecting from other industry [Domestic ind: not mature enough to export]
→ No fair competition.

Mistakes made by India

↙
took argument too long (1991)

↘ Export discourage (backlash of industries)

↑
considered infant for long → incapable for production in domestic market. → skills/innovation (X)

⑤ Private industries

↙ Not much capital
↘ Immature + incapable (considered) ← Concentration of wealth + Resource waste } considered.

⇒ 1st 5-yr plan (: 1951-56)

① • Perform (↑)

• Agriculture (Importance) → Zamindari X
→ Tenant rights ✓
→ land reforms

→ irrigation → DVC
→ Bhakra
→ Nagar Dam
→ Hirakund

→ Food grain (↑)

→ Industries ✓



→ 2nd: Mahalanobish model (1956-61)

②

- done -

⇒ Durgapur

Bhilai

④ Rourkela

} Iron - steel industries

→ 3rd FYP (1961-66) [-ve started]

③

→ Mahalanobish model followed → agriculture: neglected

→ policy backlash [import substitution/
export discouraged]

→ Raw materials for heavy industries ← Import → not much resource → BOP crisis

→ 1962 - China war
(i) 1965 - Indo-Pak [any war won/lost → bad for economy]

① + ② + ③ + ④ → BOP crisis → 1966 [RBI → Rupee devalued 1st time]
↓
mixed reasons (internal + war) / internal

→ Agri → (↓) → Food aid to India → PL-480 (US)



→ After 1966 → no 5 yrs plan; insufficient resource
1966-1969 - Plan Holiday (Annual Plan)

PL-480 → improving Agriculture
(Humiliating) ↓
green revolution
(HYV seeds)

• Rockfeller foundation

[wheat - Mexico
rice - Philippines] ← experiments

⊗ Begging bowl image
↓
food surplus economy

→ 4th (1969-74)

→ eco planning

→ to be done: social planning

→ social justice → employment
Reservation



→ 5th (1974-79) : break: 1977

Trickle down theory - Reject

↓
directed anti-poverty programme
(minimum needs programme)

→ Govt → Lower section
launched - wage employment
self employment.

1977-79 (Rolling plan - ended)

→ 6th (1980-85)

- Anti poverty:
- NREP / IRDP / Indira Awas Yojna.

→ 7th (1985-90)

1-3 : 1st phase; 4-6 → ⑦ ← Result.

→ G. Revolution : Result

→ Liberalization (gradually)

↓
goods service

→ outward oriented policy
→ export oriented policy
→ open economy
→ liberal economy.

slowly and gradually,
a faint beginning

→ 3rd phase of planning (1990-1992)

BOP crisis (1991) → IMF → ① PG
↖ started opening

① Gulf war → Oil (↑) → Import costly

② Remittance (↓)



1991 → Industry → Liberalisation.

① Private → ✓ ② 4-Des.

③ Financial sector - L

④ External sector : ER: fixed → managed

⑤ → CRR/SLR

↓
4%

↓
18%

→ 40%

→ Narasim Mehta Committee
→ Bank Rate

⑥ Fiscal reform : Expand → Revenue ← Tax ← Pvt

↓
Increase → Fiscal Deficit (↓)

→ 8th FYP

→ Market oriented :

Indicative planning → Govt. will be playing less
role and active role will be taken by
pvt. sector.

-ve: Agri (G. Rev)

→ Not much improved.

→ GDP (↑) ↔ Economy (↑) → Jobless growth

↓
→ service (importance)
skilled (demand)

→ Pvt. cost cutting.

→ Poverty programme → Not much importance
attached.

→ Twin deficit
[CAD + Fiscal Deficit]
→ Revenue (↑)
→ Corporate tax (↑)

→ 9th FYP

↙
E. Asian
crisis

↓
Thailand

↓
India

→ st. term

↓
long term

↓
backfire

F. Deficit ↑ → 5th Pay Commission.



→ 10th FYP (2002-2007)

- E. Asian Crisis → Impact → S. Asia
- US economic slowdown

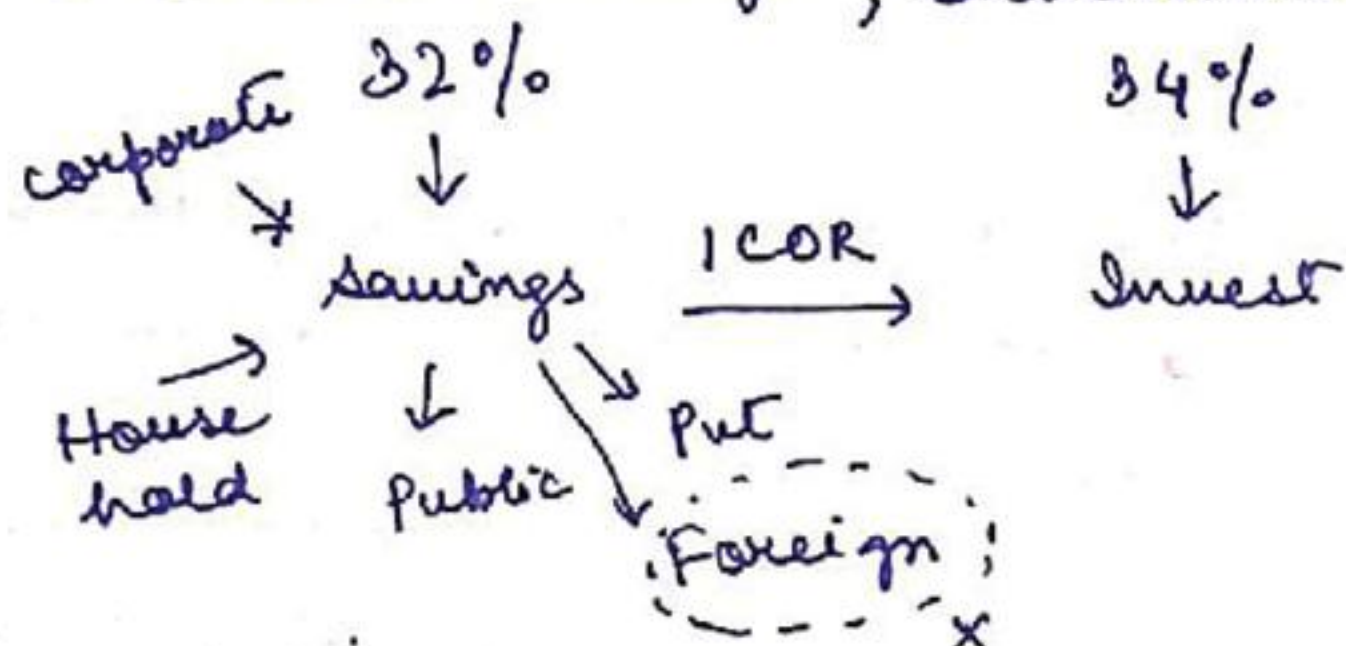
India → performing good

↑ \$ ↑ \$ ⇒ ₹ strong → RBI → Devaluation
↓
export (↑)

service = 10% (↑)

