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KENDRIYAVIDYALAYA SANGATHAN NEW DELHI

अध्ययन सामग्री (प्रश्न बैंक) कक्षा XII के लिए (Study Material (Question Bank) For Class: XII)

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INDEX

<u>S.N.</u>	<u>PART/COMPONENT</u>	<u>CLASS</u>	<u>PAGE NO.</u>
1.	List of Participants	-	3
2.	Details of Groups with Members	-	4
3.	INTRODUCTORY MACRO ECONOMICS	XII	5 - 73
4.	INDIAN ECONOMIC DEVELOPMENT	XII	74 -165

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36	Mrs. Rajshree singh	NO.1, AFS, Gorakhpur	Varanasi
37	Mrs. Rakhi Baisoya	Greater Noida	Agra
38	Mrs. Shailendra Kumari Verma	No. 1 AFS Chakeri Kanpur	Lucknow
39	Mrs. Seema Devi	Hamirpur	Gurugram
40	Mrs.Sunita Mohanty	No. 2 Ishapore	Kolkata
41	Mrs.Geeta Ram	Range Hills Estate Pune	Mumbai
42	Mrs.Indrani Sengupta	No.2 Saltlake	Kolkata
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44	Ms.Munesh Nagar	NOIDA II ND SHIFT	Agra
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47	Dr.Mrs.Shubha Shukla	Sitapur (II SHIFT)	Lucknow
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DETAILS OF GROUPS WITH MEMBERS

Group 1			Group 7		
1	AMAR NARAYAN SHUKLA	25	25	NIRMALA DEVI	
2	Arvind Kumar pareek	26	26	P.L.Sonkar	
3	ARCHANA YADAV	27	27	PADAM SINGH	
4	ASAD AHMAD	28	28	Prabhakar Tripathi	
Group 2			Group 8		
5	Bishnu prasad saho	29	29	PRAMOD BARIK	
6	Chandan Kumar Dwivedi	30	30	RAJ KUMAR	
7	Deepak Kumar Bedi	31	31	Rajeev Pathak	
8	Dhagala Ram	32	32	Rajshree singh	
Group 3			Group 9		
9	Dhanpreet Kaur	33	33	Rakhi Baisoya	
10	DHARAM SINGH BAIRWA	34	34	Rashmi pandey	
11	DUDH NATH PRASAD	35	35	S. Chandra Sekhar Reddy	
12	Geeta R	36	36	S C Shukla	
Group 4			Group 10		
13	HANS RAJ MEENA	37	37	Sanjeev Kumar	
14	Hari Mohan Kaushik	38	38	SANTOSH KUMAR RAI	
15	Indrani Sengupta	39	39	Satish Kumar	
16	J. S. P. Pandey	40	40	Seema Devi	
Group 5			Group 11		
17	JAGDISH CHAND YADAV	41	41	SHAILENDRA KUMARI VERMA	
18	JAISHA K J	42	42	Shankar Prasad Sah	
19	Kiran Bhatt	43	43	SHIVALI SHARMA	
20	Krishan Kumar	44	44	Shubha shukla	
		45	45	Subrat Kumar Baliarsingh	
Group 6			Group 12		
21	MADDILA VENKATESH			SUNITA MOHANTY	
22	MOHAMMAD IKHALAQUE	46	46	SUNNY TA	
23	Munesh Nagar	47	47	SUSHILA BARA	
24	Nandita Maity	48	48	SURESH JANGID	
		49	49	UDAY KUMAR SINGH	
		50	50		

Part-1: INTRODUCTORY MACRO ECONOMICS

UNIT 1-NATIONAL INCOME & RELATED AGGREGATE **10Marks**

Short Answer/MCQ

1. Macroeconomics studies:

(a) Aggregate demand of all goods and services	(b) Aggregate Supply
(c) Consumption Demand	(d) All the above*
2. Example of macroeconomics variable:

(a) National Income	(b) National Output
(c) Market demand of a commodity	(d) All the above*
3. Depreciation reserve fund is needed:

(a) To keep inventory stock	(b) To expand the size of plant
(c) To replace worn-out machines*	(d) none of these
4. Additional to the capital stock of an economy is termed as:

(a) Net Investment*	(b) Capital Gain
(c) Gross Investment	(d) All of these
5. Two - sector economy consists of

(a) Firms, Government	(b) Household, Government
(c) Firms, Foreign Sector	(d) Household, Firms*
6. A circular flow of income:

(a) Production	(b) Distribution
(c) Disposition	(d) All of these*
7. Which of the variable are defined as any quantity measured at a particular point of time?

(a) Stock*	(b) Flow	(c) Investment	(d) All of these
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8. Flow is a

(a) Static Concept	(b) Dynamic Concept*
(c) Both (a) and (b)	(d) None of these
9. Depreciation of fixed capital assets refers to.....

(a) Normal wear and tear	(b) Foreseen obsolescence
(c) Bothe (a) and (b)*	(d) Unforeseen obsolescence
10. Problem of double counting can be avoided by using:

(a) Final output method	(b) Value added method.
(c) Bothe (a) and (b)*	(d) Neither (a) nor (b)
11. The difference between value of output and value added is.....

(a) Deprecation	(b) Intermediate Consumption*
(c) Net Indirect tax	(d) Net factor income from abroad
12. Profit after tax implies:

(a) Operating surplus	(b) Dividend
(c) Dividend plus undistributed profit*	(d) Interest
13. Which of the following is a component of final expenditure?

(a) Final consumption	(b) Final investment
(c) Net exports	(d) All the above*
14. Net exports are calculated as:

(a) Imports – Exports	(b) Exports – Imports*
(c) Bothe (a) and (b)	(d) Neither (a) nor (b)
15. Decrease in stock means

(a) Closing stock > Opening stock	(b) Closing stock = Opening stock
(c) Closing stock < Opening stock*	(d) Value of output > Sales

16. Change in stock is negative when:
 (a) Closing stock > Opening stock (b) **Closing stock < Opening stock***
 (c) Closing stock = 0 (d) Opening stock = 0
17. "Operating surplus" refers to:
 (a) Income from property (b) Income from entrepreneurship
 (c) **Income from property & entrepreneurship*** (d) none of these
18. Classification of goods depends on the:
 (a) Consumption of goods (b) Production of Goods
 (c) First use of goods (d) End-use of goods.
19. Final goods are used by the:
 (a) Consumers (b) Producers
 (c) Government (d) **All of these***
20. Which of the following is a semi-durable good?
 (a) Radio (b) **Clothes*** (c) Milk (d) Petrol
21. Increase in the stock of capital is known as:
 (a) Capital loss (b) Capital Gain
 (c) **Capital formation*** (d) None of these
22. Net capital formation causes:
 (a) **Increase in production capacity*** (b) Increase in depreciation
 (c) Increase in profits (d) Increase in cost
23. 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
24. Which of the following leads to unexpected obsolescence?
 (a) **Natural Calamities*** (b) Change in demand
 (c) Change in technology (d) none of these
25. Which of the following is the cause of expected obsolescence?
 (a) Natural calamities (b) Change in demand
 (c) Change in technology (d) **Both (b) and (c)***
26. Depreciation reserve fund is needed for:
 (a) Inventory stock (b) Advertisement
 (c) **Replacement Investment*** (d) None of these
27. Factor services rendered by the households to the firms lead to:
 (a) **Real Flow*** (b) Money Flow
 (c) Service flow (d) Both (a) and (c)

Fill in the blank:

- The word macro has been derived from Greek word..... which mean.....
 (Makros and large)
- In aggregates and averages of aggregates of an economy are studied.
 (Macroeconomics)
- Macro economics also called..... (Income Theory)
- The concept of 'domestic territory' is used to estimate.....(Domestic product or domestic income)
- Final goods refer to those goods which are used either for..... or for.....
 (Final consumption and final investment)
- Bonus is a Whereas unemployment allowance is a (Factor income and transfer income)
- Change in the stock of good and raw material during an accounting year is treated as..... (Final goods)

8. Consumer goods and capital goods are..... (Final goods)
9. There are phases in the circular flow of income. (Three)
10. For providing their factor services to the firms, the households gets..... (Factor payments)
11.reduce the flow of income. (Leakages)
12. is an injection to the circular flow of income. (Investment)
13. is also known as physical capital. (Real Flow)
14. In the distribution phase, households get(Factor payments)
15. A.....economy is one which does not have economic relation with other countries. (Closed)
16. Households are the of factors of production andof goods and services. (Owner and consumer)
17. = Value or output – Intermediate consumption. (Gross value added at mp)
18. refers to the income earned by self employed workers. (Mixed income)
19. Value of output – Change in stock = (Sales)
20. Net exports are negative when exceed (Imports and Exports)
21. Refers to income received for granting leasing rights of sub-soil assets. (Royalty)
22. The difference between exports and imports of goods and non-factor services is called..... (Net exports)
23. Gross domestic capital formation = Gross fixed capital formation + (Change in stock or inventory investment)
24. Gross fixed capital formation + Change in stock = (Gross capital formation)

1 MARKS

Q1. What is current replacement cost?

Ans. It refers to the estimated value of depreciation of fixed capital assets for all production units in an economy during an accounting year.

Q2. What is depreciation reserve fund?

Ans. Depreciation reserve fund refers to the provision of funds to be used for the replacement of worn out machines.

Q3. What does the circular flow model show?

Ans. Circular flow model shows that – Production = Income = Expenditure

Q04. What are economic agents in an economy?

Ans. By economic agents we mean those individuals or institutions which take economic decisions. Firms, households and Government are the major economic agents in an economy.

Q05. Give the formula of converting nominal GDP into real GDP.

Ans.

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

Q06. **Give an example of externality which reduces welfare of the people.**

Ans. Smoke out of chimneys of factories, Air pollution by a sugar mill.

Q07. **Give an example of externality which increases welfare of the people.**

Ans. The construction of a flyover reduces transport costs and journey time.

Q08. **Define value of output.**

Ans. It refers to the market value of output produced by a firm in a year.

Q09. **Explain the concept of inventory.**

Ans. The stock of unsold finished goods, semi finished goods, and raw materials lying with the firm is called inventory.

Q10. **What is circular flow income?**

Ans. Circular flow of income implies the flow of income and flow of goods across different sector of the economy.

Q11. **What do you understand by the economic agents in an economy?**

Ans. By economic agents we mean those individuals or institutions which take economic decisions. Firms, household and government are the major economic agents in an economy.

Q12. **What are factor incomes?**

Ans. Factor incomes are the rewards of the factor of production, (viz. compensation of employees, rent, interest and profit) for rendering productive services.

Q13. **What are transfer incomes?**

Ans. Transfer incomes are unearned incomes which are received without rendering any productive service. These include gifts in cash, scholarships to the students, old-age pensions to the seniors etc.

Q14. **Define gross domestic product at market price.**

Ans. Gross domestic product at market price refers to market value of final goods and services produced within the domestic territory of the country during a year.

Q15. **Define net national product at market price.**

Ans. It is the market value of all final goods and services produced in the domestic territory of the country net of depreciation plus NFIA during a period of one year.

Q16. **What is green GNP?**

Ans. Green GNP measures national income or output adjusted for the loss of natural resources and degradation of environment.

3/4MARKS - SOLVED QUESTION:-

Q01. If real gross product is Rs. 200 and the nominal gross product is Rs. 210, calculate the price index (base = 100).

Ans.

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100 \quad \text{Price Index} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

$$= \frac{210}{200} \times 100$$

$$\text{Price Index} = 105$$

Q02. **Giving reasons classify the following into intermediate products and final products:**

- (i) Computer purchased by a school.
- (ii) Cold drinks purchased by a school canteen.

Ans. (i) Computer purchased by a school is final product because it is purchased for final investment.

(ii) Cold drinks purchased by a school canteen is intermediate products because these are taken for resale in the same year.

Q03. **Giving reasons explain how should the following be treated in estimated gross domestic product at market price?**

- (i) Fees to a mechanic paid by a firm.
- (ii) Interest paid by an individual on a car loan taken from a bank.
- (iii) Expenditure on purchasing a car for use by a firm.

Ans. (i) Fees paid to mechanic by a firm is not included because it is an intermediate cost of the firm.

(iii) Interest paid by an individual is not included because the loan is taken to meet consumption expenditure and therefore interest paid on such a loan is not a factor payment.

(iv) Expenditure on purchase a care by a firm is included because it is investment expenditure, a final expenditure.

Q04. **Explain with the help of an example, the basis of classification goods into final goods and intermediate goods.**

Ans. Goods are classified as final goods and intermediate goods on the basis of the end use. If goods are purchased for consumption or investment, these would be classified as final goods. For example, machine purchased for use in factory is a final good. Milk purchased by household is also final good as it is purchased for consumption.

When a good is purchased for resale or for using it up completely in production during the year, it is called intermediate good. For example, raw material purchased for producing goods.

Q05. Explain the concept of production boundary.

Ans. The production boundary is an imaginary line around the producing sector of an economy. As long as goods remain within the production boundary, they remain intermediate goods. It is only when a good comes out of this boundary, it becomes a final good. Value is added by the production units in the production boundary. No value is added, the moment a good crosses the production boundary.

Q06. Explain the concept of domestic territory.

Ans. Domestic or economic territory of a country is different from its political territory. It is based on economic criterion. IT includes the following:

- (i) Political frontier including territorial water and air space.
- (ii) Embassies, consulates, military bases etc. located abroad.
- (iii) Ships and aircrafts owned and operated by normal residents between two or more nations.
- (iv) Fishing vessels, oil and natural gas rigs etc. operating by the residents of a country in the international waters where they have exclusive rights of operation.

Q07. Differentiate between depreciation and capital loss.

Ans. Depreciation refers to fall in the value of fixed assets due to normal wear and tear,, passage of time and expected obsolescence.

Depreciation refers to loss in value of the fixed assets due to unforeseen obsolescence, e.g. natural calamities, thefts, accidents etc.

Q08. What is the difference between replacement cost and current replacement cost?

Ans. **Replacement Cost:** Due to wear and tear of fixed capital assets in the process of production, these assets need to be replaced after their life span. The cost of their replacement is called replacement cost.

Current Replacement Cost: Current replacement cost is the estimated annual value of depreciation for all the production units in the economy during a year. It is popularly called depreciation or consumption of fixed capital.

Q09. What is the difference between expected obsolescence and unexpected obsolescence?

Ans. **Expected Obsolescence** refers to a fall in the value of fixed assets due to change in technology or change in demand. It is a part of depreciation.

Unexpected Obsolescence refers to a fall in the value of fixed assets due to natural calamities or economic recession. It is not a part of depreciation.

Q10. Explain three different phases in circular flow of national income.

Ans. (i) Generation phase (or Production Phases) – In this phases, firms produce goods and service with the help of factors of production.
 (ii) Distribution Phase: In this phase, there is flow of factor incomes from firms to the household.

(iii) Disposition Phase: In this phase, the income received by households who are the suppliers of factors of production, is spent on the goods and services producing by firms.

Q11. What is the importance of the study of circular flow of income models?

Ans. The study of circular flow of income is important in the following ways:

- (i) Helpful in understanding mutual Inter-dependence among different sectors.
- (ii) Circular flow of income facilitates the estimation of national income.
- (iii) Circular flow model give information regarding injections and withdrawals also.

Q12. What is GDP deflator? Give its formula.

Ans. GDP deflator is a measure of the average price level of all goods and services that make up GDP. It shows change in GDP owing to the change in the price level. It is also called price index.

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

Q13. Why does national income include only final goods?

Ans. The value of intermediate goods is already included in the final goods. If the value of intermediate goods is added again, it will lead to double counting. To avoid the problem of double counting, only the value of final good is included in national income.

Q14. Why is transfer payments not included in the estimation of National Income?

Ans. Transfer payments are not included in national income as these do not lead to corresponding flow of goods and services. These are not included because of limitation of being one sided.

Q15. Why interest on public debt is treated as a transfer payment?

Ans. Public debts taken by the government from general public is generally used to meet its consumption expenditure. There is no productive activity linked with the public debt. So it is treated as transfer payment and hence it is not included in national income.

Q16. Mention the three methods of measuring national income.

Ans. Three methods of measuring national income are:

- (i) Value added method or product method or net output method.
- (ii) Income method or income distribution method or factor payment method.
- (iii) Expenditure method.

Q17. How the value of output is calculated?

Ans. Value of output can be calculated in 3 different ways.

- (i) Value method : Value of output = Quantity x price
- (ii) Cost method: Value of output = Expenses on factor inputs (i.e. factor payments) + Intermediate consumption + Depreciation + Indirect taxes – Subsidies.
- (iii) Revenue method: Value of output = Sales + Change in stock.

Q18. When is value of output equal to value added?

Ans. Value of output is equal to value added, if there are no intermediate costs.

Q19. Differentiate between factor inputs and non-factor inputs.

Ans. Factor inputs refer to primary (or basic) factors of production. These include land, labor, capital and enterprise. They do not lose their identity on being used in the process of production. Net value added gets distributed among these factor inputs.

Non-factor inputs refer to secondary factors of production (also called intermediate consumption) such as raw material etc. They lose their identity on being used in production.

Q20. Distinguish between old-age pension and retirement pension in estimation of national income.

Ans. **Old-age pension** is given on account of being old and, therefore, it is a unilateral payment. Being a transfer payment, it is not included in estimation of national income.

Retirement pension is likely a deferred wage which is paid for rendering services prior to his retirement. Being a factor payment, it is included in national income.

Q21. What is current replacement cost? How is it treated in national income?

Ans. **Current replacement** cost refers to the estimated depreciation of fixed capital assets of all production units during an accounting year. While estimating national income, it is excluded.

Q22. How is depreciation calculated?

Ans. Depreciation is calculated by dividing the cost of fixed capital (or asset) by its life span (in years). Thus, **Depreciation = Cost of Asset / Life Span (in year)**

Q23. What do you mean by factors of production?

Ans. Factors of production are the primary inputs, which are used in the production of goods and services. Broadly, they are classified into four categories namely : (i) Land, (ii) Labor, (iii) Capital and (iv) Entrepreneur.