Industry = 7% (↑) [Increased savings, investment (↑)]

Increased savings, Investment (↑)



FYP

GR

1st → 3.6%

2nd → 4.1%

3rd → 2.5% [Lowest GR]

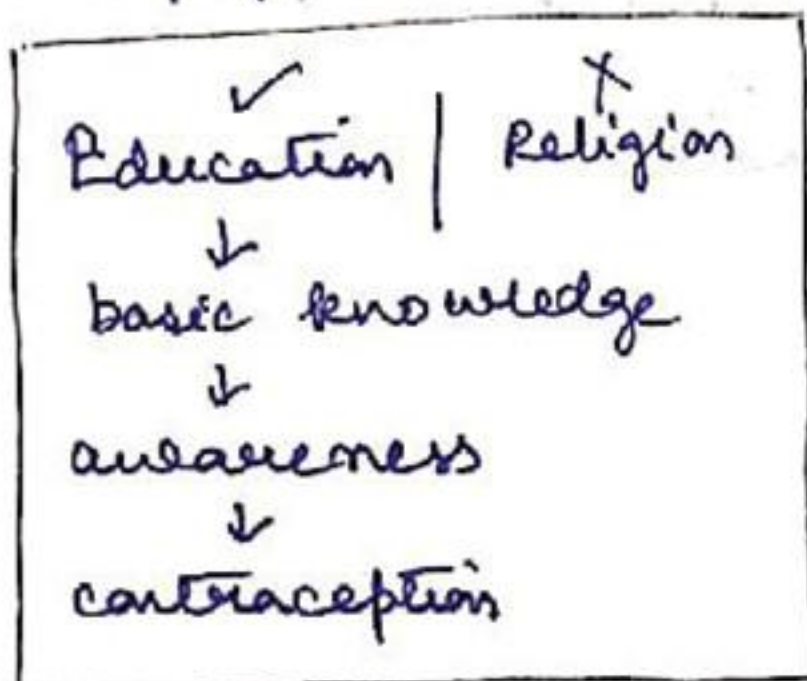
4th → 3.0%

5th → 5.2%

6th → 5.3%

7th → 5.8%

Hindu Rate of growth - Raj Krishna
* slow growth rate
→ Hindu Birth rate
population slow.





Currency Convertibility

→ CC - Ease with which currency of a country can be fully converted into a foreign currency may be at market exchange rate

→ \$ \rightleftharpoons ₹ → ease → currency → choose for trade conversion

→ India → country,
[easily converted] \downarrow C₂
C₃
↓
boost trade]

→ BOP → current A/c (trade + services)
→ capital A/c (FDI + FPI + Loan)

→ Current A/c → C.C. easy (allowed) - 100% by RBI (P)
• (Import/export)
• \$ \rightleftharpoons ₹ (if not, trade will be impacted)
→ Capital A/c → C.C. not available easily.

→ Liberalized ER Management System (LERMS)

→ CC easier when compared to earlier.

Previously	60% CC by an agent at market rate 40% - RBI
Presently	100% - RBI in Current A/c (CC)

⇒ Capital A/c [FDI, FPI, Loan] • Not fully allowed
• Restrictions present
• Hot money → tendency of becoming super volatile because of easy removal from market.

⇒ S.S Tarapur Committee - Can go for capital A/c convertibility if,

- ① Inflation Rate (↓)
- ② Fiscal Deficit 3-4%
- ③ CAD
- ④ Financial sector - strong
eg - Banking.



(23)

Employment, unemployment, poverty

→ Full employment → all the person willing to work
→ employed → with particular skill set
① prevailing state.

eg: Teacher → look for teaching jobs

↓
other jobs → skill downgrade

→ Under employment → willing to work
↓
working less/underpaid

⊗ Real problem in India: under employment
besides unemployment

→ Unemployment: Not getting any work.

(i) Functional / Frictional unemployment



(ii) Structural unemployment:

economy → structural change.

eg: Bank: Register → computer
↓ ↓
old employee → Young
↓ ↓
unemployed → operation skills

(b) clothing industry → technical textile
(nano technology)

→ Frictional + structural → govt. less responsible

→ Register (vs) computer



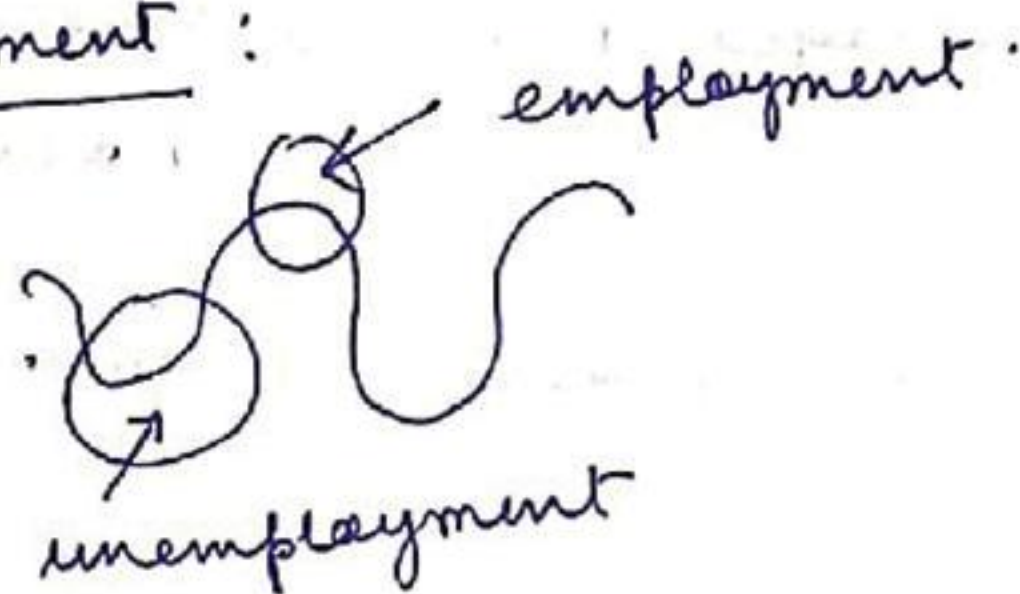
→ Register (us) Computer :

- much more employment generation
- multiplier growth; long run
- eg. IT, Cyber cafe etc
- AI, Automation, machine learning!
- better employment → value addition

employment : Computer > Register
eg. BPO industry.