Q 24. Difference between Micro Economics and Macro Economics:

Micro Economics	Macro Economics
1. Microeconomics is the study individual economic units or small group	1. Macro Economics is the study of whole Economy.
2. Subject matter of micro economics includes Consumer behavior, producer behavior, Market etc.	2. Subject matter of macro economics includes National income, foreign exchange, employment etc.
3. Limited degree of aggregation.	3. Aggregation at the level of economy.
4. It is partial equilibrium analysis.	4. It is general equilibrium analysis.
5. It is also called as Price Theory.	5. It is also called as Theory of Income and Employment.

Micro-Macro Paradox:

It means one thing may be true or logical at micro level may not be true or logical at macro level. For example: Saving is good or virtue at micro level because by depositing saving in bank an individual can earn a regular income in the form of interest. But vice or not good at macro level because if everybody starts saving more then there will be decrease in aggregate demand, total expenditure, investment, production & employment level and increase in poverty & unemployment in the economy .

Q25. Difference between Classical and Keynesian thought:

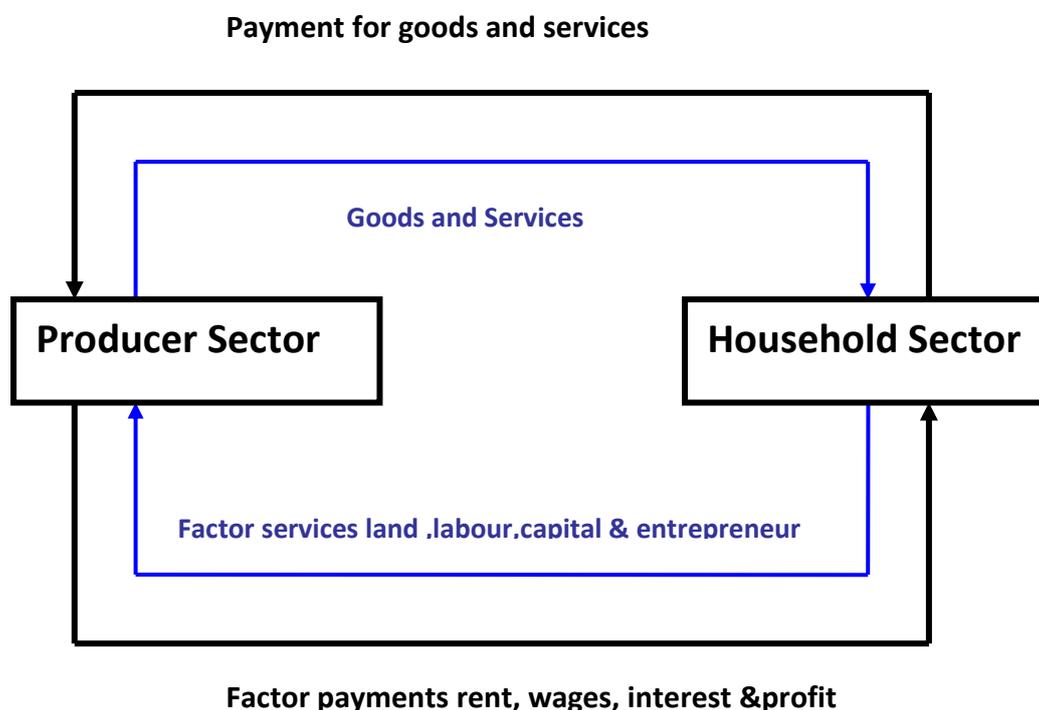
Classical Thought	Keynesian thought
<ol style="list-style-type: none"> 1. Classical economist Mill, Pigou, Ricardo etc. 2. Advocates free economy means no interfere of govt. 3. Full employment equilibrium an automatic phenomenon. 4. Unemployment will disappear by market forces of demand and supply. 5. Profit maximization motive 	<ol style="list-style-type: none"> 1. Economist: J.M. Keynes (John Maynard Keynes). 2. Advocates Govt. intervention. 3. Full employment equilibrium not an automatic phenomenon. 4. Govt. investment is necessary to generate employment opportunities and remove unemployment. 5. Social welfare motive.

Q 26. Difference between Final goods and intermediate goods:

Final Goods	Intermediate goods
<ol style="list-style-type: none"> 1. These goods are not used as raw material to produce other goods. 2. These have completed the production process. 3. These are ready for sale in the market. 4. These are included in the estimation of national income. 5. These goods can not be resold in the market. 6. Value is not to be added in these goods. 7. For Example: Shoes, clothes etc. 	<ol style="list-style-type: none"> 1. These goods are used as raw material to produce other goods. 2. These have not completed the production process. 3. These goods are not ready for sale in the market. 4. These are not included in the estimation of national income. 5. These goods can be resold in the market 6. Value is yet to be added in these goods. 7. For example: leather, cotton etc.

Q27. Explain Circular Flow Model.

Circular flow of income: It refers to the flow of money income or flow of goods and services across different sectors of an economy.



Real flow or product flow: It refers to the flow of goods and services across different sectors of the economy. In the diagram it is shown by inner flow.

Monetary flow or income flow: It refers to the flow of money across different sectors of the economy. In the diagram it is shown by outer flow.

Circular flow of income Identity

Production \equiv Income \equiv Expenditure

Q 28. Why flow of income is called circular?

Ans: Circular flow means a flow which has no end or which rolls on and on. Flow of income is circular because producers would always need factor services from household for production and households always need goods and services from producers for satisfaction of their wants. Therefore activities of production, income generation and expenditure never stop in the economy.

Leakages: It refers to the flow variables which cause withdrawal or contraction or -ve impact in income generation process. Example:

Saving, Taxes, Imports etc.

Injections: It refers to the flow variables which cause addition or expansion or +ve impact in income generation process. Example:

Investment, Government purchases and exports, subsidies, discovery of new resources, advancement in technology etc.

Applications of circular flow of income:

1. Helps to understand the interdependence between different sectors.
2. Helps in estimation of national income because size of national income is directly proportional to the circular flow of income.
3. Gives knowledge about leakages and injections variables.
4. Gives information about economic activities of consumption, production etc.

Q29. Methods to determine National Income

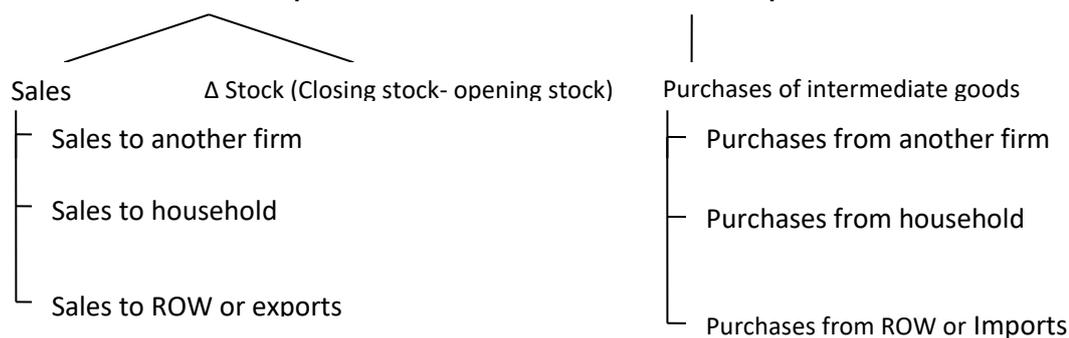
1. **Product Method or Value Added Method**
2. **Income Method**
3. **Expenditure Method or Total Outlay method**

1. Product Method

According to this method National Income is the value of all final goods and services produced in an economy during an accounting year.

Steps to find national income by product method**I step**

$$\text{GDP}_{\text{MP}} = \text{Value of output} - \text{Intermediate consumption}$$

**II Step**

$$\text{NDP}_{\text{MP}} = \text{GDP}_{\text{MP}} - \text{Depreciation}$$

III Step

$$\text{NNP}_{\text{MP}} = \text{NDP}_{\text{MP}} + \text{NFIA}$$

IV Step

$$\text{NNP}_{\text{FC}} = \text{NNP}_{\text{MP}} - \text{NIT}$$

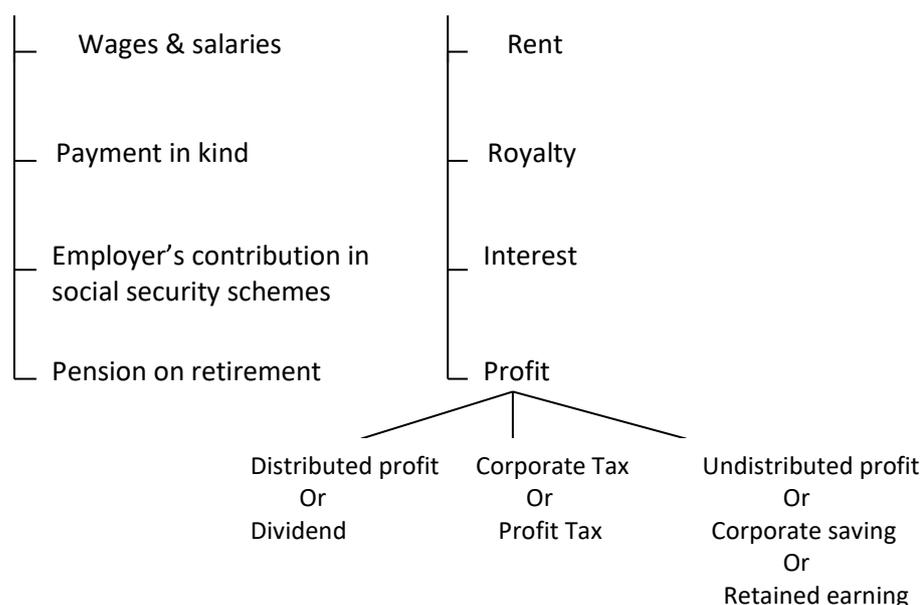
Precautions for Product method:

1. Value of sale and purchase of second hand goods are not included in estimation of national income.
2. Value of intermediate goods (raw material) are not included in estimation of national income.
3. Value of production for self consumption should be included in estimation of national income.
4. Voluntary work done for community is not included in estimation of national income
5. Domestic services are not included in estimation of national income.
6. Imputed value of self-occupied house is included in estimation of national income.

2. Income Method: According to this method National Income is the sum of factor incomes earned by normal residents of a country during an accounting year.

I Step

$$\text{NDP}_{\text{FC}} = \text{Compensation of employees} + \text{Operating surplus} + \text{Mixed Income (of self employed)}$$

**II Step: $\text{NNP}_{\text{FC}} = \text{NDP}_{\text{FC}} + \text{NFIA}$** **Precautions for Income method:**

1. Income from illegal services (gambling, smuggling) is not included in estimation of national income.
2. Transfer income (gift, scholarship, widow pension, unemployment allowance, old age pension, charity, grant etc) not included.
3. Income from sale of second hand goods is not included in estimation of national income.
4. Income from sale of shares, bonds etc. are not included in estimation of national income.
5. Income from windfall gains (lottery) is not included in estimation of national income.
6. Imputed rent of self occupied is included in estimation of national income.

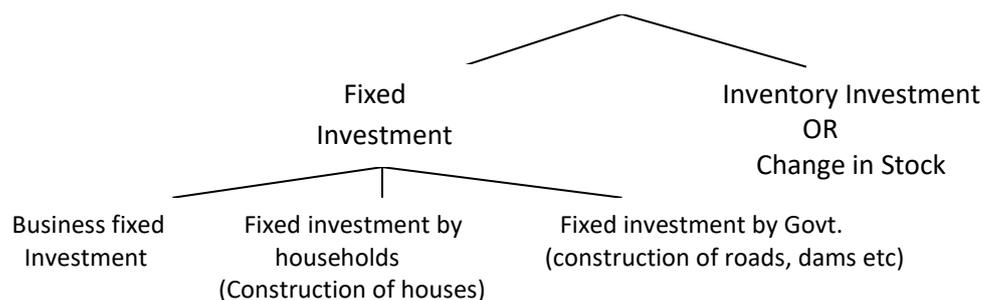
3. Expenditure Method: According to this method National Income is the sum of expenditure on all final goods and services produced in an economy during an accounting year.

Important Point: If gross capital Formation is given then we calculate GDP_{MP} & If net capital Formation is given in then we calculate NDP_{MP} .

First case: If gross capital Formation Or gross investment is given in items then we calculate GDP_{MP} in first Step.

I Step:-

$$\text{GDP}_{\text{MP}} = \text{Private final consumption expenditure (C)} + \text{Govt. final consumption expenditure (G)} + \text{Gross Investment (I)} + \text{Net Exports (X-M)}$$



II Step: $NDP_{MP} = GDP_{MP} - \text{Depreciation}$

III Step: $NNP_{MP} = NDP_{MP} + NFIA$

IV Step: $NNP_{FC} = NNP - NIT$

Second case: If net capital Formation Or net investment is given then we calculate NDP_{MP} in I Step .

$$NDP_{MP} = \text{Private final consumption expenditure (C)} + \text{Govt. final consumption expenditure (G)} + \text{Net Investment (NI)} + \text{Net Exports (X-M)}$$

Precautions for Expenditure method:

1. Expenditure on second hand goods is not included in estimation of national income.
2. Expenditure on shares, bonds etc. are not included in estimation of national income.
3. Expenditure on transfer payment (gift, scholarship, unemployment allowance, old age pension, charity, grant etc) not included.
4. Expenditure on intermediate goods is not included in estimation of national income.

Q 30.Explain Nominal GDP, Real GDP, GDP Deflator& welfare.

GDP at Current Prices (Nominal GDP): The value of all the goods and services produced in an economy during an accounting year, on the basis of current year prices.

GDP at Constant Prices (Real GDP): The value of all the goods and services produced in an economy during an accounting year, on the basis of base year prices.

GDP Deflator: GDP deflator is defined as the ratio of nominal GDP to real GDP multiplied by 100.

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

GDP and Welfare

In following cases increase in GDP may not increase in welfare

1. *Distribution of GDP:* If distribution of GDP is unequal.
2. *Composition of GDP:* If GDP includes more defence goods.
3. *Non Monetary Exchange:* When payments is in kind not in cash.
4. *Externalities:* Industrialization and urbanization causes -ve externalities such as water & air pollution, housing problem etc.

Green GNP: This concept is related to sustainable development which includes the concepts of environment pollution and exploitation of natural resources. Therefore we should use environment and natural resources wisely and carefully so that economic as well as social welfare can be increased.

Q31.“Higher Gross Domestic Product (GDP) means greater per capita availability of goods in the economy.” Do you agree with the given statement? Give valid reason in support of your answer.

Ans. "Higher Gross Domestic Product (GDP) mean greater per capita availability of goods in the economy." This statement is not true.

1.If the rate of population growth is more than the rate of growth of GDP, the per capita availability of goods & services will fall.

2.GDP doesn't account for changes in inequalities in distribution of income. If the rising GDP is concentrated in a few hands, per capita availability of goods in the economy might not increase.

Q32. Define the problem of double counting in the computation of national income. State any two approaches to correct the problem of double counting.

Ans. The problem of double counting arises when the value of some goods & services are counted more than once while estimating national income.

Two ways to avoid double counting are:

a.) Deduct intermediate consumption from value of output to arrive value added.

b.) Take the value of final product only.

Q33. From the following data, calculate Net value added at factor cost.

Particulars	₹(in crores)
(1) Total sales	1000
(2) Decrease in stock	70
(3) Production for self consumption	120
(4) Purchase of raw materials	300
(5) Exports	150
(6) Electricity charges	50
(7) Income tax	20
(8) Goods & services tax (GST)	70
(9) Subsidy	40

Ans. Net Value Added at Factor Cost:

=total sales+production for self consumption-decrease in stock-purchase of raw materials-electricity charges-(GST-subsidy)

=1,000+120-70-300-50-(70-40)

=₹ 670 crores

Q34. From the following data, calculate "Net Value Added at Factor Cost".

Particulars	₹ (in lakhs)
(1) Sales	400
(2) Change in stock	(-)20
(3) Intermediate consumption	200
(4) Net indirect taxes	40
(5) Exports	50
(6) Depreciation	70

Ans. Value of output=sales value+ change in stock

=400-20

=₹ 380 lakhs

GV&Amp=value of output-intermediate consumption

=380-200

=₹ 180 lakhs

NVA&fc=GV&Amp-depreciation-net indirect taxes

=180-30-40

=₹ 110 lakhs

Q35. Calculate Gross Value Added at Factor Cost:

Particulars	₹ (In crores)
(1) Units of output gold (units)	1000
(2) Price per unit of output (Rs.)	30
(3) Depreciation (Rs.)	1000
(4) Intermediate cost (Rs.)	12000
(5) Closing stock (Rs.)	3000
(6) Opening stock (Rs.)	2000
(7) Excise (Rs.)	2500
(8) Sales Tax	3500

Ans. $GVA_{fc} = (\text{units of output gold} * \text{price per unit of output}) + \text{closing stock} - \text{opening stock} - \text{intermediate cost} - \text{excise} - \text{sales tax}$

$$= (1,000 * 30) + 3,000 - 2,000 - 12,000 - 2,500 - 3,500$$

$$= ₹ 13,000 \text{ crores}$$

Q36. Is net export a part of NFIA? Explain.

Ans. . No, it is not. Net export, the difference between export and import (X- M), is a part of expenditure on domestic product. While NFIA is the difference between income earned from abroad by the normal residents of a country and income earned by non-residents in the domestic territory of that country. It is not included in the domestic product rather it is a component of NI. Therefore both are different concepts.

Q37. Calculate Net Value added at factor cost:

Particulars	₹ (in crores)
(1) Consumption of Fixed capital (Rs.)	600
(2) Import duty (Rs.)	400
(3) Output sold (units)	2000
(4) Price per unit of output (Rs.)	10
(5) Net change in stock (Rs.)	(-)50
(6) Intermediate cost (Rs.)	10000
(7) Subsidy (Rs.)	500

Ans. $NVA_{fc} = (\text{output sold} * \text{price per unit of output}) + \text{net change in stock} - \text{intermediate cost} - \text{import duty} + \text{subsidy} - \text{consumption of fixed capital}$

$$= (2,000 * 10) + (-50) - 10,000 - 400 + 500 - 600$$

$$= ₹ 9450 \text{ crores}$$

Q38. Explain the basis of classifying goods into intermediate and final goods. Give suitable examples.

Ans. Goods which are purchased by a production unit from other production units and meant for resale or for using up completely during the same year are called intermediate goods for example : raw material. Goods which are purchased for consumption and investment are called final goods for example : Purchase of machinery for installation in factory.

Q39. State any three precautions that must be taken into consideration while estimating national income by value added method.

Ans. Precautions of value added method are:

- Intermediate goods are not to be included in the national income: Since such goods are already included in the value of final goods. If they are included again, it will lead to double counting.
- Sale & purchase of second-hand goods is not included: As they were included in the year in which they were produced & do not add to current flow of goods & services.
- Production of goods for self-consumption will be included: In the national income as they contribute to the current output. Their value is to be estimated or imputed as they are not sold in the market.

Q40. Difference between National Income at Current Price Vs National Income at Constant Price.

Ans.

Basis	National INCOME AT CURRENT PRICE	National income at constant price
Meaning	It refers to money value of final goods & services produced by normal residents of a country in a year, measured at current year prices.	It refers to money value of final goods & services produced by normal residents of a country in a year, measured at prices of base year.
Index of eco. growth	It is not a good tool for measuring the eco. growth of a country.	It is a better tool for measuring the eco. growth of a country.
Causes of change	It is affected by change in both price & quantity.	It is affected by change in the quantity only.
comparison	It is not suitable tool for comparing the national incomes of different years.	It is generally used for comparing the national incomes of different years.
calculation	Current Price(P1)*Current Quantity(Q1).	Base Year Price(P0)*Current Quantity(Q1).
Alternative name	Nominal National Income.	Real National Income.

Q41. Which is better: Nominal GDP or Real GDP?

Ans. Real GDP is better as compared to Nominal GDP because of following reasons:

- Real GDP helps in determining the effect of increased production of goods & services as it is affected by change in physical output only. On the other hand, Nominal GDP can increase even without any increase in physical output as it is affected by change in prices also.
- Real GDP is a better measure to make periodic comparison in the physical output of goods & services over different years.
- Real GDP facilitates international comparison of economic performance across the countries.

Q42. Difference between Net Exports & Net factor income from abroad.

Ans.

BASIS	NET EXPORTS	NET FACTOR INCOME FROM ABROAD
MEANING	It refers to difference between exports & imports of goods & services.	It refers to difference between factor income received from abroad & factor income paid

		abroad
CONCEPT	Domestic concept.	National concept.
FACTOR/NON-FACTOR SERVICES	Non-factor services.	Factor services.

Q43. Given Real Income to be 400 & price index is 125, calculate nominal income.

Ans. Price index = $\frac{\text{Nominal Income}}{\text{Real Income}} \times 100$

$$100 = \frac{\text{Nominal Income}}{400} \times 100$$

$$\text{Nominal Income} = 400.$$

Q44. From the following data relating to a firm, calculate its net Value Added at factor cost:

Items	(Rs. In Lacs)
(i) Sales	1600
(ii) Subsidy	80
(iii) Closing stock	40
(iv) Depreciation	60
(v) Intermediate purchase	1000
(vi) Import of raw material	120
(vii) Exports	200
(viii) Opening stock	100
(ix) Purchase of machinery for own use	400

$$\text{Ans. NVA}_{fc} = 1600 + 40 - 100 - 1000 - 60 + 80 = \text{Rs}560 \text{ lakh}$$

Q45. Explain how distribution of gross domestic product has its limitation as a measure of economic welfare.

Ans. If with increase in GDP inequality of income increase, i.e. poor becomes poorer while rich become richer. This may lead to decline in welfare even though GDP has increased. Similarly, while per capita GDP is rising but there is starvation death in the economy. It may be due to unequal distribution of income and lead to decline in welfare of the people.

6-MARKS QUESTIONS

Q1. Giving reason, explain whether the following are included in domestic product of India.

- Profits earned by a branch of foreign bank in India.
- Payment of salaries to its staff by an embassy located in New Delhi.
- Interest received by an Indian resident from its abroad firms.

Ans. As the profits are earned in the domestic territory of India, the profits earned by a branch of the foreign bank in India will be 'included' in domestic income of India.

2. Payment of salaries to its staff by an embassy located in New Delhi will 'not be included' in the domestic income of India, as it is not a part of the domestic territory of India.

3. As interest received by an Indian resident from its abroad firms is factor income from abroad, it will 'not be included' in domestic income of India.

Q2. State any precautions that are taken while calculating national income by expenditure method.

Ans. While using the expenditure method, the following precautions are required to be taken, related to the calculation of National Income: Only final expenditure is to be taken into account to avoid the error of double counting of expenditures,

- Expenditure on second-hand goods is not to be included, because such expenditure has already been included, because such expenditure has already been included when they are

originally purchased. However, any commission or brokerage on such goods is included as it is a payment made for productive service.

- Expenditure on the purchase of financial assets such as shares & bonds is not to be included in total expenditure, as these are mere paper claims & are not related to the production of final goods & services.
- Expenditure on transfer payments by the government is not to be included as such payments are not connected with any productive activity & there is no value addition.
- Imputed value/estimated value of expenditure on goods produced for self-consumption should be taken into account, as these goods are reflected in the estimation of Gross Domestic Product (GDP).

Q3. Giving reason, explain how the following should be treated in the estimation of National Income.

- Payment of interest by a firm to a bank.
- Payment of interest by a bank to an individual.
- Payment of interest by an individual to a bank.

Ans. Payment of interest by a firm to a bank: It will be 'included' in the estimation of National Income, as it is a factor income. Also, firms take loans for investment purposes.

• Payment of interest by a bank to an individual: it will be 'included' in the estimation of National Income as it is a factor income.

• Payment of interest by an individual to a bank: It will 'not be included' in the estimation of National Income as consumer takes a loan for consumption purposes.

Q4. Giving reason explain how the following should be treated in estimation of national income:

- Payment of interest by a firm to a bank.
- Payment of interest by a bank to an individual.
- Payment of interest by an individual to a bank.

Ans. 1. Payment of interest by a firm to a bank is an interest income (factor income) therefore added in national income.

• Payment of interest by bank to an individual is again a factor payment, therefore included in national income.

• Payment of interest by an individual to bank is interest (factor income), therefore it is included in national income.

NUMERICALS- 6 MARKS

Q1. From the following data calculate Gross national product at factor cost by

(i) Income method (ii) expenditure method.

S.N	Items	Rs. in Crores
1.	Net domestic capital formation	500
2.	Compensation of employees.	1850
3.	Consumption of fixed capital	100
4.	Govt. final consumption expenditure	1100
5.	Private final consumption expenditure	2600
6.	Rent	400
7.	Dividend	200
8.	Interest	500
9.	Net export	-100
10.	Profit	1100
11.	Net factor income from abroad	-50
12.	Net indirect taxes.	250

Solution -:

$$\text{GNP at fc (income method)} = (\text{ii}) + (\text{vi}) + (\text{viii}) + (\text{x}) + (\text{iii}) + (\text{xi}) \\ = 1850 + 400 + 500 + 1100 + 100 + (-50) = 3900 \text{ crore}$$

$$\text{GNP at fc (Expenditure Method)} = (\text{v}) + (\text{iv}) + (\text{i}) + (\text{iii}) + (\text{ix}) + (\text{xi}) - (\text{xii}) \\ = 2600 + 1100 + 500 + 100 + (-100) + (-50) - 250 = \text{Rs } 3900 \text{ Cores}$$

Q2. From the following data calculate Gross national product at factor cost by (i) income method (ii) expenditure method.

S.N	Items	Rs.inCrores
1.	Net domestic capital formation	1000
2.	Compensation of employees.	1850
3.	Consumption of fixed capital	100
4.	Govt. final consumption expenditure	1100
5.	Private final consumption expenditure	2600
6.	Rent	900
7.	Dividend	200
8.	Interest	500
9.	Net export	-100
10.	Profit	1100
11.	Net factor income from abroad	-50
12.	Net indirect taxes.	250

Solution -:

$$\text{GNP at fc (income method)} = (\text{ii}) + (\text{vi}) + (\text{viii}) + (\text{x}) + (\text{iii}) + (\text{xi}) \\ = 1850 + 900 + 500 + 1100 + 100 + (-50) = 4400 \text{ crore}$$

$$\text{GNP at fc (Expenditure Method)} = (\text{v}) + (\text{iv}) + (\text{i}) + (\text{iii}) + (\text{ix}) + (\text{xi}) - (\text{xii}) \\ = 2600 + 1100 + 1000 + 100 + (-100) + (-50) - 250 = \text{Rs } 4400 \text{ Cores}$$

Q3. Calculate national income by income and expenditure method from the following data:

Sl no.	Items	Rs. Crores
i)	Private final consumption expenditure	1400
ii)	Mixed income	140
iii)	Gross Domestic fixed capital formation	280
iv)	Opening stock	60
v)	Compensation of employees	1000
vi)	Closing stock	100
vii)	Government final consumption expenditure	400
viii)	Operating surplus	800
ix)	Consumption of fixed capital	40
x)	Net factor income from abroad	-20
xi)	Exports	40
xii)	Imports	80
xiii)	Net Indirect Tax	100

Solution-: $\text{GDP fc} = (\text{i}) + (\text{ii}) + (\text{v}) + (\text{vi}) + [(\text{vii}) - (\text{viii} + \text{ix})]$
 $= 800 + 200 + 150 + 100 + [300 - 200 - 50]$
 $= \text{Rs. } 1300 \text{ Crore}$

$$\text{NFIFA} = \text{GNP MP} - \text{GDP MP} \\ = 1400 - (1300 + 120) \\ = -20 \text{ Cr}$$

$$\text{FITA} = \text{FIFA} + \text{NFIFA}, \quad = 60 - (-)20 = 80 \text{ Cr.}$$

Q4. Calculate National income by: (a) Income method and (b) Expenditure method.

	Items	Rs In crores
1	Subsidies	5
2	Private final consumption expenditure	100
3	NFIA	-10
4.	Indirect Tax	25
5	Rent	5
6	Government final consumption expenditure	20
7	Net domestic fixed capital formation	30
8	Rent, interest, profit	20
9	Wages	50
10	Net export	-5
11	Addition to stock	-5
12	Social security contribution by employers	10
13	Mixed income of self employed	40

Solution: -

Income method

$$\begin{aligned} \text{NI} &= (\text{ix}) + (\text{xii}) + (\text{viii}) + (\text{xiii}) - (\text{iii}) \\ &= 50 + 10 + 20 + 40 - 10 \\ &= \text{Rs } 110 \text{ Crores.} \end{aligned}$$

Expenditure method

$$\begin{aligned} \text{NI} &= (\text{ii}) + (\text{vi}) + (\text{vii}) + (\text{xi}) + (\text{x}) - (\text{iv}) + (\text{i}) + (\text{iii}) \\ &= 100 + 20 + 30 + (-) 5 + (-) 5 - 25 + 5 + 10 \\ &= \text{Rs } 110 \text{ Crores} \end{aligned}$$

Q5. Calculate national income by income and expenditure method from the following data:

S. no.	Items	Rs. Crores
i)	Private final consumption expenditure	1400
ii)	Mixed income	140
iii)	Gross Domestic fixed capital formation	280
iv)	Opening stock	60
v)	Compensation of employees	1000
vi)	Closing stock	100
vii)	Government final consumption expenditure	400
viii)	Operating surplus	800
ix)	Consumption of fixed capital	40
x)	Net factor income from abroad	-20
xi)	Exports	40
xii)	Imports	80
xiii)	Net Indirect Tax	100

Solution-**INCOME METHOD-**

$$\begin{aligned} \text{NI} &= \text{COE} + \text{OS} + \text{MISE} + \text{NFIA} \\ &= 1000 + 800 + 140 - 20 = 1920 \end{aligned}$$

EXPENDITURE METHOD-

$$\begin{aligned} \text{NI} &= \text{C} + \text{I} + \text{G} + \text{X} - \text{M} - \text{DEPRECIATION} + \text{NFIA} - \text{NIT} \\ &= 1400 + 280 + 40 + 400 - 40 - 40 - 20 - 100 = 1920 \end{aligned}$$

Q6. Calculate national income by Income & Expenditure method from the following data:

Particulars	₹(In crores)
(1) Salaries & wages in cash	1,997
(2) Transfer payments by government	25
(3) Rent	132
(4) Indirect taxes	200
(5) Subsidies	89
(6) Compensation of workers in kind	95
(7) Depreciation	81
(8) Net increase in factor income from rest of the world	52
(9) Interest	92
(10) Government expenditure on goods & services	574
(11) Personal consumption expenditure on goods & services	1805
(12) Corporate profit tax	10
(13) Income of the self employed	264
(14) Undistributed corporate profit	26
(15) Dividends	201
(16) Export of goods & services	900
(17) Addition to stock	7
(18) Social security contributions by employer	54
(19) Import of goods & services	323
(20) Gross fixed investment	100

Ans. National Income (NNP_{fc}) by Income method:

=salaries & wages in cash+rent+compensation of workers in kind+net increase in factor income from rest of the world+interest+corporate profit tax+income of the self employed+undistributed corporate profit+dividends+social security contributions by employer

$$= 1,997 + 132 + 95 + 52 + 92 + 10 + 264 + 26 + 201 + 54$$

$$= ₹ 2,923 \text{ crores}$$

Q7. Calculate: (a) Domestic Income; (b) Compensation of employees.

Particulars	₹ (In crores)
(1) Net factor income from abroad	-20
(2) Net exports	10
(3) Net indirect taxes	50
(4) Rent & royalty	20

(5) Consumption of fixed capital	10
(6) Private final consumption expenditure	400
(7) Corporate tax	10
(8) Interest	30
(9) Net domestic capital formation	50
(10) Dividends	22
(11) Government final consumption expenditure	100
(12) Undistributed profits	5
(13) Mixed income	23

Ans. (a) Domestic Income:

$$\begin{aligned}
 &= \text{net exports} + \text{private final consumption expenditure} + \text{net domestic capital formation} \\
 &+ \text{government final consumption expenditure} - \text{net indirect taxes} \\
 &= 10 + 400 + 50 + 100 - 50 \\
 &= 510 \text{ crores}
 \end{aligned}$$

(b) Compensation of employees:

$$\begin{aligned}
 &= \text{NDPfc} - \text{rent \& royalty} - \text{interest} - \text{corporate tax} - \text{dividends} - \text{undistributed profits} - \text{mixed income} \\
 &= 510 - 20 - 30 - 10 - 22 - 5 - 23 \\
 &= 400 \text{ crores}
 \end{aligned}$$

Q8. From the following data, calculate (a) Gross Domestic Product at Market Price; & (b) Subsidies.

Particulars	₹ (In crores)
(1) Government final consumption expenditure	7000
(2) Indirect taxes	9000
(3) NNPfc	61700
(4) Mixed income of self employed	28000
(5) Gross fixed capital formation	13000
(6) Net addition to stocks	10000
(7) Compensation of employees	24000
(8) Depreciation	4000
(9) Private final consumption expenditure	44000
(10) Exports of goods & services	4800
(11) Imports of goods & services	5600
(12) NFIA	(-300)

Ans. (a) Gross Domestic Product at Market Price (GDPmp):

$$\begin{aligned}
 &= \text{government final consumption expenditure} + \text{gross fixed capital formation} + \text{net addition to stocks} \\
 &+ \text{private final consumption expenditure} + \{(\text{exports of goods \& services} - \text{imports of goods \& services})\} \\
 &= 7,000 + 13,000 + 10,000 + 44,000 + \{4,800 - 5,600\} \\
 &= ₹ 73,200 \text{ crores}
 \end{aligned}$$

(b) Subsidies:

$$\begin{aligned}
 &= \text{NNPfc} + \text{depreciation} - \text{NFIA} + \text{indirect taxes} - \text{GDPmp} \\
 &= 61,700 + 4,000 - (-300) + 9,000 - 73,200 \\
 &= ₹ 1,800 \text{ crores}
 \end{aligned}$$

Q9. Calculate GNP at FC by Income & Expenditure method.

Particulars	₹ (in crores)
(1) Compensation of employees	1000
(2) Operating surplus	500
(3) Employers' contribution to social security schemes	120
(4) Net exports	(-)30
(5) Net indirect taxes	40
(6) Mixed income of the self employed	600
(7) Net factor income to abroad	20
(8) Consumption of fixed capital	40
(9) Private final consumption expenditure	1440
(10) Government final consumption expenditure	490
(11) Gross fixed capital formation	250
(12) Change in stock	30
(13) Interest on national debt	25

Ans. GNP at FC by Income method:

$$\begin{aligned}
 &= \text{compensation of employees} + \text{operating surplus} + \text{mixed income of the self employed} \\
 &\quad - \text{net factor income to abroad} + \text{consumption of fixed capital} \\
 &= 1,000 + 500 + 600 - 20 + 40 \\
 &= ₹ 2,120 \text{ crores}
 \end{aligned}$$

GNP at FC by Expenditure method:

$$\begin{aligned}
 &= \text{private final consumption expenditure} + \text{government final consumption expenditure} \\
 &\quad + \text{gross fixed capital formation} + \text{change in stock} + \text{net exports} - \text{net indirect taxes} \\
 &\quad - \text{net factor income to abroad} \\
 &= 1,440 + 490 + 250 + 30 + (-30) - 40 - 20 \\
 &= ₹ 2,120 \text{ crores}
 \end{aligned}$$

Practice Questions

Q1. 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.

Q2. 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.

Q3. State whether the following is a stock or flow:

- (a) Wealth, (b) Cement production, (c) Saving of a household, and (d) Income of household.
- (e) National capital, (f) Exports, (g) Capital formation, and (h) Expenditure on food by households.

Q4. 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.

Q5. 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.

Q6. 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.

Q7. Are the following included in the estimation of National Income of India? Give reasons

for each answer.

(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.

Q8. Will the following be included in 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.

Q9. Will the following be included in 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

UNIT: 2-MONEY & BANKING**06 MARKS****OBJECTIVE TYPE QUESTIONS:- (1Mark)**

Q.1 Define the term money.