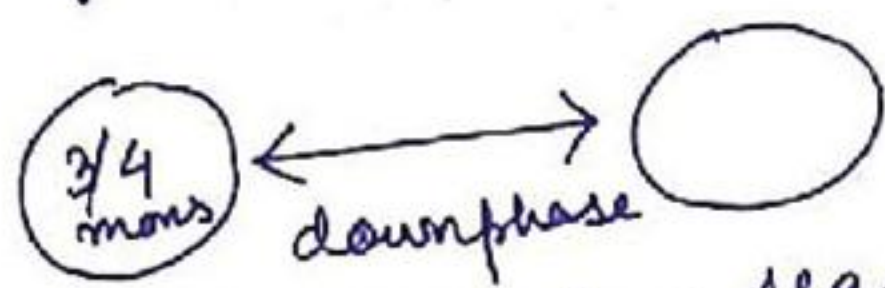
→ Cyclical unemployment :

eg. Business →
↓
up down cycle



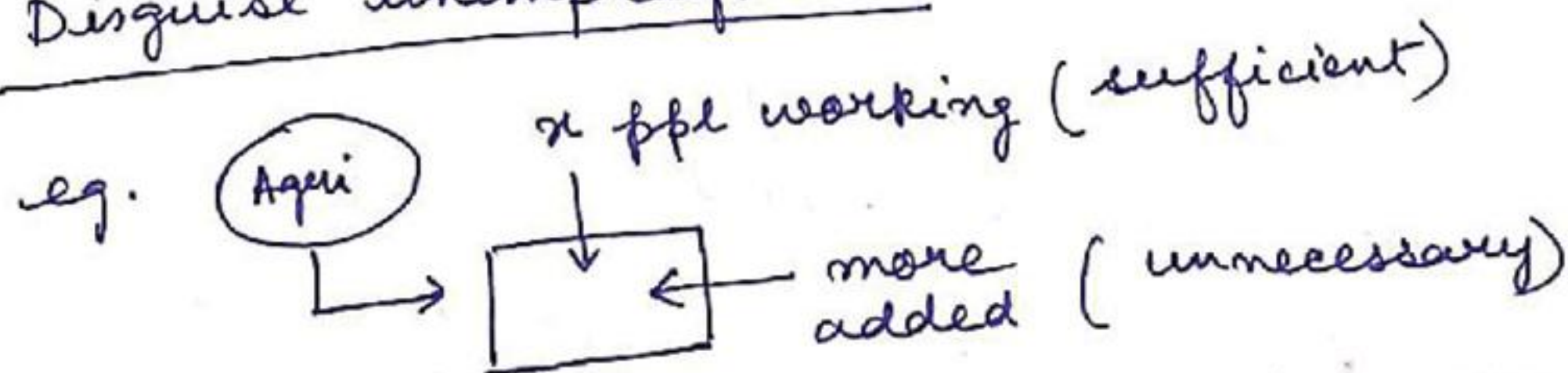
→ Seasonal unemployment :

eg. Agriculture



MGNREGA - seasonal unemployment check

→ Disguise unemployment



- more than what is reqd is employed.
- Marginal productivity → 0
- visibility → 0 (worse)

Private → DU → (X) Benefit :

- Checks disguised unemployment
- Resource/manpower utilization
- Layoffs: business interest.



→ PSU : mammoth organization : No efficiency.

→ Labour force (employed, unemployed)

↙ willing to work
↘ able to work

→ Labour force participation rate :

$$\frac{LF \rightarrow \begin{matrix} \text{employed} \\ \text{unemployed} \end{matrix}}{\text{Total population}}$$

→ Unemployed Rate → $\frac{\text{Unemployed}}{\text{Labour Force}}$

→ Reference period : survey : NSSO $\left\{ \begin{matrix} \rightarrow \text{employed} \\ \rightarrow \text{unemployed} \end{matrix} \right.$

① Usual status / UPSS /
Universal Principal and Subsidiary status.
↓ farming ↓ MGNREGA

• Reference period : 1 yr, criteria : 30 days

→ 30 days < → unemployed
30 days > → employed.

→ ② Current weekly status : Reference period 7 days

1 hour → employed.
if no → unemployed

→ Chronic unemployment is prolonged unemployment in economy. It is caused due to long term unemployment persisting in the economy.

③ Current daily status :

Reference period : hour

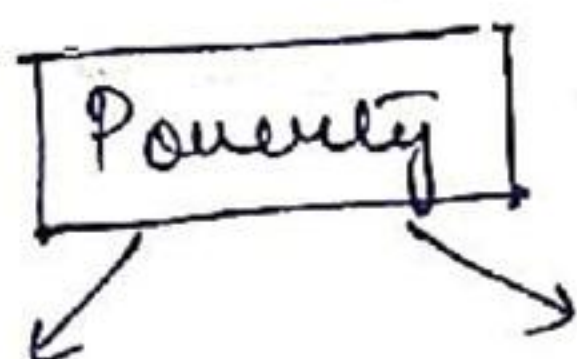
employed for →	> 1 hr	1-4 hrs	4 hrs <
	→ 0	2-5 hrs	1
		half day job	full day working.



$$0 + \frac{1}{2} + 1 + \frac{1}{2} + 0 + \frac{1}{2} + 1$$

→ Current daily status = 3.5 person day.

→ Sengupta committee : assess the nature of unemployment in economy ; concept of informal worker.