Ans. Money is anything that is generally accepted by all people for exchange.

Q.2 Fiat money is also known as ----- .

Ans. Legal tender money

Q.3 What is high powered money?

Ans. Money that is produced by RBI and the government. It has two components : currency held with public and cash held by banks.

Q.4 State whether true or false :

"M1 is also known as transaction money"

Ans. True

Q5 Which component is not included in M1 :

A) currency and coins with public

B) Inter bank deposits

C) Other deposits with RBI

D) None of above

Ans. (B)

Q.6 What are demand deposits?

Ans. Demand deposits refers to those deposits which are repayable by the banks on demand.

Q.7 Define cash reserve ratio.

Ans. This refers to the proportion of total deposit of the commercial bank, which they must keep as cash reserves with central bank.

Q.8 Define money supply

Ans. Money supply refers to the total volume of money held by public at a particular point of time in an economy.

Q.9 State the components of money supply.

Ans. (1) Currency with public (coins and notes).

(2) Demand Deposits with Commercial Banks.

Q.10 Define Bank Rate.

Ans. Bank Rate is the rate at which the central bank of a country lends money to commercial banks to meet their long term needs.

Q.11 What is a Central bank?

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

SHORT ANSWERS QUESTIONS (3/4marks)

Que1 : Explain the "Issue function" of the Central Bank.

Ans : central bank is the sole authority for the issue of currency in the country. It promotes efficiency in the financial system. It leads to uniformity in the issue of currency, and it gives Central Bank control over money supply

Que 2. Explain the 'Government's Banks' function of a Central Bank.

Ans. A Central Bank conducts the banking account of government departments. It performs the same banking functions for the government as Commercial Bank performs for its customers. It accepts their deposits and undertakes inter-bank transfer. It also gives loans to the government. A Central Bank also provides various services as agent of the government. It manages public debt. It also gives advice to the government regarding money market, capital market, government loans and economic policy matters.

Que 3. What are other deposit measures of M?

Ans: Other deposits are the deposits held by the RBI of all economic units except the government and banks. OD includes demand deposits of semi-government public financial institutions (like IDBI, IFCI, etc.), foreign central banks and governments, the International Monetary Fund, the World Bank, etc.

Que 4. Why post office saving are less liquid than demand deposits?

Ans: Post office saving banks are not as liquid as demand deposits with the banks (commercial or cooperative) as they are not chequeable account.

However, saving deposits with post offices are more liquid than time deposits with the banks.

Que 5. Explain why time deposits measures of M₁, is less liquid than the demand deposits measure of M₃.

Ans. 1. It is generally thought that time deposits with the banks are not as liquid as demand deposits, because the time deposits are not chequeable (i.e., these cannot be withdrawn through cheques drawn on them).

2. However, loans against these time deposits can be easily taken.

Hence, they can be used in times of need.

3. Moreover, they can also be withdrawn at any time by forgoing some interest earned on them.

Que 6. What is meant by Cash Reserve Ratio? How does it increase the money Supply in the economy?

Ans. It refers to the minimum percentage of a bank's total deposits, which it is required to keep with the central bank. Commercial banks have to keep with the central bank a certain percentage of their

deposits in the form of cash reserves as a matter of law.

For example, if the minimum reserve ratio is 10% and total

Deposit of a certain bank is 100 crore, it will have to keep Rs 10 crore with the central bank.

To increase Money supply in an economy, cash reserve ratio (CRR) falls to 5 per cent, the bank will have to keep Rs 5 crore with the central bank, which will increase the cash resources of commercial bank and increasing credit availability in the economy, which will increase the money supply in an economy.

Que 7. What is meant by Open Market Operation? How does it reduce the money supply in the economy?

Ans.Open Market Operation: It consists of buying and selling of government securities and bonds in the open market by central bank. To reduce Money Supply in an economy, central bank sells government securities and bonds to commercial bank. With the sale of these securities, the power of commercial bank of giving loans decreases, which will reduce the money supply in an economy.

Ques 8. Calculate the value of money multiplier and total deposit created

if initial deposit is of Rs 1,000 crore and LRR is 20%. [3 marks]

Ans: Given, LRR is 20% or 0.2 and Money Multiplier is $1/LRR$

$$\text{Money Multiplier} = 1/0.2 = 5$$

If initial deposit is of 1,000 crore,

$$\text{Total Deposit} = \text{Initial Deposit} * \text{Money Multiplier}$$

$$= 1000 \times 5 = 5,000 \text{ crore}$$

Que 9. if the total deposits created by commercial banks is Rs 10,000 crore and legal reserve requirements is 10%, calculate the amount of initial deposits. [3 Marks]

Ans:

Given, Legal Reserve Requirements

(LRR) is 10% or 0.1 and Money Multiplier = $1/LRR$

$$\text{Money Multiplier} = 1/0.1 = 10$$

If total deposits created is of 10,000

crore,

$$\text{Initial Deposit} = \text{total deposits} / \text{money multiplier}$$

$$= 10000/10 = 1000 \text{ crores.}$$

Long Answer Questions (6 marks)

Que.1 What do you mean by credit/money creation? Explain the?

Ans. The process of money creation by the commercial banks with the help of a numerical example.

Money creation is a process in which a Commercial Bank creates total deposits many times the initial deposits. The capacity of Commercial Bank to create depends on two factors:

1. Amount of initial fresh deposit

2. Legal Reserve Ratio (LRR)

Money Multiplier = $1 / \text{LRR} * 100$

Money Creation = Initial Deposit * Money multiplier.

Working : Suppose () Initial Deposit = Rs. 1000

(ii) LRR = 20%

As required, the bank keeps 20% i.e., Rs. 200 as cash reserve and lend the remaining Rs. 800. Those who borrow use the money for making payments. As assumed those who receive these payments put the money back into their bank accounts.

This creates a fresh deposit of Rs. 800. The bank again keep 20% i.e., Rs. 160 and lend Rs. 640. In this way the money goes on multiplying leading to total money creation of Rs. 5000.

Money Creation = Initial Deposit x LRR

OR.

Initial deposit \times money multiplier =

$5 \times 1000 = \text{Rs.} 5000$

Que 2. What is 'liquidity trap'?

Ans. Liquidity trap is a situation in which speculative demand function is infinitely elastic; it is explained as follows: The price of a bond has an inverse relationship with the market interest rate. If the interest rate is very high and people expect it to fall in the future, then the bond prices will rise being inversely related to the interest rate. In order to earn capital gains in future, people will purchase bonds (as bonds are cheaper) and hence the speculative demand for money will become low.

On the contrary, if the interest rate is low and people expect it to rise in future, then the bond prices will fall and in order to avoid capital loss, people will sell their bonds and convert their bonds into idle cash balances. Liquidity trap is an extreme case of the latter situation. When the interest rates are very low, then everyone expect interest rates to go up in future. Thus, to avoid capital loss, everybody prefers to maintain cash balance and not bond. Consequently, the speculative demand for money is infinitely elastic. In this situation, if the additional money is pumped into the economy, then, this will only satisfy the thirst for money,

Que 3. Why is speculative demand for money inversely related to the rate of interest?

Ans . People have the tendency to hold wealth by means of property, bullion, bonds, etc. A person holding bonds can confront various fluctuations in the market in the form of capital gains or capital losses. The demand for money in order to meet these speculative needs is defined as speculative demand for money. Interest rate represents cost of holding the

money. The speculative demand for money is inversely related to the interest rate. When interest rate on securities is very high then people expect interest rates to fall in future. This implies that in future bond prices will rise indicating capital gain to the bond holders. To maximise the capital gain, more people will convert their cash balances into bonds, thereby leading to a low speculative demand for money. **On the contrary**, when interest rates are low, people expect interest rates to rise in future, then bond prices will fall in the future, indicating capital loss to the bondholders. Hence, to minimise the capital loss, people tend to convert bonds into money, resulting in high speculative demand for money. This shows that the speculative demand for money is inversely related to the interest rate.

Que4. -What is money supply? Describe alternative measures of money supply used by R.B.I?

Ans. The supply of money means the total stock of all forms of money (Paper money, coins, and bank deposits) which are held by the public at any particular point of time. It is a stock concept.

Measures of Money Supply: RBI uses four measures of money supply are :

M1, M2, M3 & M4.

i) $M1 = C + DD + OD$

where C is currency held with public

DD is Demand Deposits in banks

OD stands for Other Deposits with RBI of all RBI of all economic units except Government and bank. Foreign Central Banks, Government, IMR, IBR etc.

$M2 = M1 +$ Saving deposits with post office saving etc.

$M3 = M1 +$ Net time deposits of banks.

iv) $M4 = M3 +$ Total deposits with Post-office saving organization (excluding NSC)

In fact a great deal of debate is still going on what constitutes money supply $M3 + M2$ may be treated as measures of Narrow money. Where as $M3 + M4$ as measures of Broad money. In practice $M3$ is widely used as measure of money supply which is also called Aggregate monetary resources of the society.

Que 5. What is meant by Cash Reserve Ratio? How does it increase the money Supply in the economy?

(ii) What is meant by Open Market Operation? How does it reduce the money supply in the economy?

Sample
[(3 + 3)]

Paper

2014]

Ans:

1. Cash Reserve Ratio:

(a) It refers to the minimum percentage of a bank's total deposits, which it is required to keep with the central bank. Commercial banks have to keep with the central bank a certain percentage of their deposits in the form of cash reserves as a matter of law.

(b) **For example**, if the minimum reserve ratio is 10% and total deposits of a certain bank is ₹100 crore, it will have to keep Rs 10 crore with the central bank.

(c) To increase Money supply in an economy, cash reserve ratio (CRR) falls to 5 per cent, the bank will have to keep Rs 5 crore with the central bank, which will increase the cash resources of commercial bank and increasing credit availability in the economy, which will increase the money supply in an economy.

2. Open Market Operation:(a) It consists of buying and selling of government securities and

bonds in the open market by central bank.

(b) To reduce Money Supply in an economy, central bank sells government securities and bonds to commercial bank. With the sale of these securities, the power of commercial bank of giving loans

decreases, which will reduce the money supply in an economy.

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UNIT:3-DETERMINATION OF INCOME AND EMPLOYMENT

MARKS-12

1 MARK QUESTIONS

1. What is the relation between APC and APS?

Ans. $APC+APS=1$

2. What is the relation between MPC and MPS?

Ans. $MPS+MPC=1$.

3. If APC is 0.7 then how much will be APS?

Ans. $1-0.7=0.3$

4. If $MPC=0.75$, what will be MPS?

Ans. $MPC+MPS=1$

$1-0.75=0.25$

5. State the important factor influencing the propensity to consume in an economy?

Ans. The level of income (Y) influences the propensity to consume (c) of an economy.

6. What is meant by investment?

Ans. Investment means addition to the stock of capital good, in the nature of structures, equipment or inventory.

7. What is the investment demand function?

Ans. The relationship between investment demand and the rate of interest is called investment demand function.

8. What is equilibrium income?

Ans. The equilibrium income is the level of income where $AD=AS$ i.e.... $AD=AS$ and planned saving equals planned investment.

9. Give the formula of investment multiplier in terms of MPC.

Ans. $K=1/1-MPC$

10. What can be the minimum value of investment multiplier?

Ans. One.

11. What is the maximum value of investment multiplier?

Ans. Infinity.

12. Give the equation of propensity to consume.

Ans. $C = a + by$.

13. Write down the equation of saving function?

Ans. $S = -a + (1-b)y$.

14. If $MPC = 1$, the value of multiplier is : (Choose the correct alternative)

- (a) 0
- (b) 1
- (c) Between 0 and 1
- (d) Infinity

Ans. (d) infinity

15. What is 'aggregate demand' in macroeconomics ?

Ans. Value of final products the buyers are planning to buy during a given period at a given level of income.

16. Define marginal propensity to consume.

Ans. It is the ratio of change in consumption expenditure to change in income.

17. If the marginal propensity to consume is greater than marginal propensity to save, the value of the multiplier will be (Choose the correct alternative)

- (a) greater than 2
- (b) less than 2
- (c) equal to 2
- (d) equal to 5

Ans. (a) Greater than 2.

18. Define marginal propensity to save.

Ans. It is the ratio of change in saving to change in income.

19. Define full employment?

Ans. Full employment refers to a situation in which no one is unemployed i.e....there is no involuntary unemployment.

20. What do you mean by Aggregate Demand?

Ans. Aggregate demand is the total demand of goods and service in the economy.

21. Write any two components of aggregate demand?

Ans. components of aggregate demand

1. House hold consumption expenditure.

2. Investment expenditure.

3. Government consumption expenditure

4. Net export. (any Two)

22. Define Aggregate Supply?

Ans. Aggregate supply is the sum total of consumption expenditure and saving.

$$AS=C+S$$

23. When APC is 0.6, what is the value of APS?

Ans. APS= 0.4 (APC+APS=1)

24. If the rate of MPC is 0.75 find the value of multiplier?

Ans. Multiplier=4

25. Define investment multiplier?

Ans. Investment multiplier is the ratio of change in income to change in investment.

$$\text{Multiplier (k)} = \Delta y / \Delta I.$$

26. What are the conditions for equilibrium level of income and employment?

Ans. The determination of income and employment in the Keynesian theory depends on the level of AD and AS. Equilibrium level of income and output is determined where,

$$1) AD=AS \quad 2) \text{Planned saving} = \text{planned investment.}$$

27. What is meant by excess demand?

Ans. Excess Demand is the amount by which the aggregated demand exceeds aggregate supply at full employment level. It causes inflation.

28. Define inflationary gap.

Ans. The excess of Aggregate Demand above the level that is required to maintain full employment level of equilibrium is termed as inflationary gap.

29. Define deficient demand?

Ans. A situation when the Aggregate Demand is less than the Aggregate Supply in an economy, corresponding to full employment in the economy, is termed as deficient demand.

3 AND 4 MARKS QUESTIONS

1. Explain the components of equation $c = \bar{a} + by$.

Ans. 'a' is called intercept and it represents the amount of consumption when there is a zero level of income i.e. autonomous consumption. The consumption is positive at zero level of income. The coefficient 'b' measures the slope of consumption. The slope gives the increase in consumption per unit increase in income. This is called as MPC. Consumption changes by 'b' for every one rupee change in income. Consumption changes in the same direction as income.

2. Derive the saving function from the consumption function $c = \bar{a} + by$.

Ans. Saving is equal to income minus consumption ($y = c + s$). The saving function relates to the level of savings to the level of income. It is derived from the consumption which is as follows:

$$Y = C + S$$

$$S = Y - C$$

$$\text{since } C = \bar{a} + bY.$$

therefore,

$$S = Y - (\bar{a} + bY), S = -\bar{a} + (1-b)Y \text{ (SAVING FUNCTION).}$$

3. Explain the components of $S = -a + (1-b)Y$.

Ans. The saving function is $S = -a + (1-b)Y$. $-a$ represents the intercept term and it represents the amount of savings done when there is zero level of income. The saving is negative at zero level of income because at zero level of income consumption (a) is positive. Negative saving is nothing but dissaving, this means that at zero level of income there is dissaving of amount $-a$.

The coefficient $(1-b)$ measures the slope of the saving function. The slope of the saving function gives the increase in savings per unit increase in the income. This is known as MPS. Since ' b ', that is MPC is less than one, it follows that $(1-b)$ i.e. MPS is positive.

Saving is an increasing function of income.

4. Can the value of APS be negative? If yes then when?

Ans. The value of APS can be negative when the value of consumption exceeds the value of income. At low level of income saving is negative.

e.g.: if income is Rs 1000 and consumption expenditure is Rs 1200

$$Y = C + S \quad S = Y - C$$

$$1000 - 1200 = -200$$

$$APS = -200/1000 = -0.2 \quad APS = S/Y.$$

$$APS = -0.2.$$

5. Can the average propensity to consume be greater than one? Give the reason for your answer.

Ans. APC can be greater than one when the consumption exceeds the income. At that level APS will be negative. When the APS is negative APC will be greater than one.

e.g.: if the income is 1000 and the consumption is 1200, $APC = 1200/1000 = 1.20$.

6. When can the APC be equal to one? Give reason for your answer.

Ans. APC can be equal to one when $APS = 0$, i.e. when consumption = income.

$$E.g: y=1000, c=1000.$$

$$APC=C/Y \quad 1000/1000=1$$

$$APC=1$$

$$APC+APS=1$$

$$1-APC=APS, \quad 1-1=0$$

7. Explain the meaning of investment multiplier? What can be its minimum value and why?

Ans. Defined as the ratio of change in the income to the change in the investment.

$$K=\Delta Y/\Delta I.$$

The value of the multiplier is determined by the MPC. It is directly related to MPC.

$$K=1/1-mpc = 1/1-0 = 1, \quad K=1$$

Minimum value of K is when minimum value of MPC=0, the minimum value of K will be unit one.

8. Explain the working of a multiplier with an example.

Ans. Multiplier tells us what will be the final change in the income, as a result of change in investment. Change in investment results in the change in income. Symbolically:

$$\Delta I \rightarrow \Delta Y \rightarrow \Delta C \rightarrow \Delta Y$$

The working of a multiplier can be explained with the help of the following table which is based on the consumption that is, $\Delta I=1000$ and $MPC=4/5$.

PROCESS OF INCOME GENERATION.

ROUNDS	ΔI	ΔY	ΔC
1	1000	1000	$4/5 \times 1000 = 800$
2	--	800	$4/5 \times 800 = 640$
3	--	640	$4/5 \times 640 = 512$
4	--	512	$4/5 \times 512 = 409.6$
$\downarrow \infty$	$\downarrow \infty$	$\downarrow \infty$	$\downarrow \infty$
TOTAL		5000	4000

As per the table the initial increase in the investment of Rs 1000 there is a total increase in the income by Rs 5000 given $MPC=4/5$. Out of this total increase in the income Rs 4000 will be consumed and Rs 5000 be saved?