Absolute

- lack of minimum resource
- starvation
- death

Subjective

Relative (X) ← neglect

• comparative

$$P_1 \rightleftharpoons P_2$$

Measures :

① Poverty line → calorie based

$$\begin{aligned} &\downarrow \\ \text{eg : } &2000 \text{ cal} \times \text{Household} \\ &= 5000 \text{ cal (carbohydrates)} \end{aligned}$$

↓
monetary value

$$\downarrow \\ \text{₹ } 1000$$

Household income : 1000 ₹ ↑ → APL ——— poverty line
1000 ₹ ↓ → BPL

① 1010 ₹ (non-poor) → poverty line (₹1000)

② 990 ₹ (officially poor)

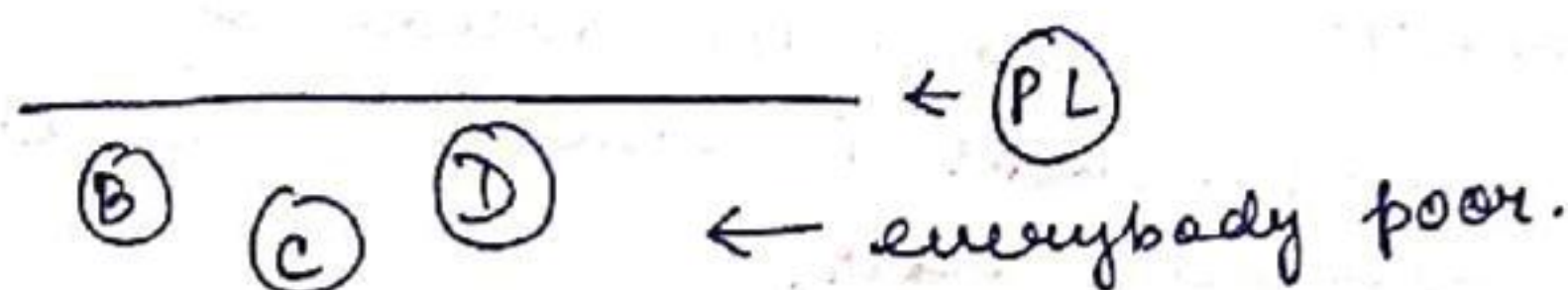
↑
schemes / PDS / Subsidy

① → neglected



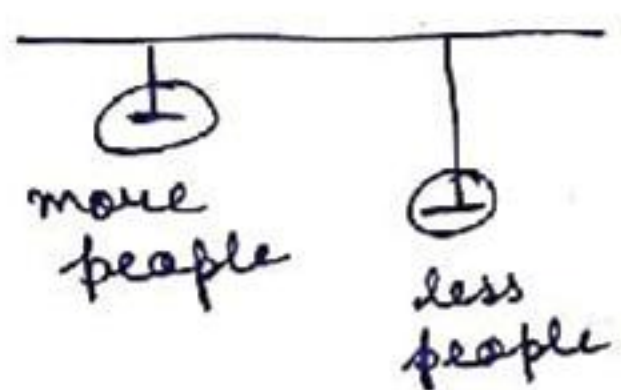
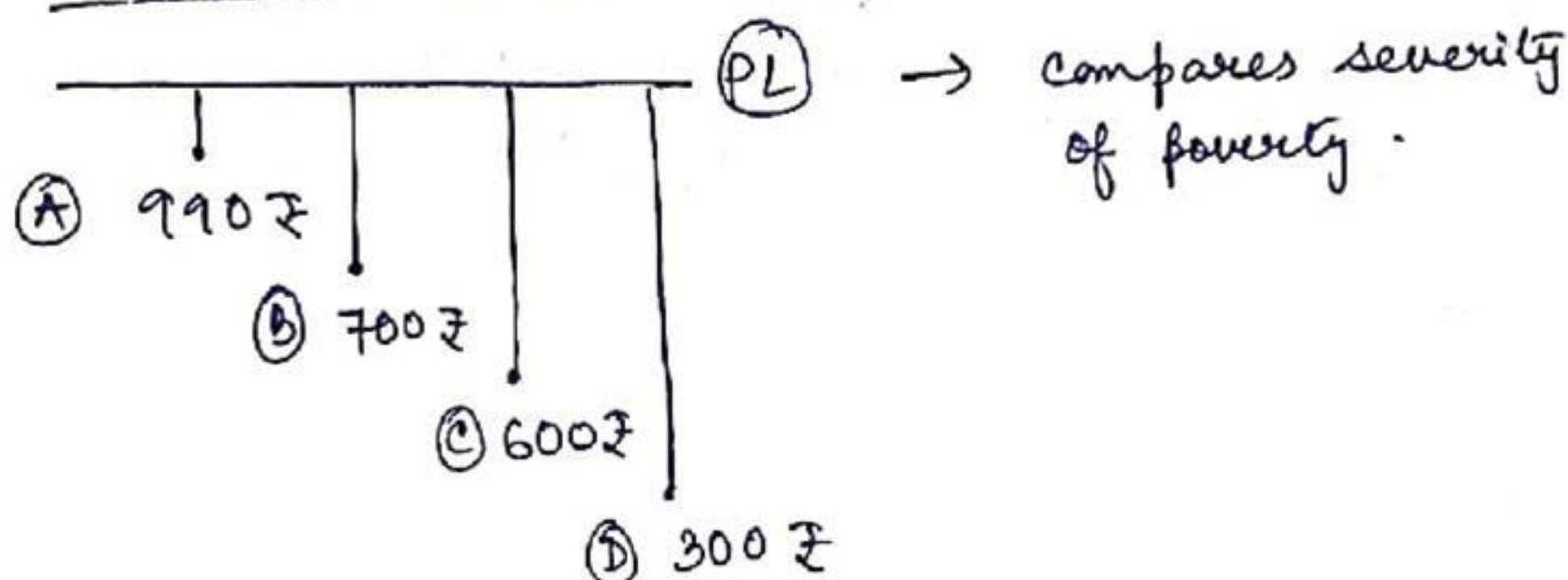
② Head Count Ratio:

$$= \frac{\text{no. of people BPL}}{\text{total population}}$$



Does not tell - ① severity of poverty
② intensity of poverty.

③ Depth of poverty:



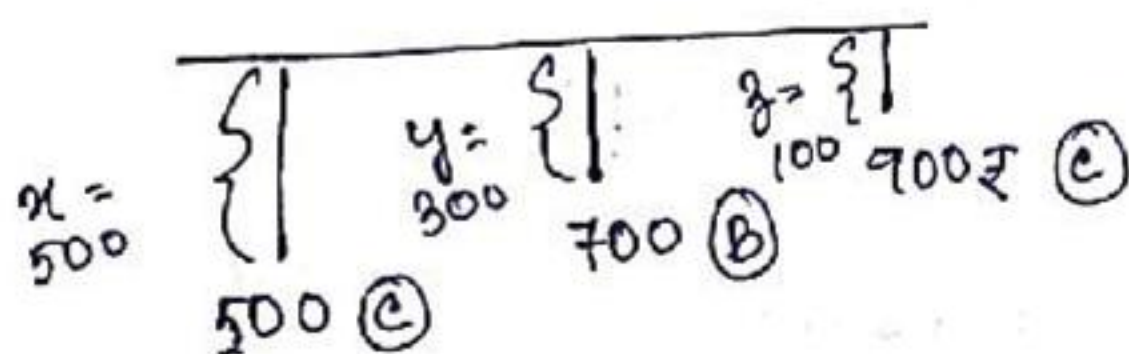
country - X



country - Y

poor: $y > x$

④ poverty gap



→ marginally poor
 $c < B < A$

spend $c > B > A$
↓ ↓ ↓
500 300 100

$$\frac{x+y+z}{3} = \frac{900}{3} = 300$$

↓
average depth

↑
poverty gap ratio

→ more gap > more financial stress on govt.

④ Sen's poverty index :

= gini co-efficient of BPL

⑤ PL estimation in India

→ Pre-independence → Dadabhai Naoroji

↓
(1st poverty estimation)

→ Calorie → monetization

jail
↓
prisoner
↓
calorie intake
↓
monetization

⇒ Jail cost of living theory.

→ After-independence

① Dandekar-Rath Committee : Calorie based (PL)

↓
Converted to money (All India)
minimum : 2250 cal.

② Y.K. Alagh Committee : (Country)

↓
Rural (2400 cal) Urban (2100 cal)

↔ different calorie needs

③ Lakshminarayana Committee : (State)

↓
state level : Calorie count

↓
different inflation → CPI difference

↓
Rural (labourers CPI) Urban (industrial workers CPI)

→ Survey

↓
consumption basket

↓
food Non-food
• slippers
• clothes etc.



① Universal Recall period: (URP)
↓
Remember consumption for last → Reference: 1 month
Food Non-food

② Mixed Recall period (MRP)
↓
Food Non-food
30 days 1 yr
• Rice • may not buy every month
• wheat

③ Modified (MRP)
↓
Food + non-food (1 yr)
7 days 30 days
• Regular food • less frequent → rice, wheat etc.
→ milk, veg etc

→ 2004-05: Head count Ratio: 26%
NFHS → 30.6%
Rural → 50% → Saxena Committee
World Bank → 40%

✓
→ ① Tendulkar Committee (govt) → calorie ← expense
↑
India follows still
+ education + health → added
URP + MRP → TC → MRP → 37.2% poverty

→ ② Rangrajan committee: Food → Calorie + (Fat + Protein)
↑
ICMR recommended

2011-12 → T.Com. → 21.9% ✓ stuck

Rang. C → 29.5%

(not accepted → political agenda)