The sum of total increase in income is also derived as:

$$\Delta y = 1000 + 800 = 640 + 512 + \dots \dots \dots \text{infinity.}$$

$$1000 + 4/5 \times 1000 + (4/5)^2 \times 1000 + (4/5)^3 \times 1000 + \dots \dots \dots \text{infinity}$$

$$= 1000 [1 + 4/5 + (4/5)^2 + (4/5)^3 + \dots \dots \dots \text{infinity}]$$

$$= 1000 [1/1 - 4/5] = 1000 \times 5/1 = \text{Rs. 5000 cores.}$$

9. Differentiate between ex ante and ex post investment.

Ans. Ex ante is the planned investment which the planner intends to invest at different level of income and employment in the economy.

Ex post investment may differ from ex ante investment when the actual sales differ from the planned sales and the firms thus face unplanned addition or reduction of inventories.

10. Explain the need for reduction in inequalities of income and wealth. Explain any two budgetary measures by which it can be done.

Ans. Government can reduce inequalities through its tax and expenditure policy. imposing higher rate of income tax and higher rate on goods and services purchased by the rich. The money so collected can be spent on the poor in the form of free education, free medical facilities, cheaper housing etc. in order to raise their disposable income.

6 MARKS QUESTIONS WITH ANSWERS

1. Draw a hypothetical propensity to consume curve from it draw the propensity curve to save curve

Ans. $APC=C/Y$ $APS=S/Y$

Propensity to save curve

Is drawn from propensity to consume curve

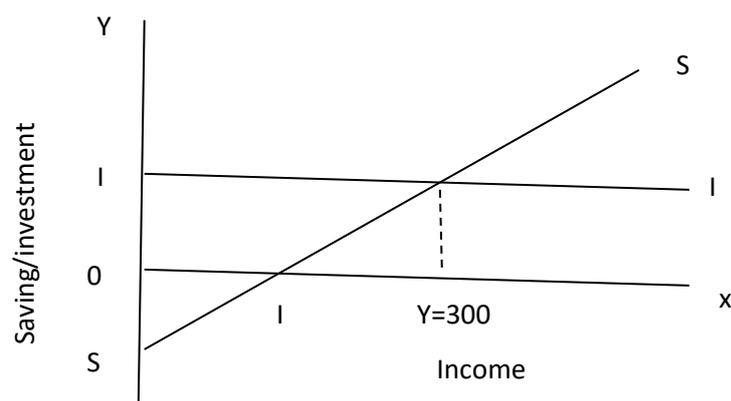
When $Y=C$ $APC=1$

3. Explain the equilibrium level of income, employment and output with saving and investment approach. What happens when savings exceeds investment?

Ans. Equilibrium is achieved when planned saving is equal to planned investment that is $S=I$.

This can be seen with the help of schedule and a diagram.

INCOME	CONSUMPTION	SAVING	INVESTMENT
Y	C	$S=Y-C$	I
0	50	-50	100
100	100	0	100
200	150	50	100
300	200	100	100
400	250	150	100



The equilibrium level of income is 300, and at this point $S(100) = I(100)$. The equilibrium may necessarily not be at the full employment level. When saving exceeds planned investment, it means people are consuming less and spending more. As a result, $AD < AS$. This will lead to accumulation of more goods with the producer. This will make the businessmen to reduce production. Consequently, output, income & employment will be reduced till the equilibrium level of income.

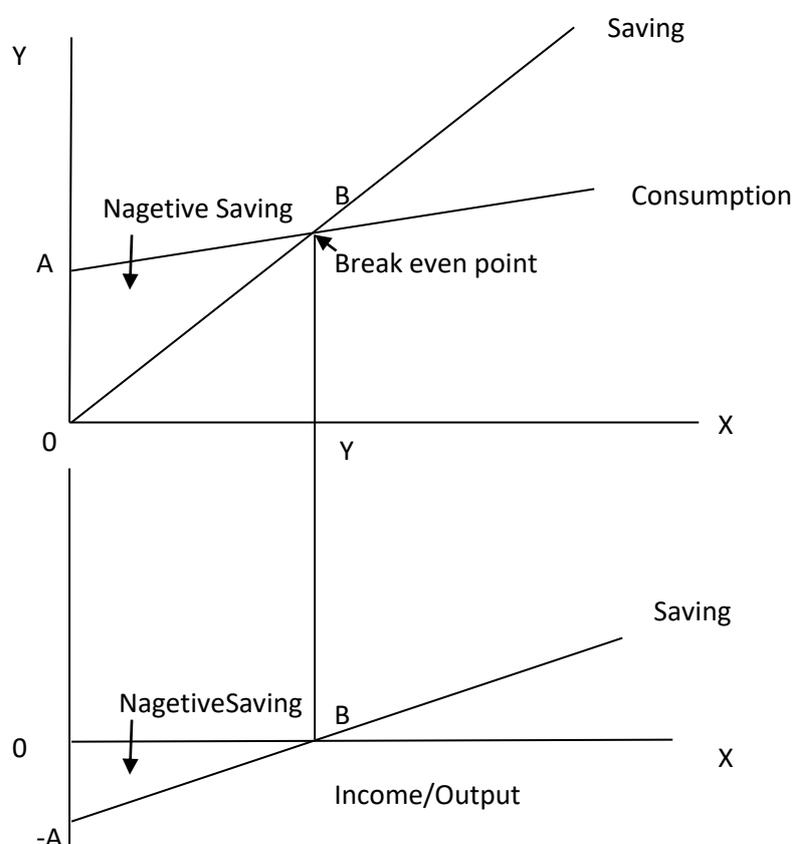
4. Draw a straight line consumption curve. From it, derive a saving curve, explaining the process. Show on the diagram.

a) The level of income at which average propensity to consume is equal to one.

b) A level of income at which average propensity to save is negative.

OR

Given saving curve, derive consumption curve and state the steps in doing so. Use diagram



AC is the consumption curve and OA is the consumption expenditure at zero level of income. Income minus consumption is saving. When income is 0, the economy's consumption level is OA. The corresponding level of saving is $-OA$. So $-a$ is the starting point of saving curve. At OB level of income consumption is equal to income, so saving are zero. so B is another point on saving curve . Join A and B and extend this line to S, AS is the saving curve.

- a) The level of income at which APC is equal to one is OB.
- b) A level of income at which APS is negative OY.

OR

CC' is the given consumption curve steps taken in deriving saving curve from it.

Take $OS = OC$

Draw a 45 Line on OX at O.

It intersects CC' at point A.

Draw a perpendicular for A at OY meeting OY at B. Join SB and extend it to S'

SS' is the required saving curve.

5. Explain the concept of inflationary gap. Also explain the role of "legal reserves in reducing it.

OR

What is excess demand for a good in a market? Explain its chain of effects on the market for that good. Use diagram. OR

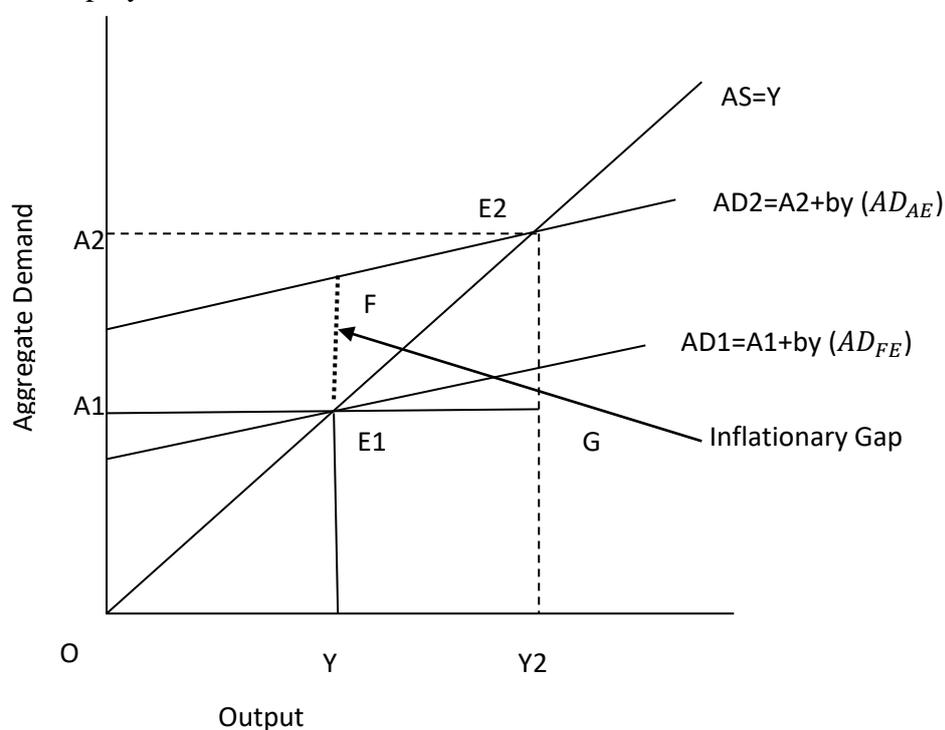
Explain the concept of 'excess demand'. Also explain the role of Bank Rate' in reducing it.

OR

Explain the concept of 'excess demand in macroeconomics. Also explain the role of "open market operation in correcting it.

Ans. Inflationary gap: The excess of Aggregate Demand above the level that is required to maintain full employment level of equilibrium is termed as inflationary gap.

Excess Demand: is the amount by which the aggregated demand exceeds aggregate supply at full employment level. It causes inflation.



Reverse Repo Rate: is the rate of interest paid by the central bank on deposits by commercial banks. Central Bank can reduce excess demand by raising the Reverse Repo Rate. When the

rate is raised, it encourages the commercial banks to park their funds with the central bank. This reduces lending capacity of the commercial banks. Lending by the commercial banks to public declines leading to fall in aggregate demand.

NUMERICALS.

1. If in an economy investment increases by Rs 1000 cores to Rs 1200 cores and as a result total income increases by 800 cores calculate capital MPS.

$$\text{Ans. } \Delta I = 1200 - 1000 = 200$$

$$\Delta Y = 800$$

$$\Delta K = \frac{\Delta Y}{\Delta I} = \frac{800}{200} = 4$$

$$K = \frac{1}{MPS} = 4$$

$$MPS = \frac{1}{4} = 0.25$$

$$MPS = 0.25$$

2. IF in an economy the actual level of income is Rs 500crores whereas the full employment the level of income is RS 800 cores. The MPC=0.75 calculate the increase in investment required to achieve full employment income.

Ans. Actual income=Rs500 cores, Full empl Income = Rs 800 cores

$$\Delta y = 800 - 500 = 300 \text{ cores}$$

$$MPC = 0.75 = \frac{75}{100} = \frac{3}{4}$$

$$K = \frac{1}{1-MPC} = \frac{1}{1-0.75} = \frac{1}{0.25} = \frac{100}{25} = 4$$

We know that $\Delta y = K \cdot \Delta I$

$$300 = 4 \times \Delta I$$

$$\Delta I = 75 \text{ crores}$$

3. Calculation of APC and MPC given the level of Income and Consumption

Income	consumption
0	4
10	12
20	20
30	28
40	36

Ans.

Income	consumption	$APC = c/y$	$MPC = \Delta c/\Delta y$
0	4	-	-
10	12	1.20	0.80
20	20	1.00	0.80
30	28	0.93	0.80
40	36	0.90	0.80

4. Calculation of APS and MPS given the level of Income and consumption

Income	consumption
(Rs in crores)	(Rs in crores)
0	4
10	12
20	20
30	28
40	36

Ans.

Income (Rs in crores)	consumption (Rs in crores)	saving	APS	MPS
0	4	-4	-	-
10	12	-2	-0.20	0.20
20	20	0	0.00	0.20
30	28	2	0.07	0.20
40	36	4	0.10	0.20

Clue: $APS = s/y$ $MPS = \Delta s/\Delta y$ $S=Y - C$

10. Calculate Autonomous Consumption Expenditure' from the following data about an economy which is in equilibrium:

National income	= 900
Marginal propensity to save	= 0.10
Investment expenditure	= 80

Ans. National income=Rs900

Investment= Rs 80

$$MPC = 0.10 = \frac{10}{100} = \frac{1}{10}$$

$$Y=C+I \quad C= C_0+by$$

$$Y= C_0+by + I$$

$$900 = C_0 + 0.10(900) + 80$$

$$C_0 = 900 - 170$$

$$C_0 = 730$$

15. An economy is in equilibrium. From the following data, calculate the marginal propensity to save :

- (a) Income = 10,000
 (b) Autonomous consumption = 500
 (c) Consumption expenditure = 8,000

$$\text{Ans. } C = \bar{C} + MPC(Y)$$

$$8000 = 500 + MPC(10000)$$

$$MPC(10000) = 7500$$

$$MPC = \frac{7500}{10000}$$

$$MPC = 0.75$$

$$MPS = 1 - MPC$$

$$= 1 - 0.75$$

$$MPS = 0.25$$

16. In an economy MPC is 0.75. If investment expenditure is increased by Rs.500 Crs, calculate the total increase in income and consumption expenditure?

$$\text{Ans. : Multiplier}(k) = 1/1 - MPC = 1/1 - 0.75 = 1/0.25 = 4$$

We also know that: $k = \Delta Y / \Delta I$, $4 = \Delta Y / 500$, So change in income (ΔY) = $4 \times 500 = \text{Rs. } 2000$ crs. $MPC = \Delta C / \Delta Y$ $0.75 = \Delta C / 2000$ So, change in consumption (ΔC) = $0.75 \times 2000 = \text{Rs. } 1500$ crs. Total increase in income = Rs.2000 crs. Total increase in expenditure = Rs.1500 crs.

17. The saving function is $S = -200 + 0.25 Y$. The economy is in equilibrium when $Y = \text{Rs } 2000$. Calculate (i) Investment expenditure at equilibrium level of income, (ii) Autonomous consumption, (iii) Investment multiplier

Ans.

$$S = -200 + 0.25 Y \text{ \& } Y = 2000$$

$$\text{In equilibrium } S = I$$

$$I = -200 + 0.25 Y$$

$$= -200 + 0.25 \times 2000$$

$$= 300$$

$$\text{At } Y = 0,$$

$$\text{Autonomous consumption } (C_0) = -S_0 = -(-200) = 200$$

$$\text{Investment Multiplier} = 1 / (1 - MPC) = 1 / MPS = 1 / 0.25 = 4$$

18. When investment increases from Rs 1000 cores to Rs 1200 cores, total income increases by 800 cores calculate the value of MPS.

$$\text{Ans. } \Delta I = 1200 - 1000 = 200$$

$$\Delta Y = 800$$

$$\Delta K = \Delta Y / \Delta I = 800 / 200 = 4$$

$$K = 1 / \text{MPS} = 4$$

$$\text{MPS} = 1 / 4 = 0.25$$

$$\text{MPS} = 0.25$$

19. In a two sector economy, the saving and investment functions are:

$$S = -10 + 0.2Y \quad I = -3 + 0.1Y$$

What will be the equilibrium level of income?

Ans: Equilibrium level of income $S = I$

$$-10 + 0.2y = -3 + 0.1y$$

$$0.2y - 0.1y = -3 + 10$$

$$0.1y = 7$$

$$y = 70$$

20. In an economy, 20% of increased income is saved. How much will be the increase in income if investment increases by 10,000?

$$\text{Ans: } \text{MPS} = 20 / 100 = 0.2$$

$$K = \frac{1}{\text{MPS}} = \frac{1}{0.2} = 5$$

$$K = \frac{\Delta Y}{\Delta I}$$

$$5 = \frac{\Delta Y}{10000}$$

$$\Delta Y = 50,000$$

21. An economy is in equilibrium. Find investment expenditure where national income = 1200, autonomous consumption expenditure = 150 and MPC = 0.8

$$\text{Ans: } Y = C + I$$

$$Y = C_0 + bY + I$$

$$1200 = 150 + 0.8 \times 1200 + I$$

$$1200 = 150 + 960 + I$$

$$I = 1200 - 1110$$

$$I = 90$$

UNIT: 4- GOVERNMENT BUDGET

MARKS-06

MULTIPLE CHOICE QUESTIONS (1 Mark)

1. The government budget is an

- (a) Half yearly statement
- (b) Weekly statement
- (c) Five yearly statement
- (d) Annual statement

Ans. (d) Annual statement

2. The government budget shows the government's
- (a) Actual receipts and expenditure
 - (b) Estimated receipts only
 - (c) Estimated expenditure only
 - (d) Estimated receipts and expenditure

Ans. (d) Estimated receipts and expenditure

3. One of the objectives of the government budget is
- (a) Regeneration of income and wealth
 - (b) Reallocation of income and wealth
 - (c) Redistribution of income only
 - (d) Redistribution of income and wealth

Ans. (d) Redistribution of income and wealth

4. One of the two components of government budget are
- (a) Revenue budget
 - (b) Investment budget
 - (c) Income budget
 - (d) Expenditure budget

Ans. (a) Revenue budget

5. One of the two components of Revenue budget are
- (a) Investment receipts
 - (b) Expenditure receipts
 - (c) Income receipts
 - (d) Revenue receipts

Ans. (d) Revenue receipts

6. The major source of Revenue receipts for the government is
- (a) Interest
 - (b) Tax Revenue
 - (c) Profits
 - (d) Non Tax Revenue

Ans.(b) Tax Revenue

7. Capital receipts include
- (a) Tax Revenue
 - (b) Non-tax Revenue
 - (c) Grants from world Bank
 - (d) Borrowings

Ans. (d) Borrowing

8. Borrowings are equivalent to

- (a) Revenue deficit
- (b) Primary deficit
- (c) Fiscal deficit
- (d) None of these

Ans.(c) Fiscal deficit

9. Revenue Deficit is equal to

- (a) Total Expenditure – Revenue receipts
- (b) Revenue Expenditure – Revenue Receipts
- (c) Fiscal deficit- interest payments
- (d) Fiscal Deficit – Revenue Expenditure

Ans. (b) Revenue Expenditure – Revenue Receipts

10. Which of the following are the components of a budget?

- (a) Capital Budget
- (b) Revenue Budget
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

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

11. Construction of a school building is a

- (a) Capital Receipts
- (b) Revenue Expenditure
- (c) Capital Expenditure
- (d) Revenue Receipts

Ans. (c)Capital Expenditure

12. Union budget is the budget of

- (a) Central Government
- (b) Local Government
- (c) State Government
- (d) Election commission

Ans. (a) Central government

13. Budget Deficit means

- (a) Total Expenditure > Total Receipts
- (b) Capital Expenditure – Capital receipts
- (c) Total Expenditure- Total Receipts (excluding borrowings)
- (d) Total Expenditure – Revenue Receipts

Ans.(a) Total Expenditure > Total Receipts.