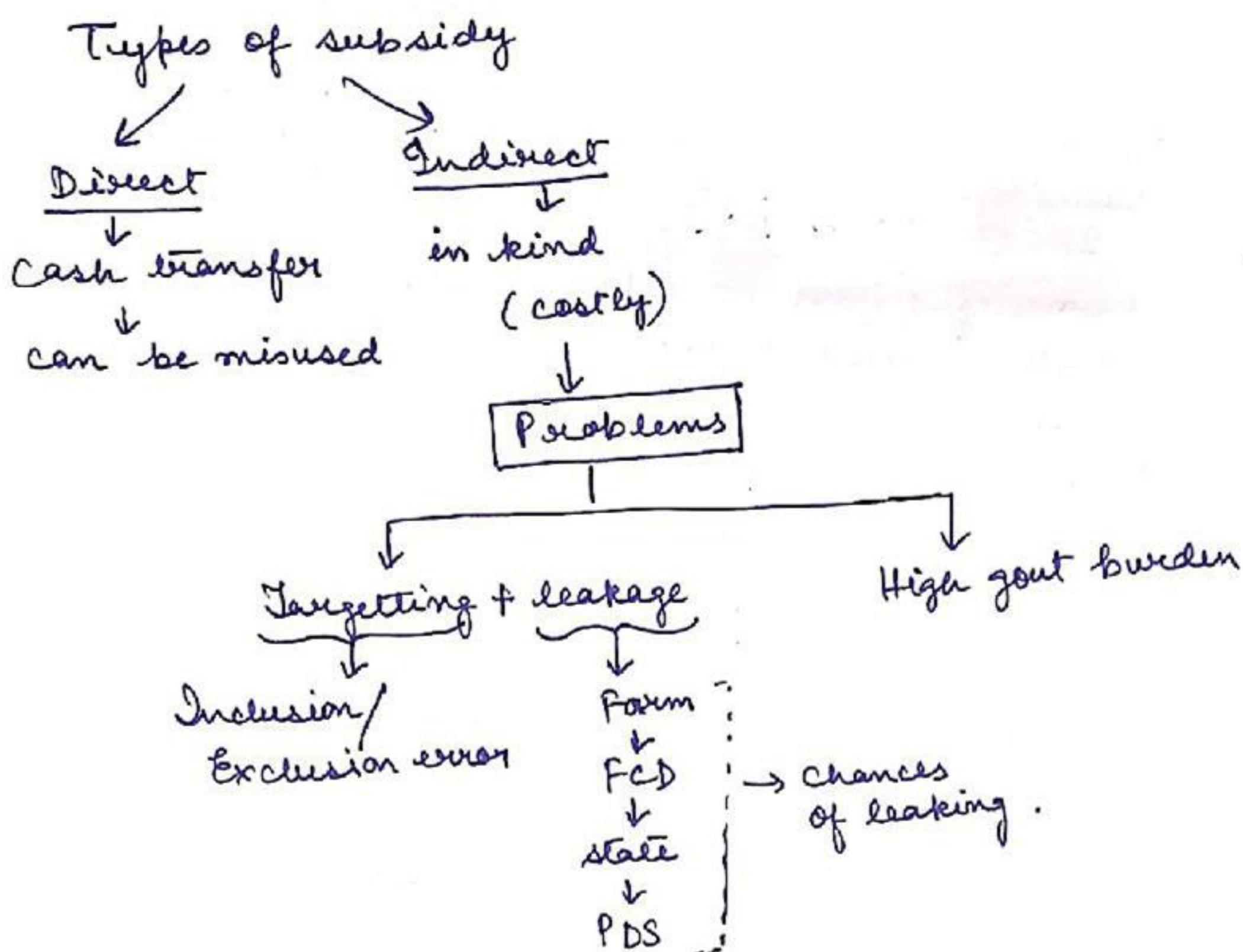
(PL) → Poverty Line



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Agriculture subsidy

- Demerits →
 - Wastage of resource
 - Fiscal deficit (↑)
 - Impact on other sector
- Benefits → Poor Producer - Poor consumer : Helped



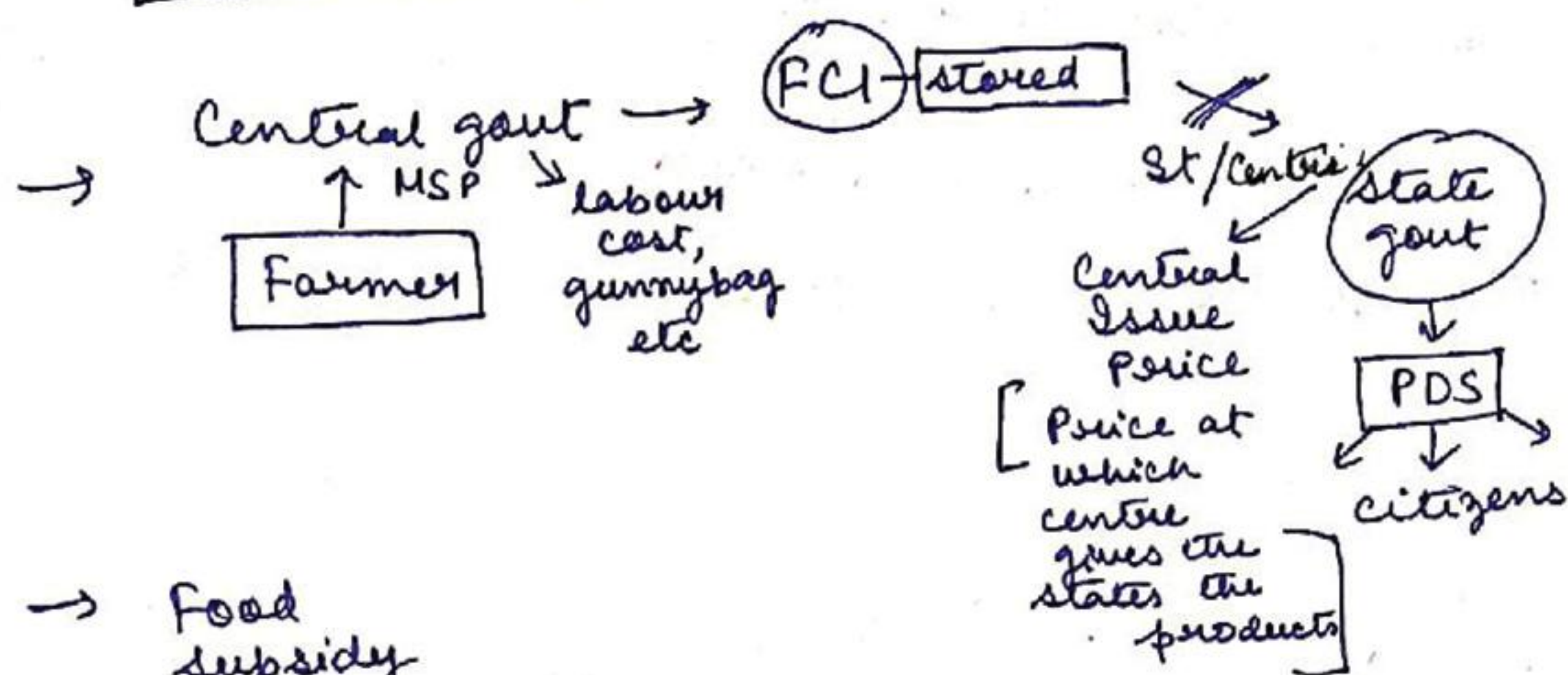
→ Food security / Agriculture price policy

- ① Physical access → sufficient stock
 - ② economic access → affordable
 - ③ social access → PDS: Dalits (X)
 - ④ Utilization / Absorption → Swachh Bharat
Sanitation
clean water
- ⊗ Available to all citizens
at all times.

→ MSP → Minimum Support Price (Agri products)
→ Govt. gives a minimum price range
for the products to be sold to
them irrespective of market price.



Food subsidy



→ Food subsidy

↓
economic cost - CIP [Central govt expenses]

- Procurement price/ MSP
- Distribution cost
- Procurement Incident (Tax/Vat etc)

Q. → (P) The economic cost of food grains to the FCI is MSP and bonus (if any) paid to the farmer plus:

- transportation cost only.
- interest cost only
- ✓ procurement incidentals and distribution cost
- procurement incidentals and charges for godown

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WTO

→ GATT - WW II

- ① 'Free' trade
- ② Most efficient country encouraged to trade
- ③ rewarding
- ④ greater market access to different countries.



① Tariff

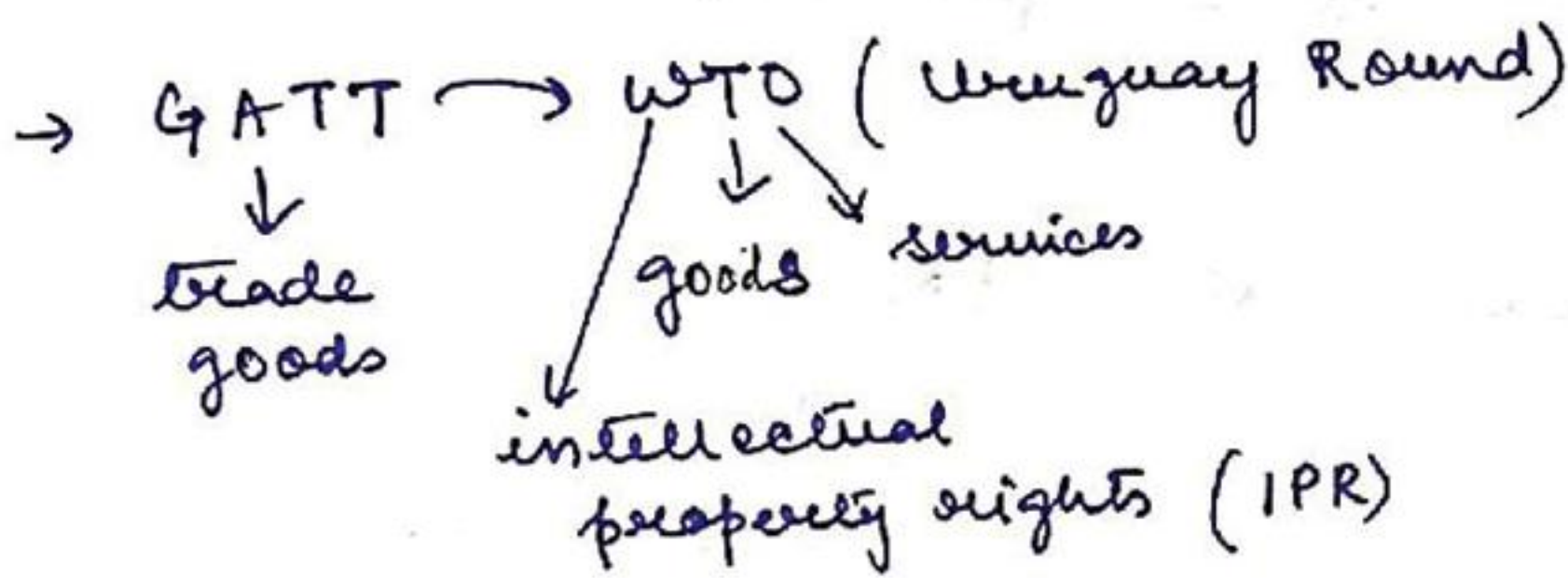
→ Tax - duty

→ non-Tax - quota

• Phytosanitary Requirement (PSR)

• delay

• ER (Foreign)

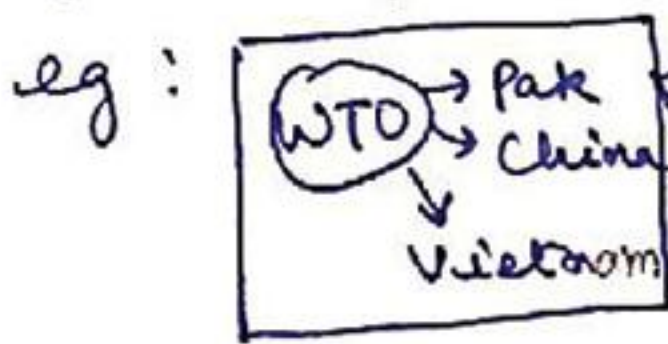


→ WTO → Trade without discrimination

↓

Most favoured Nation (misnomer)

→ National treatment (NT)



India: duty relax - benefit can't be given to a particular country

→ trade concessions
↓
all countries.

→ Exceptions → FTA /
Bi-Multilateral Agreements
→ Least Developed countries

(NT) → Can't be discriminated
b/w imports - exports
once exp products
cross national territory

② Agreement on agriculture:

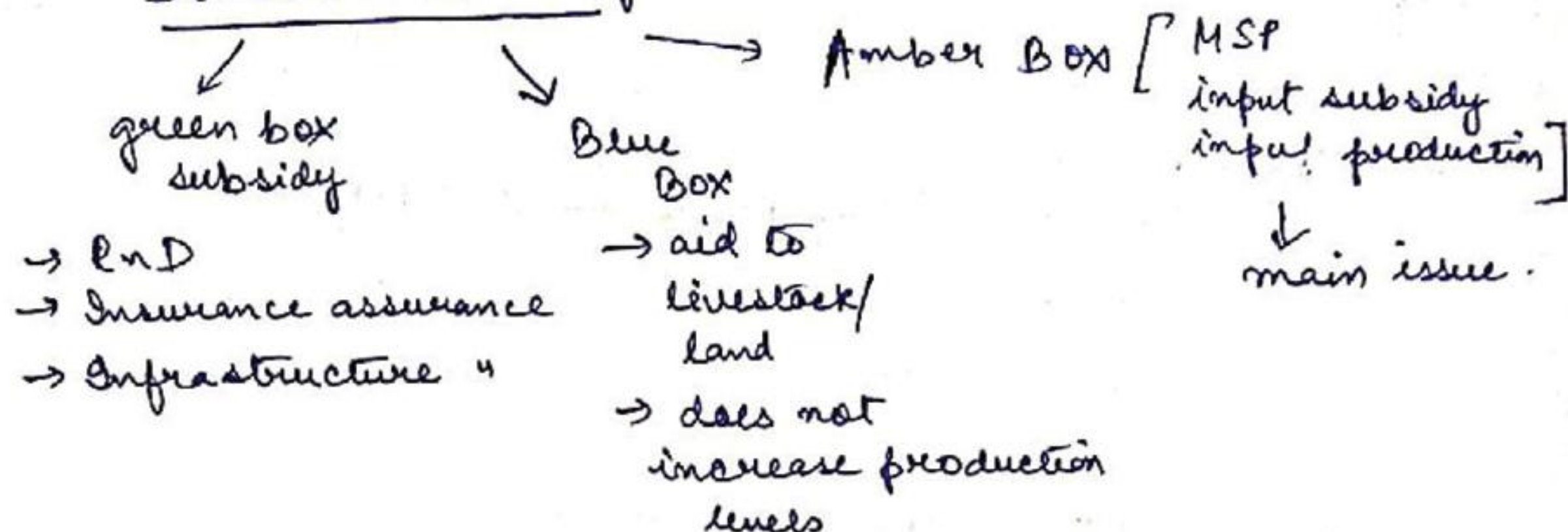
→ Improving market access

→ Reduction in export subsidy

→ Reduction in domestic subsidy.