14. Primary deficit in a government budget is
- (a) Revenue expenditure – Revenue receipts
 - (b) Total expenditure – Total receipts
 - (c) Revenue deficit – Interest payments
 - (d) Fiscal deficit – Interest payments

Ans.(d) Fiscal deficit – Interest payments

15. Fiscal deficit equals
- (a) Interest payments (b) borrowings
 - (c) Interest payments less borrowings (d) Borrowings less interest

Ans. (b) Borrowings

16. Which of the following is not the objective of the govt. budget
- (a) Managing public sector enterprise
 - (b) GDP growth
 - (c) Economic stability
 - (d) Credit control in the economy

Ans. (d) Credit control in the economy

17. The burden of ----- Tax can be shifted.
- (a) Direct (b) Indirect
 - (c) Both (a) and (b) (d) None.

Ans.(a) Indirect

18. A tax is a ----- tax, if its burden cannot be shifted.

Ans. Direct.

19. Which one of the following is not an objective of government budget?
- (a) Reallocation of resources (b) Economic stability
 - (c) Increasing regional disparities (d) Economic growth

Ans . (a)Increasing regional disparities

20. Through which objective of the govt. budget, inflation and deflation can be controlled
- (a) Allocation resources (b) Employment Opportunities
 - (c) Economic stability (d) Balanced regional growth

Ans: Economic stability

28. Disinvestment by government means

- (a) Selling of its fixed capital assets
- (b) Selling of shares of public enterprises held by it
- (c) Selling of its buildings
- (d) All the above

Ans. (b) Selling of shares of public enterprises held by it

29. Progressive taxation

- (a) Reduce inequality (b) increase equality
- (b) Relates to progress of GDP growth (d) both(a) and (b)

Ans. (d) both(a) and (b)

30. If Primary deficit is Rs. 5,300 crores and interest payments is Rs 300 crores, then fiscal deficit is Rs.-----

Ans. Rs. 5600

Very short Answer type question (1 Marks Questions)

1. Define government budget.

Ans . Government budget is an annual statement, showing item wise estimates of receipts and expenditure during a fiscal year.

2. State any one objective of a government budget.

Ans. Economic growth

3. Give two source of tax revenue.

Ans. (a) Income tax (b) corporation tax

4. Give two sources of non-tax revenue

Ans. (a) Interest (b) Profit and Dividends

5. Give two examples of capital receipts

Ans. (i) Borrowings (ii) Recovery of loans

6. Give two examples of capital expenditure

Ans. (i) purchase of machinery

(ii) Investment in shares

7. Define tax.

Ans. A tax is compulsory payments made by an individual, household or a firm to the government without reference to anything in return.

8. State the categories of GST.

Ans. SGST and CGST

9. Define balanced budget.

Ans. Balance budget is that budget in which government receipts are equal to government expenditure.

10. Define surplus budget.

Ans. Surplus budget is that budget in which government receipts are more than government expenditure.

11. What is budgetary deficit?

Ans. Budgetary deficit is the excess of total expenditure over total receipts of the government.

12. Which type of revenue receipts are treated as legally compulsory payment imposed on the people by the govt.? Give example also.

Ans. Direct taxes ex.- income tax, corporate tax

13. What happens to aggregate demand when the govt. budget is in deficit

Ans. Aggregate demand increases.

14. What one step can be taken through market to reduce the consumption of a product harmful for health?

Ans. Imposition of high tax on such product by the government to make it costlier so that demand comes down.

15. 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.

16. What does fiscal deficit represent?

Ans. Fiscal deficit represents the borrowing requirements of the government.

17. Why is recovery of loans treated as a capital receipt?

Ans. Recovery of loans is treated as a capital receipts because it reduces assets of the government.

18. Name any one step that the government can take through its budget to check inflation that is causing hardships to the people.

Ans. The government should reduce unproductive public expenditure to check inflation.

19. Name any one step the government can take through its budget to reduce the gap between the rich and the poor.

Ans. Government can reduce the gap between the rich and the poor by imposing taxes on the rich and spending more on the welfare of the people

20. If fiscal deficit is high, why does the government try to reduce it?

Ans. The government has to reduce fiscal deficit in order to reduce its loans liabilities to the public and financial institution.

21. A Government budget shows a primary deficit of Rs. 4,400crores. The revenue expenditure on interest payment is Rs . 400 crores. How much is the fiscal deficit?

Ans. Fiscal deficit = Primary deficit + Interest payments

$$= 4,400 + 400$$

$$= \text{Rs. } 4,800\text{crores}$$

22. Identify the correct pair of formula from the following column I and II.

(choose the correct alternative)

	Column I		Column II
A	Current Account surplus	I	Receipts < Payments
B	Current Account surplus	Ii	Receipts > Payment
C	Balance current Account	Iii	Receipts ≠ Payments
D	Current Account Deficit	iv	Receipts ≤ payments

Alternatives: (a) A-I (b) B-ii (c) C-iii (d) D-iv

Ans-(b) B-ii

23. Identify the correct pair of formula from the following column I and II.

(Choose the correct alternative)

	Column I		Column II
A	Progressive tax	I	Rate of tax decreases with an increase in income
B	Revenue Expenditure	Ii	Impacts asset-liability status of the government
C	Wealth Tax	Iii	An indirect tax
D	Revenue Deficit	iv	Revenue expenditure- Revenue receipts
E	Defence of the country	v	Private goods

Ans. (D) Revenue deficit – (iv) Revenue expenditure- Revenue receipts

Short Answer type Questions(3 - 4 Marks)

1. Explain revenue deficit in a government budget? What does it indicate?

Ans- Revenue deficit is related to revenue expenditure and revenue receipts of the government.

Revenue deficit indicates the inability of the government to meet the expenditure on routine functioning of the economy.

It implies dis-savings on government account because government is using up savings of other sectors of the economy to cover the gap between revenue expenditure and revenue receipts.

2. Explain the concept of 'Primary deficit' in a government budget. What does it indicate?

Ans- Primary deficit refers to the difference between fiscal deficit of the current year and Interest payments on the previous borrowings.

It indicates the amount of borrowings required to meet expenditure other than interest payments.

3. Write the measures to reduce Revenue deficit?

Ans. (a) Measures to reduce public expenditure- by curtailing non-plan expenditure.
(b) Measures to increase revenue – Tax evasion should be controlled.

4. Discuss the Two sources to finance fiscal deficit.

Ans. The main two sources are-

(i) Borrowings- Fiscal deficit can be met by borrowings from the domestic sources (commercial banks) or the external sources (foreign governments, international organizations etc.

(ii) Deficit Financing- The government may borrow from the RBI against its securities to meet the fiscal deficit. RBI issue new currency for this purpose.

5. Explain the role of government budget in fighting inflationary tendencies.

Ans. To curb the inflationary tendency, the government can prepare a surplus budget. A surplus budget is one in which estimated receipts exceed the estimated expenses. Such a budget reduces the money supply in the economy.

With a fall in the money supply, the purchasing power of people also falls, leading to a fall in the level of aggregate demand. As aggregate demand falls, the price level or the rate of inflation also falls.

6. Explain the role of government budget in fighting deflationary tendencies.

Ans. To curb the deflationary tendency, the government can prepare a deficit budget. A deficit budget is one in which estimated expenses exceed the estimated receipts. Such a budget increases the money supply in the economy.

With increases in money supply, the purchasing power of people also rise, leading to an increase in the level of aggregate demand. As aggregate demand rises, the price level also rises and rate of deflation begins to fall.

7. Explain why public goods should be provided by the government.

Ans. Public goods are goods that people urgently need for their day-to-day living, such as parks, roads, electricity and water supply, bridges etc. The private sector cannot produce these goods in sufficient Quantities. Even if they are able to produce them in sufficient quantities, they will charge high prices for them and they will be outside the reach of common man.

Also these goods are non-rivalrous and non-excludable in consumption. Therefore these goods need to be provided by the government.

8. Public expenditure is necessary for the development of the country. In the light of the statement, explain any two significance of public expenditure.

Ans- The two significance of public expenditure are as follows

(i) Increases Economic Growth- Public expenditure accelerates the process of economic growth. This is of unique importance particularly, in the context of developing countries like India. Public expenditure helps in establishing new industries. It ensures development of public overhead cost like the construction of roads, dams, bridge etc.

- (ii) Increase economic welfare- Public expenditure increases economic welfare. This happens particularly when public expenditure is directed towards poverty eradication, as well as, health and education for the poorer section of the society. Such expenditure reduce economic divide between have and have-nots and thereby promote social welfare.

9. What are the implications of large fiscal deficit?

Ans: Following are the implications of large fiscal deficit.

- (i) National Debt- Fiscal deficit leads to national debt as government resorts to borrowings to combat the deficit. National debt is a burden on future generations. Therefore, future generations inherit a economy which is under high pressure of mounting borrowings.
- (ii) Low GDP Growth- In case of large fiscal deficit, a significant percentage of national income is used up to pay the past debts and very less is spent on infrastructural expansion, therefore, GDP growth of the economy remains low.
- (iii) Crowding -out Effect – High fiscal deficit increases borrowing by the government from the money market which reduces availability of funds for private entrepreneurs. Shortage of funds leads to high rate of interest which lowers the level of investment in the economy. Thus, economy slips into state of economic slowdown. This is known as crowding.

10. Distinguish between direct tax and indirect tax. Give an example of each.

Ans.

Direct Tax	Indirect Tax
Direct taxes are those taxes whose final burden falls on that person who makes the payments to the government.	Indirect taxes are those taxes which are paid to the government by one person but their burden is borne by another person.
When the incidence and impact of the tax lie on the same person, it is called direct tax.	When the incidence and impact of tax lie on different persons then it is called indirect tax.
The impact of direct taxation cannot be shifted	The impact of indirect taxation can be shifted to other.
Direct taxes are generally progressive in nature.	Indirect taxes are generally regressive in nature.
Example- Income tax, wealth tax, corporation tax etc.	Example- Sales tax, excise duty, VAT etc.

11. From the following data about a Government budget, find out (a) Revenue Deficit, (c) Fiscal deficit © Primary deficit

particulars	Rs. Arab
1. Capital receipts net of borrowing	95
2. Revenue expenditure	100
3. Interest payments	10
4. Revenue receipts	80
5. Capital expenditure	110

Ans. (a) Revenue deficit = Revenue expenditure – Revenue Receipts

= Rs 100 Arab- Rs 80 Arab

= Rs 20 Arab

(b) Fiscal Deficit = (Revenue expenditure + Capital expenditure) – (Revenue Receipts + capital Receipts net of Borrowings)

= (Rs 100 Arab+Rs110Arab) – (Rs80Arab+Rs 95 Arab)

= Rs35 Arab

© Primary Deficit = Fiscal Deficit – Interest Payment

= Rs 35 Arab –Rs10 Arab

= Rs 25 Arab

12. Calculate Revenue Deficit, Fiscal Deficit and Primary Deficit from the following data.

Item	Rs.in crore
(i)Revenue Expenditure	22,250
(ii) Capital Expenditure	28,000
(iii)Revenue receipts	17,750
(iv)Capital receipts (net of borrowing)	20,000 5,000
(v)Interest payments	12,500

Ans. Revenue Deficit = Revenue Expenditure - Revenue receipts

= Rs. 22,500crore -Rs 17,750 crore

= Rs. 4,500 crore

Fiscal Deficit = Revenue expenditure+ Capital expenditure- Revenue Receipts- capital receipts (net of borrowing)

= Borrowings

= Rs. 12,500 crore

Primary Deficit = Fiscal deficit- Interest payments

= Rs. 12,500 crore - Rs. 5,000 crore

= Rs 7,500 crore

13. Find borrowing by the government if payment of interest is estimated to be of Rs. 15,000crore which is 25% of primary deficit.

Ans. Here, interest payment = 25% of primary deficit.
 Primary Deficit = $100/25 \times 15,000 = \text{Rs } 60,000 \text{ crore}$
 We know, Primary Deficit = Fiscal deficit- Interest payment
 Fiscal Deficit = Primary deficit + Interest payment
 = Rs. 60,000crore + Rs 15,000 crore
 = Rs 75,000crore
 Borrowing = Fiscal Deficit = Rs. 75,000 crore

Long Answer type Questions (6 Marks)

1. (a) Elaborate the objective of 'allocation of resources' in the Government budget.
- (b) Discuss briefly how the Government budget can be used as an effective tool in the process of employment generation.

Ans (a) Allocation of resources – Government seek to allocate resources with a view to Balance the goal of all section of the society. Production of goods and services

Which are injurious to health may be discouraged through taxation policy.

Similarly, production of goods of socially beneficial nature may be encouraged Through subsidies. If the private sector does not take initiative in certain Activities (Public Goods), the government may directly control them like water

Supply and sanitation etc.

- (c) Government budget can be used as an effective tool in the process of employment generation in various ways. Investment in Infrastructural projects like construction of flyovers;bridges, expansion of roads etc. create jobs for different sections of the workforce. In rural/ urban areas government can provide jobs through various employment generation schemes like MGNREGA, SJSRY and PMRY etc.
2. What is government budget? Explain its major components.

Ans. Government budget refers to a statement of planned receipts and planned expenditure of the government during a fiscal year.

Its major components are:

- (a) Revenue Receipts – The receipts which neither create a liability nor leads to a reduction in assets
- (b) Capital Receipts- the receipts which either create a liability or lead to reduction in assets.
- (c) Revenue Expenditure – the expenditure which does not lead to any creation of assets or reduction in liabilities.
- (d) Capital Expenditure- the expenditure which leads to creation of assets or reduction in liabilities.

3. Explain the distinction between Revenue receipts and capital receipts in a government budget. Give their components.

Ans. Revenue receipts are the receipts which neither create a liability nor lead to reduction in assets.

Components of Revenue Receipts are: -Tax Revenue Receipts (Direct taxes and indirect taxes)

- Non –Tax Revenue receipts

Capital receipts refer to those receipts which either create a liability or cause a reduction in the assets of the government. *components of capital Receipts are: -
Recovery of loans

- Borrowing and other liabilities

- Other capital receipts like disinvestment

4. Explain the meaning of the following

(a) Revenue deficit

(b) Fiscal deficit

© Primary deficit

Ans. (a) Revenue deficit -- It refers to excess of revenue expenditure over revenue receipts during the given fiscal year.

$\text{Revenue Deficit} = \text{Revenue Expenditure} - \text{Revenue Receipts}$

Revenue deficit signifies that government's own revenue is insufficient to meet the expenditures on normal functioning of government departments and provisions for various services.

(b) Fiscal deficit – Fiscal deficit refers to the excess of total expenditure over total receipts (excluding borrowings) during the given fiscal year.

$\text{Fiscal Deficit} = \text{Total expenditure} - \text{Total receipts excluding borrowings}$

It indicates Borrowing requirements of the government during the budget year from all the sources.

(c) Primary Deficit – Primary deficit refers to difference between fiscal deficit of the current year and interest payments on the previous borrowing.

$\text{Primary Deficit} = \text{Fiscal Deficit} - \text{Interest payments}$

It indicates borrowing requirements of the government to meet fiscal deficit, net of interest payments.

5. How can the government impact allocation of resources through its budgetary policy?

Ans. Following observations highlight how the government can impact allocation of resources through its budgetary policy.

- (i) The government can offer subsidies on such goods(like coarse cloth) the production of which is essential for poorer sections of the society. So that, thee resources are shifted from the production of goods for the rich to the production of goods for the poor.
- (ii) The government can grant 'tax holiday(exemption from tax payments) to induce investment in the production of essential goods like 'life saving

drugs'. So that the resources are shifted from the production of non-essential drugs to the life saving drugs.

- (iii) The government can impact allocation of resources by shifting its own investment from inefficient to efficient units of production. Also, allocation of resources would be impacted when the government increases investment on the production of public goods.
 - (iv) High taxation can be imposed on such goods (like cigarettes and liquor), The production of which is harmful to the society. Accordingly, the resources would shift to the production of socially useful production activities.
 - (v) The government can make larger budgetary allocations for its support price policy in favour of food crops. This would shift resources from non-food crops to food crops. This would make the country self-sufficient in food grain production.
6. The government under Ujjwala Yojana is providing free LPG kitchen gas connections to the families 'Below the poverty line'. What objective the government is trying to fulfill through the government budget and how? Explain

Ans. The government under Ujjwala Yojana is providing free LPG kitchen gas connection to families 'below the poverty line'. This is to help the poor people with a clean fuel for cooking purpose. This will improve their eyesight and health. Through this Yojana, the government is trying to boost up 'social welfare'.

This step will also boost up the morale of the poor. Their productive efficiency will get enhanced, which will have a favourable impact on the national income. The government is trying to fulfill the Objective of reducing inequalities in the income distribution.

7. Identify the following as revenue receipts and capital receipts . Give reasons.
- (i) Loans recovered from public sectors enterprises.
 - (ii) License and court fees received by the Government in the year 2014-2015.
 - (iii) Loan taken from USA for the infrastructural developments.
 - (iv) Sale of shares held by Government in a PSU.
 - (v) Financial help from Microsoft for the victims of flood affected areas.
 - (vi) Profit of LIC, a public enterprise.

Ans.

- (i) It is a capital receipts as it reduces assets of the government.
- (ii) It is a revenue receipts as it neither creates any liability nor reduces any asset of the government.
- (iii) It is a capital receipts as it creates liability for the government.
- (iv) It is a capital receipts as it reduces assets of the government.
- (v) It is a revenue receipts as it neither creates any liability nor Reduce any asset of the government
- (vi) It is a revenue receipts as it neither creates any liability nor Reduce any asset of the government.

UNIT: 5 - Balance of payments**MARKS-06****Objective Type questions (1 Mark)**

1. An accounting statement that provides a systematic record of all the economic transactions, between residents of a country and the rest of the world is-----
- (a) Balance of payments (b) Balance of trade
(b) Government Budget (d) None of these

Ans. (a) Balance of payments

2. Economics transaction in BOP are
- (a) Visible items (b) invisible items
(b) Capital transfer (d) all of these

Ans. (d) all of these

3. Which of the following is not a component of Balance of payments?
- (a) Current account (b) capital account
(b) Nominal account (d) None of these

Ans. (b) Nominal account

4. Components of current account in BOP
- (a) Determined by profit
(b) Above the line items
(c) Export and Import of goods
(d) All of these.

Ans. © Export and import of goods

5. Export and import of goods is also known as
- (a) Indivisible Trade (b) Visible Trade
(b) One –sided transaction

Ans. (b) visible trade

6. Balance of trade is the difference between
- (a) Export and import of goods
(b) Receipts and payments of unilateral transfers
(c) Export and import of services
(d) None of these

Ans. (a) export and import of goods

7. Unilateral transfer are:
- (a) One-sided payments
(b) Reciprocal payments
(c) Factor incomes
(d) All of these

Ans. (a) One-sided payments

8. Balance of trade is a part of
- (a) Current account Bop
 - (b) Capital account Bop
 - (c) Official reserves account
 - (d) None of these

Ans. Current account Bop

9. Capital account includes those transactions which
- (a) Affect assets and liabilities status of a country
 - (b) Do not affect assets and liabilities status of a country
 - (c) Lead to inflow of foreign exchange
 - (d) All of these
 - (e) Ans. (a) Affect assets and liabilities status of a country
10. Autonomous items are classified as:
- (a) Below the line items of Bop
 - (b) Above the line items of Bop
 - (c) On the line items of Bop
 - (d) Both (a) and (c)

Ans. (b) above the line items of Bop

11. Balance of payment is a -----concept.
- (a) Stock
 - (b) Flow
 - © Both (a) and (b)
 - (d) Neither (a) nor (b)

Ans. Flow

12. Autonomous transaction take place on
- (a) Current account
 - (b) Capital Account
 - © Both (a) and (b)
 - (d) Neither (a) nor (b)

Ans © Both (a) and (b)

13. Import of Machinery is recorded in the ----- Account and Borrowings from abroad is recorded in the ----- Account.

- (a) Current, Capital
- (b) Capital, current
- (c) Capital, capital
- (d) current, current

Ans. (a) current, capital

14. If Balance of trade is showing a deficit of Rs. 200 crores and value of imports is Rs 900crores, then the value of exports would be.
- (a) Rs. 200crores
 - (b) Rs 500 crores
 - (c) Rs. 700 crores
 - (d) Rs. 900 crores

Ans © Rs 700 crores

15. ----- Account transactions do not give rise to future claims. (current/ capital)

Ans. Current

16. ----- = compensation of employees + Investment income (Factor incomes/
Transfer income)

Ans Factors income

17. When Bop is in ---- there is no movement of official reserves of the central bank.
(equilibrium/ disequilibrium)

Ans. Equilibrium

18. Bop surplus leads to an/a ----- in official reserves.(increase/ decrease)

Ans. increase.

19. The exchange rate at which demand for foreign currency becomes equal to its
supply is called.

- (a) Equal rate of exchange (b) Unequal rate of exchange
(c) Equilibrium rate (d) all of these

Ans. (c) Equilibrium rate

20. What is the relationship between supply of foreign exchange and exchange rate?

- (a) Inverse (b) Direct
(c) One to one (d) No relationship

Ans. (b) Direct

Very short answer type question (1 Mark)

1. Define balance of payments.

Ans. Balance of payments refers to the statements of accounts recording all economic transactions of a country with rest of the world in an accounting year.

2. Name the two parts of the balance of payments.

Ans.

- (i) Current account of balance of payments
(ii) Capital account of balance of payments

3. Define balance of trade

Ans. Balance of trade refers to difference between the amounts of exports and imports of visible items.

4. What is meant by current account?

Ans. Current account refers to an account which records all the transactions relating to export and import of goods and services and unilateral transfers during a given period of time.

5. What is meant by capital account?

Ans. Capital account of BOP records all those transactions, between the residents of a country and the rest of the world, which cause a change in the assets or liabilities of the residents of the country or its government.

6. What are the components of current account.

Ans Exports and imports of goods

Exports and imports of services

Receipts and payments of unilateral transfer

7. What are the components of capital account?

Ans. (i) Private transaction (ii) Official transaction

8. Define autonomous items.

Ans. Autonomous items are those transaction that are undertaken for certain economic or profit motive.

9. What is foreign exchange rate?

Ans. Rate at which currency of one country is exchanged

10. What is foreign exchange market?

The market in which currencies of various countries are converted & Exchanged.

11. How the rate of foreign exchanged is determined?

Ans. By demand & Supply of foreign exchange.

21. What is foreign exchange rate?

Ans. Rate at which currency of one country is exchanged

22. What is official reserves account?

Ans. It is the account indicating reserves of forex with the RBI.

23. How is purchase of an asset in another country treated in the capital account?

Ans- Purchase of an asset in a foreign country appears as a negative (debit) item in the capital account (as there is an outflow of foreign exchange).

Short Answer Type Question (3-4 Marks)

1. Distinguish between Balance of Trade (BOT) and Balance of payments (BOP)

Ans.

BOT		BOP	
(i)	It records only visible good transaction	(i)	It records transaction relating to both goods and services.
(ii)	It does not record transactions of capital nature.	(ii)	It records transactions of capital nature.
(iii)	It is a part of current account of BOP.	(iii)	It includes BOT, balance of services, balance of unilateral transfers and capital transactions.
(iv)	IT may be favourable, unfavorable or in equilibrium		

2. Distinguish between autonomous items and accommodating items.

Ans.

Autonomous Items	Accommodating Items
(i) Autonomous items refer to such Bop transactions which are undertaken for considerations of profit.	(i) Accommodating items refer to such Bop transactions which are free from the considerations of profit.
(ii) Autonomous items are the causes of Bop imbalance.	(ii) Accommodating transactions are undertaken to maintain the balance in Bop account.
(iii) Autonomous transactions take place on both current and capital accounts.	(iii) Accommodating transactions take place only on capital account.
(iv) These items are also known as above the line items.	(iv) These items are also known as below the line items.

3. Explain the types of foreign Exchange Rates.

Ans. 1. **Fixed Exchange rate system** - Fixed exchange rate system refers to a system in which exchange rate for a currency is fixed by the government.

2. **Flexible Exchange rate system** – Flexible exchange rate system refers to a system in which exchange rate is determined by forces of demand and supply of different currencies in the foreign exchange market.

3. **Managed floating Rate system**- If 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.

4. Differentiate between Depreciation and Devaluation

Ans.

Devaluation	Depreciation
1. Devaluation refers to reduction in price of domestic currency in terms of all foreign currencies under fixed exchange rate regime	1. Depreciation refers to fall in market price of domestic currency in terms of a foreign currency under flexible exchange rate regime.
2. It takes place due to government	2. It takes place due to market forces of demand and supply.
3. It takes place under fixed exchange rate system	3. It takes place under flexible exchange rate system.

5. Explain the relation between the fall in price of a foreign currency and its demand. Give two example.

Ans Fall in the price of a foreign currency is a situation when less Indian rupees are needed to buy a unit of foreign currency. It leads to a rise in demand for foreign goods and services.

Two example of a rise in demand for foreign goods and services are as these.

- (i) When the price of foreign currency falls, it becomes cheaper to go abroad for higher education. Number of students going abroad will rise, leading to a rise in demand for foreign currency.
 - (ii) When the price of foreign currency falls, it becomes cheaper to go abroad for medical treatment. Number of patients going abroad for medical treatment will rise, leading to a rise in demand for foreign currency.
6. When price of a foreign currency rises, its demand falls. Why?
- Ans. When price of foreign currency rises, more Indian rupees are needed to get one unit of the foreign currency. This lead to a fall in demand for the foreign currency.
- (i) With a rise in the price of foreign currency, Imports tends to fall, leading to a fall in demand for foreign currency.
 - (ii) A rise in price of foreign currency makes travelling to rest of the world more expensive. Accordingly demand for foreign currency falls.
 - (iii) Investment in rest of the world becomes more expensive, leading to a fall in demand for foreign currency.
7. When price of a foreign currency falls, its demand rises. Why?

Ans. When price of a foreign currency falls, less Indian rupees are needed to get one unit of the foreign currency. This lead to a rise in demand for the foreign currency.

- (i) With a fall in the price of foreign currency, Imports tends to fall, leading to a rise in demand for foreign currency.
 - (ii) A fall in price of foreign currency makes travelling to rest of the world less expensive. Accordingly demand for foreign currency rises.
 - (iii) Investment in rest of the world becomes less expensive, leading to a rise in demand for foreign currency.
8. State, giving valid reasons, whether the following statements are true or false:

Ans. (a) Current account in Balance of payments records only the exports and imports of goods and services.

(b) Borrowings from abroad are recorded in the Capital Account of the Balance of payments on the debit side.

Ans. (a) The given statement is false as the current account of Balance of payments records Unilateral transfers along with exports and imports of goods and services.

The given statement is false as the borrowings from abroad are recorded in the capital Account of Balance of payments on the credit side as it results in an inflow of foreign currency in the economy.

9. Trade deficit must exist if a country is facing a situation of current Account Deficit. Defend or refute the statement, with valid argument.
- Ans. The given statement is refuted as the current account Deficit (CAD) is a broader concept. CAD occurs when the foreign exchange payments on account of visible,

invisible and current transfers are in excess over the receipts of visible, invisible and current transfers.

A country may face a situation of CAD, even if the country has trade surplus, with greater negative balances on account of services and unilateral transfer.

Long Answer Type Questions (6 Marks)

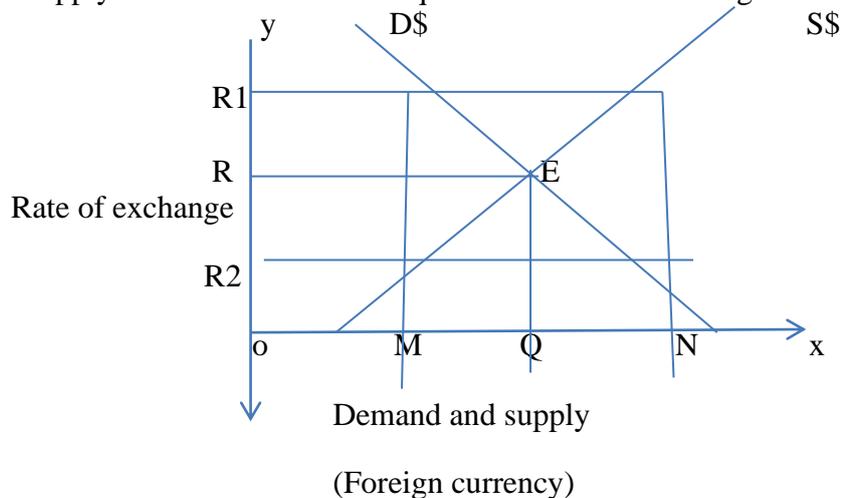
1. What is balance of payments account? Name three components each of its current account and capital account.

Ans. Balance of payments refers to the statements of accounts recording all economic transactions of a country with rest of the world in an accounting year.

Components of current account of balance of payments

- (i) Export and Import of Goods – Export and Imports of goods is treated as merchandise or visible trade. This is a visible trade because goods are tangible (material) and therefore, can be seen while crossing the borders. Example- Export and imports of cellular phones can be seen while crossing the borders.
 - (ii) Exports and imports of services - Export and Imports of services is treated as invisible trade. This is a because services are not tangible (material) and therefore, cannot be seen while crossing the borders. Example- Insurance services.
 - (iii) Current transfer- It refers to unilateral transfers by way of gifts, grants and workers remittance (residents settled abroad sending money to their relatives in the home country).
- Components of capital account of balance of payments.
- (i) Borrowing- It includes external commercial borrowing and external assistance. External assistance is recorded as the net of receipts while commercial borrowing is recorded as the net of borrowing in the capital account of India's Bop.
 - (ii) Foreign Investment – It includes FDI (Foreign Direct investment) and portfolio Investment. Investment by our residents in rest of the world is recorded under debit item while investment by non-residents in our country is recorded under credit items in current account BoP.
2. Explain the determination of foreign Exchange rate.

Ans. Equilibrium exchange rate occurs where supply of and demand for foreign exchange are equal to each other or intersection of both demand and supply curve determines the equilibrium rate of exchange.



Observation- In the fig. demand and supply are measured on the x-axis and exchange rate on the y-axis. DD is the demand curve and SS is the supply curve of foreign exchange which intersect each other at point E. It is equilibrium point where OR is the equilibrium rate of exchange and OQ the equilibrium Quantity.

If the rate of exchange rises to OR1 then supply of foreign currency (ON) will exceed its demand (OM) by an amount equivalent to MN. Supply being more than demand, rate of exchange will come down to OR. On the contrary, if the rate of exchange falls to OR2 then demand for foreign currency (ON) will be more than its supply (OM) by MN. Demand being more than supply, rate of exchange will again rise to OR. Rate of exchange will, therefore, determined at a point where demand for and supply of foreign currency are equal.

3. Give three sources of demand for foreign exchange and three sources of supply of foreign exchange.

Ans. The three sources of demand for foreign exchange are

- (i) Payment of international loans.
- (ii) Gifts and grants to rest of the world
- (iii) Investment in rest of the world
- (iv) Direct purchases abroad for goods and services

Imports from rest of the world.

The three sources of supply for foreign exchange are

- (i) Purchases of domestic goods by the foreigners
- (ii) Direct foreign investment as well as portfolio investment

In home country.
(iii) gifts and other Remittance from abroad

4. Explain the distinction between the fixed exchange rate and flexible exchange rate.

Ans.

Fixed Exchange Rate	Flexible Exchange Rate
<ol style="list-style-type: none"> 1. Fixed exchange rate refers to a rate which the government sets and maintains at the same level 2. It is determined by the government I.e. the central bank of a country. 3. It requires constant intervention from the government, so that currency does not fluctuate and the exchange rate remains fixed. 4. Only a small deviation is allowed from the exchange rate. 5. The central bank has to hold international reserves. 6. There is strict interference of the government and official authorities. 	<ol style="list-style-type: none"> 1. Flexible exchange rate is a rate that varies according to the market forces. 2. It is determined by the free play of demand and supply forces in the foreign exchange market. 3. There is nil or minimal inter-vention from the government and there is free movement of the exchange rate. 4. The exchange rate is allowed to change according to the changes in demand and supply forces in the foreign exchange market 5. There is no need for central bank to hold international reserves. 6. There is negligible interference of the government and official authorities.

Part-2: INDIAN ECONOMIC DEVELOPMENT

UNIT-1(Chapter-1: Indian Economy on the eve of Independence)

Marks: 12

NCERT TEXTUAL QUESTIONS WITH ANSWERS

1. What was the focus of the economic policies pursued by the colonial government in India? What were the impacts of these policies?

Answer. 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 rather than with the development of the Indian economy.

Thus, at the time of independence in 1947, India was a poor and underdeveloped country. At that time, agriculture was in a poor condition and mineral resources were not fully used. There were only a few industries and many of the cottage and small-scale industries had declined under the British rule. Millions of people were unemployed, not because they were unwilling to work but because there were no jobs to be found. The per capita income of Indians was one of the lowest in the world, indicating that the average Indian was extremely poor and could not afford even the basic necessities of life. For instance, the staple food of average Indian consisted of rice, wheat and millets (like jowar and bajra). Most Indians could not afford to buy nutritious and balanced diet. The vast majority of people in India led a miserable life.

2. Name some notable economists who estimated India's per capita income during the colonial period.

Answer. Dadabhai Naoroji, V.K.R.V. Rao, William Digby, Findlay Shirras and R.C. Desai.

3. What were the main causes of India's agricultural stagnation during the colonial period?

Answer. Indian agriculture was primitive and stagnant. The main causes of stagnation of agriculture sector were as follows:

1. Land Tenure System. There were three forms of Land tenure system introduced by the British rulers in India. These were:
 - (a) Zamindari system
 - (b) Mahalwari system
 - (c) Ryotwari system

In the Zamindari system, Zamindars or landlords were the owners of land.

The actual collections by Zamindars was much higher than what they had to pay to the Government. Zamindari system led to multiplication of middlemen between cultivators and Government, absentee landlordism, exploitation of peasants by unsympathetic agents and enmity between landlords and tenants. Under the system, intermediaries benefited at the cost of both actual cultivators and the state.

2. **Commercialisation of Agriculture.** Commercialisation of agriculture means production of crops for sale in the market rather than for self consumption. Farmers were forced to cultivate commercial crops like Indigo. Indigo was required by the textile industry in Britain for dyeing of the textile. As a result, there was fall in the production of food crops. The farmers had to suffer from frequent occurrence of famine. Indian agriculture was transformed into a raw material exporting sector for England.

3. **Partition of the Country.** Partition of the country in 1947 also adversely affected India's agricultural production. The rich food producing areas of West Punjab and Sindh went to Pakistan. It created food crisis in the country. Also, the whole of fertile land under jute production went to East Pakistan. The jute industry was most severely affected due to partition.

Thus, Indian agriculture became backward, stagnant and non-vibrant under the British rule. Indian Economy on the Eve of Independence .

4. Name some modern industries which were in operation in our country at the time of independence.

Answer. The Tata Iron and Steel company (TISCO) was incorporated in August 1907 in India. It established

its first plant in Jamshedpur (Bihar). Some other industries which had their modest beginning after Second World War were: sugar, cement, chemical and paper industries.

5. What was the two-fold motive behind the systematic de-industrialisation effected by the British in pre-independent India?

Answer. De-industrialisation—Decline of India Handicraft Industry. Britishers followed the policy of systematically de-industrialising India. The primary motive behind the de-industrialisation by , the British government was two-fold:

1. to get raw materials from India at cheap rates in order to reduce India to a mere exporter of raw materials to the British industries.
2. to sell British manufactured goods in Indian market at higher prices. In this way, they exploited India through the device of double exploitation.

6. The traditional handicraft industries were mined under the British rule. Do you agree with this view? Give reasons in support of your answer.