Domestic subsidy.



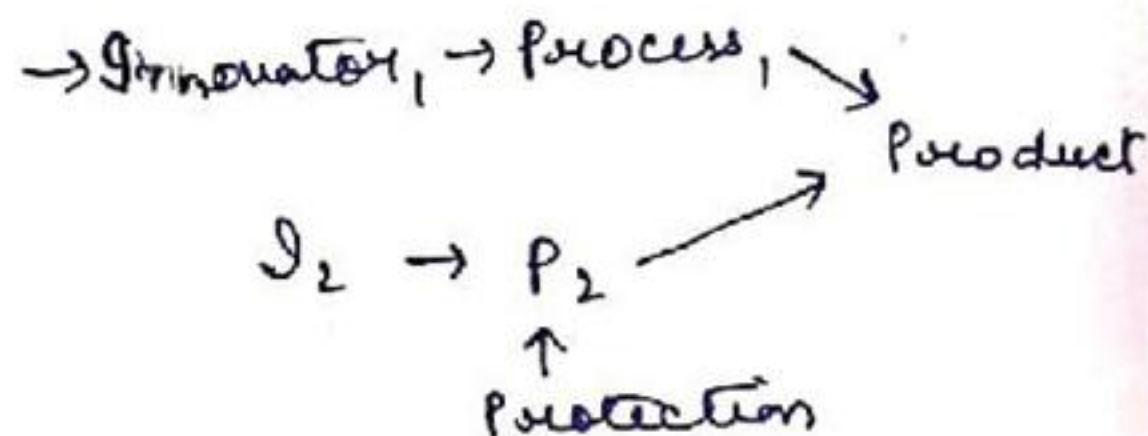
→ Agreement trade related IPR

Pre-WTO

- Patent
- Copyright
- trademark
- industrial design

WTO

- Trade secret
(Maggi masala
Coca Cola
KFC)
- Integrated circuit



→ GATS

Model 1 : cross border supply
physical presence not necessary
eg. BPO

Model 2 : Consumed Abroad
eg. tourism, education

Model 3 : Commercial presence
physical infrastructure
eg. Vodafone

Model 4 : Movement of natural persons.
jobs outside India



Trade related Investment Measures

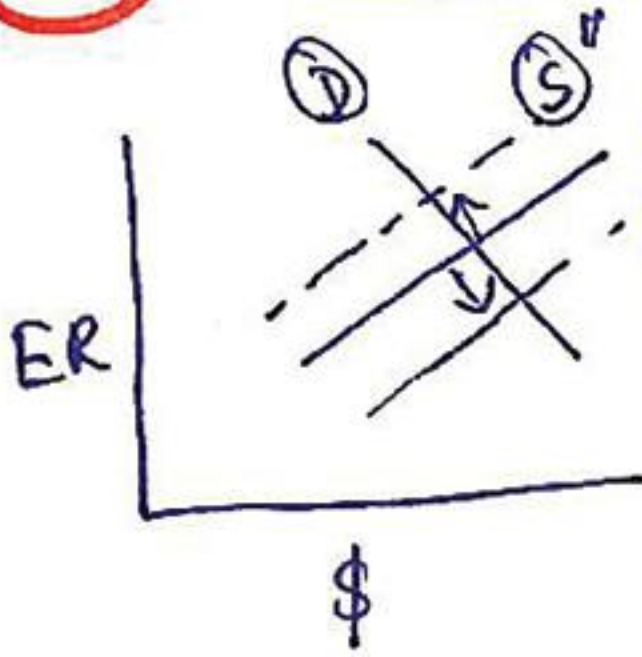
Country → Invest ← Protection



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Currency Devaluation

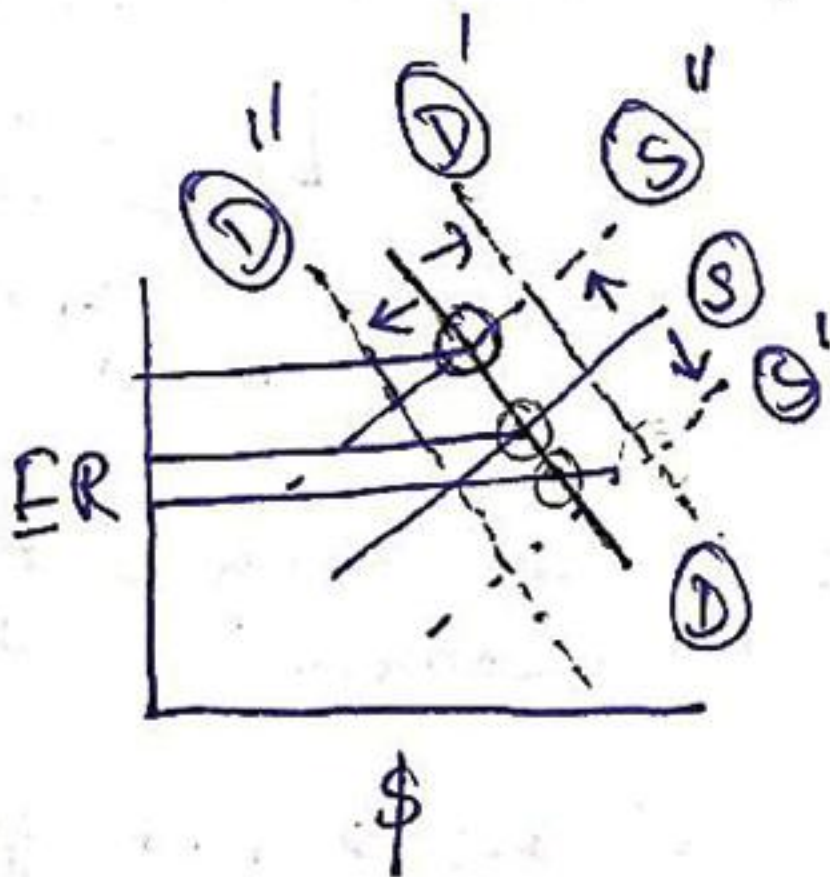
⇒



Currency Devaluation → RBI
→ sells \$
→ create scarcity

Devaluation → same for Revaluation/
Reappreciation

⇒



← Depreciation — Market force