Answer. The main cause of exploitation of traditional handicraft industries was de-industrialisation introduced by British rulers in India. They got raw materials from India at cheap rates and reduced India to a mere exporter of raw materials to the British industries. They sold British manufactured goods in Indian market at higher prices.

It resulted in decline of world famous traditional handicrafts. Britishers followed discriminatortariff policy. It allowed free export of raw materials from India and free import of British final goods to India, but placed heavy duty on the export of Indian handicrafts. In this way, Indian . markets were full of manufactured goods from Britain which were low priced. Indian handicrafts 1 started losing both domestic market and export market. Ultimately, the handicraft industry declined.

7. What objectives did the British intend to achieve through their policies of infrastructure development in India?

Answer. During the British rule, some basic infrastructure was developed in the form of railways, water transport, ports, post and telegraph, etc. However, the real intention behind these developments 1 was to serve their own colonial interest.

The main motives of British rulers behind the development of infrastructure in India were:

1. To have effective control and administration over the vast Indian territory. For this, Britishers linked important administrative and military centres through railway lines.
2. To earn profits through foreign trade. For this they linked railways with major ports and the marketing centres (or Mandies).
3. To create an opportunity for profitable investment of British funds in India.
4. To mobilise army within India and carrying out raw materials through roads to the nearest railway station or to the port to send it to Britain.

8. Critically appraise some of the shortfalls of the industrial policy pursued by the British. colonial administration.

Answer. The state of Indian industrial sector on the eve of independence was as follows:

1. De-industrialisation—Decline of Indian Handicraft Industry. Britishers followed the policy of systematically de-industrialising India. The primary motive behind the de-industrialisation by the British government was two-fold. (a) to get raw materials from India at cheap rates in order to reduce India to a mere exporter of raw materials to the British industries. (b) to sell British manufactured goods in Indian market at higher prices. In this way, they exploited India through the device of double exploitation. It resulted in decline of world famous traditional handicrafts. Britishers followed discriminatory tariff policy. It allowed free export of raw materials from India and free import of British final goods to India, but placed heavy duty on the export of Indian handicrafts. In this way, Indian markets were full of manufactured goods from Britain which were low priced. Indian handicrafts started losing both domestic market and export market. Ultimately, the handicraft industry declined.
2. Lopsided Modern Industrial Structure. Unbalanced and lopsided structure of Indian industries is again a legacy of the British rule in India. British rulers neither permitted modernisation of industries nor did they encourage the growth of heavy industries in India. The period 1850-55 saw the establishment of the first cotton mill, first jute mill and the first coal mine. By the end of 19th century, there were 194 cotton mills and 36 jute mills. The cotton textile mills were located in the western parts of the country, in the states of Maharashtra and Gujarat. Jute mills in Bengal were established mainly by British capitalists. First iron and steel industry during British rule was Tata Iron and Steel company (TISCO) incorporated in August 1907 in Jamshedpur (Bihar). Some other industries which had their modest beginning after Second World War were: sugar, cement, chemical and paper industries.
3. Capital Goods Industries were Lacking. The policy of Britishers was simply to develop those industries which would never be competitive to the British industry. They always wanted Indians to be dependent on Britain for the supply of capital goods and heavy equipments. Thus, the development of a few consumer goods industries was witnessed during the British rule. The heavy industries were, by and large, conspicuous by their absence. This resulted in an unbalanced and lopsided growth of industries in India.
4. Limited Operation of the Public Sector. Public sector was confined to railways, power generation, communication, ports and some other departmental under-takings.

9. What do you understand by the drain of Indian wealth during the colonial period?

Answer. Drain of wealth means that economic policies of the British in India were primarily motivated to snatch maximum benefits from India's trade. India's foreign trade generated large export surplus. This export surplus did not result in any flow of gold or silver into India. There was drain of India's wealth into Britain. It is clear from the following facts :

1. The surplus was used to make payments for the expenses incurred by the office set up by the colonial government in Britain.
2. The surplus was used to pay expenses on war fought by the British government.
3. Surplus was used to pay for the import of invisible items.

10. Which is regarded as the defining year to mark the demographic transition from its first to the second decisive stage?

Answer. 1921 is the defining year. It is called 'Year of Great Divide'.

11. Give a quantitative appraisal of India's demographic profile during the colonial period.

Answer. The demographic condition on the eve of independence was as follows:

1. High Birth Rate and Death Rate. High birth rate and high death rate are treated as indices of backwardness of a country. Both birth rate and death rate were very high at 48 and 40 per thousand of persons respectively.
2. High Infant Mortality Rate. It refers to death rate of children below the age of one year. It was about 18 per thousand live births.
3. Low Life Expectancy. Life expectancy means the number of years that a new born child on an average is expected to live. It was as low as 32 years.
4. Mass Illiteracy. Mass illiteracy among the people of a country is taken as an indicator of its poverty and backwardness. The population census of 1941 (which was the last census under the British rule) estimated the literacy rate at 17 per cent. This means that 83 per cent of the total population was illiterate.
5. Low Standard of Living. At the time of independence, people used to spend between 80 to 90 percent of their income on basic necessities, that is on food, clothing and housing. Even then, people did not get adequate quantity of food or clothing or housing and millions of people starved, went naked and lived in huts or in the open. Moreover, some parts of India came under severe famine conditions. The famines were so severe that millions died. One of the worst famines in India was the Bengal famine of 1943, when three million people died.

12. Highlight the salient features of India's pre-independence occupational structure.

Answer. Occupational structure means the distribution of work-force among different sectors of an economy. The state of occupational structure on the eve of independence was as follows:

1. Pre-dominance of Agriculture Sector. The agricultural sector accounted for the largest share of work-force, which was 72 per cent. The manufacturing and service sectors accounted for 10 per cent and 18 per cent respectively.

2. Growing Regional Variations. There was growing regional variation. In the states of Tamil Nadu, Andhra Pradesh, Kerala, Karnataka, Maharashtra and West Bengal, the dependence of the workforce on the agricultural sector declined. On the other hand, there was increase in the share of work force in the agriculture sector in the states of Orissa, Rajasthan and Punjab. Thus, India's occupational structure was static and imbalanced.

13. Underscore some of India's most crucial economic challenges at the time of independence.

Answer. Most crucial economic challenges at the time of independence were:

1. Little industrialisation and decline of handicrafts.
2. Low agricultural output and high imports of grains.
3. Low figure of national income and per capita income which showed extreme poverty.
4. Very sluggish economic progress.
5. Unemployment and underemployment.
6. Very high infant mortality rate, low life expectancy and low standard of living.

14. When was India's first official census operation undertaken?

Answer. First official census was undertaken in the year 1881.

15. Indicate the volume and direction of trade at the time of independence.

Answer. India has been an important trading nation since ancient times. But the restrictive policies of commodity production, trade and tariff pursued by the British government adversely affected the structure, composition and volume of India's foreign trade. The state of India's foreign trade on the eve of independence was as follows:

1. Net Exporter of Raw Material and Importer of Finished Goods. 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. UK was the chief supplier to India contributing to over 31 per cent of total import at the time of independence. The principal item of import was food grains and by 1947 food grain imports had touched the level of 3 million tonnes.
2. Britain had Monopoly Control on Foreign Trade. Opening of Suez Canal in 1869 served as a direct route for the ships operating between India and Britain. The canal connected Port Said on the Mediterranean Sea with the Gulf of Suez. It provided a direct trade route for ships operating between European or American ports and ports located in South Asia, East Africa and Oceania. It reduced the cost of transportation and made access to the Indian market easier. In other words, the exploitation of Indian market was now easier. British maintained monopoly control over India's foreign trade. More than half of India's foreign trade was with Britain. British allowed trade with few other countries like China, Ceylon (Sri Lanka) and Persia (Iran).

16. Were there any positive contributions made by the British in India? Discuss.

Answer. British rule exploited India in many ways. But, the ways to achieve the motives sometimes yield positive effects. Their exploitative programmes and policies resulted in some positive impact on India. Some of these positive effects were:

1. Commercialisation of agriculture implied a good breakthrough in agriculture and resulted in self-sufficiency in food grain production.
2. The development of infrastructure, railways and roadways generated new opportunities for economic and social growth and broke cultural and geographical barriers.
3. Railways promoted commercialisation of agriculture through long distance movement of goods and it enabled people to move from one place to another easily.
4. The supply of food and essentials could be made available to drought affected areas through transportation.
5. Indian economy witnessed a huge expansion of monetary system and growth in production through division of labour and specialisation.

1 Marks Questions**1. What was the infant mortality rate of India during British rule?**

Ans. Infant mortality rate was 218 per thousand.

2. State the life expectancy in India during British rule.

Ans. Life expectancy was 32 years.

3. What do you mean by infant mortality rate?

Ans. Infant mortality rate means number of deaths of children below the age of one year per thousand live birth.

4. Give the name of one economist who estimated India's per capital income during colonial period.

Ans. Dadabhai Naoroji, & Prof V.K.R.V. Rao.

5 What is meant by commercialization of agriculture?

Ans. Commercialisation of agriculture means production of crops for sale in the market rather than for self consumption.

6. What was the motive behind the deindustrialization by the colonial Govt. in India?

Ans. (i) To get raw materials from India at cheap rate.

ii) To sell British manufactured goods in Indian market at high prices.

7. Which industries were adversely affected due to partition.

Ans. Jute and textile industries.

8. What does the export surplus mean?

Ans. When export of a country is more than import.

9. What percentage of India's working population was engaged in secondary and tertiary sector during British rule?

Ans. 10% in secondary sector and 18% in tertiary sector.

3 Marks Questions

1. "The traditional handicrafts industries were ruined under the British rule". Do you agree with this view? Give reasons in support of your answer.

Answer: Yes. India's traditional handicraft industries were ruined under British rule. There were many reasons behind this. The British adopted the strategy of systematically de-industrializing India. The main raw materials required by the handicraft industries such as cotton and silk were exported to Britain and instead imported to Indian markets the finished products which are low cost.

Thus, due to lack of raw materials, reduced markets and no government policies to protect the handicraft industry resulted in collapse of the Indian handicraft industries.

2. Highlight the salient features of India's pre-independence occupational structure?

Answer: The distribution of working persons across different industries and sectors is called occupational structure. The agricultural sector accounted for the largest share of workforce.

About 72 percent people were engaged in agriculture, 10 percent in manufacturing and 18 percent in service sector.

3.Mention the objectives of British policies of infrastructure development in India?

Answer:Basic infrastructure like railways, roads, telegraphs, etc. were developed during British period. The purpose behind this was to satisfy various colonial interests.

- Roads were built for the purpose of mobilising the army.
- The introduction of telegraph in India was basically to maintain law and order.
- Railways introduced to mobilise army and raw materials.

4.Name the states where the following iron and steel industries are located?

1. TISCO
2. IISCO
3. Bhila Steel Plant

Answer:

1. TISCO – (Tata Iron and Steel Co.) – Jharkhand
2. IISCO – (Indian Iron and Steel Co.) – West Bengal
3. Bhilai Steel Plant – Chattisgarh.

5.What are the major economic challenges of India today?

Answer:

- Low agricultural growth rate
- Rising prices
- Food inflation
- Rapid growth of population
- Poor infrastructure facilities
- Shortage of resources
- Poverty and unemployment

6.“During British rule land and labour were transformed into commodity”. Justify this statement.

Answer:Land being the most important income yielding asset in the rural society became a much sought after commodity. The Zamindars, who got land in the British settlement and money lenders who acquires land against their debt, wanted to acquire more and more of it.

All artisans who lost craft and could not be accommodated on land came to town in search of employment. Some of them got employment in factories; some others became coolies and domestic servants. In their case also, labour power became a commodity Thus it can be concluded that during British rule land and labour were transformed into commodity.

7.What do you understand by the drain of Indian wealth during the colonial rule?

Answer: The most important feature of India’s foreign trade throughout the colonial period was generation of large export surplus. But this caused scarcity in the domestic market. Further, 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,

- expenses on war
- office setup of British government and
- Import of invisible items.

All these led to drain of Indian wealth during the colonial period.

CHAPTER-2.INDIAN ECONOMY (1950-90)

MULTIPLE CHOICE QUESTIONS (MCQs)

Q1. When was Indian Planning Commission constituted?

- | | |
|-------------------|--------------------|
| (a) August 6,1952 | (c) August 15,1947 |
| (b) March 15,1950 | (d) April 1, 1997 |

Q2. When was the National Development Council constituted?

- | | |
|-------------------|---------------------|
| (a) August 6,1952 | (c) August 15, 1947 |
| (b) March 15,1950 | (d) April 1, 1951 |

Q3. What was the period of India's Seventh Five year Plan?

- | | |
|-------------|-------------|
| (a) 1951-56 | (c) 1980-85 |
| (b) 1956-61 | (d) 1985-90 |

Q4. When was NITI Aayog established?

- | | |
|----------|----------|
| (a) 1991 | (c) 2011 |
| (b) 2001 | (d) 2015 |

Q5. Who is the chairman of NITI Aayog?

- | | |
|----------------------|------------------------|
| (a) Prime Minister | (c) President of India |
| (b) Finance Minister | (d) Governor RBI |

Q6. Who was the father of green revolution in India?

- (a) Pt. Jawahar Lal Nehru
- (b) A.M. Khusro
- (c) M.S. Swaminathan
- (d) V.K.R.V. Rao

Q7. Which of the following is not a public sector undertaking?

- | | |
|----------|-----------|
| (a) BHEL | (c) RBI |
| (b) GAIL | (d) TISCO |

Q8. How many industries were there in the first categories of industrial policy of 1956?

- | | |
|--------|--------|
| (a) 4 | (c) 17 |
| (b) 10 | (d) 12 |

Q9. In which five year plan, emphasis was laid on basic and heavy industries?

- (a) First plan
- (b) Second Plan
- (c) Sixth Plan
- (d) Seventh Plan

Q10. India had favourable balance of trade in:

- (a) 1972-73
- (b) 1976-77
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

Qa11. The percentage of India's share in world trade in 1990-91 is:

- (a) 1.0%
- (b) 1.5%
- (c) 0.5%
- (d) 1.9%

Answers of MCQs

- 1. (b)
- 2. (a)
- 3. (d)
- 4. (d)
- 5. (a)
- 6. (c)
- 7. (d)
- 8. (c)
- 9. (b)
- 10. (c)
- 11. (c)

Fill in the blank

- 1- In 1955, the Village and Small-Scale Industries Committee, also called the Committee, noted the possibility of using small-scale industries for promoting rural development.
- 2- IPR, classified industries into three categories- schedule A, Schedule B and schedule C.
- 3- revolution was related to the production of food grains especially wheat and rice.
- 4- was known as the father of green revolution in India.
- 5- was the architect of Indian Economic Planning.

Answers:

1-Karve

2-1956

3-green

4-M.S. Swaminathan

5-Prasanta Chandra Mahalanobis

Chapter 2. Indian Economy 1950-90

1. Define growth.
Ans. GROWTH- an increase in the country's capacity to produce the output of goods and services within the country.
2. Define Gross Domestic Product (GDP).
Ans. Gross Domestic Product (GDP)-Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.
3. What is meant by economic system?
Ans. ECONOMIC SYSTEM- refers to an arrangement by which central problems of an economy are solved.
4. Define economy.
Ans. ECONOMY- it is a system through which people earn their livelihood.
5. Define a mixed economy.

Ans. MIXED ECONOMY-an economy or a system in which the public sector and the private sector are allotted their respective roles for solving the central problems of the economy.

6. What do you mean by public sector.

Ans. PUBLIC SECTOR ENTERPRISE- A public sector enterprise is that enterprise which is owned and managed by the government.

7. What is private sector.

Ans. The private sector is the part of the economy that is run by individuals and companies for profit and is not state controlled.

8. Define a plan.

Ans. PLAN- is a document showing detailed scheme, program and strategy, worked out in advance for fulfilling an objective.

9. What is prospective plan.

Ans. Planning objectives are long term objective, they are to be achieved over 20 years. They are general goals. They are common to all plans

10. What is meant by economic planning.

Ans. ECONOMIC PLANNING- means utilization of country's resources into different development activities in accordance with national priorities.

11. What do you mean by agrarian reforms?

Ans. Agrarian Reform in India had been adopted to reallocate the agricultural resources among all the people directly connected with agriculture.

12. What do you mean by land reforms?

Ans. LAND REFORMS- refers to change in the ownership of landholdings through abolition of intermediaries and land ceiling.

13. What is meant by land ceiling?

Ans. LAND CEILING- refers to fixing the specified limit of land, which could be owned by an individual. Beyond the specified limit, all lands belonging to a particular person would be taken over by the government and will be allotted to the landless cultivators and small farmers. The purpose was to reduce the concentration of land ownership in few hands. It promotes equity in agriculture sector.

14. Define green revolution.

Ans. Green Revolution: The Green Revolution started in 1965 with the first introduction of High Yielding Variety (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.

15. What are miracle seeds?

Ans. MIRACLE SEEDS- are the high yielding variety of seeds which combined with assured water supply, fertilizer, insecticides, etc. would result in high production levels.

16. What is Minimum Support Price (MSP)?

Ans.The minimum support price (MSP) is an agricultural product price set by the Government of India to purchase directly from the farmer. This rate is to safeguard the farmer to a minimum profit for the harvest, if the open market has lesser price than the cost incurred.

17. What is marketable surplus?

Ans. MARKETABLE SURPLUS- It is that part of the agricultural produce which is sold in the market by the farmer.

18. What do you understand by industrialization?

Ans.Industrialisation (or industrialization) is the period of social and economic change that transforms a human group from an agrarian society into an industrial society. This involves an extensive re-organisation of an economy for the purpose of manufacturing.

19. Define small scale industry.

Ans.Small Scale Industries are those industries in which the manufacturing, production and rendering of services are done on a small or micro scale. These industries make a one-time investment in machinery, plants, and industries, but it does not exceed Rs 1 Crore.

20. What is meant by Industrial Policy?

Ans.INDUSTRIAL POLICY- is a comprehensive package of policy measures which covers various issues connected with different industrial enterprises of the country.

21. What is meant by Industrial Licensing?

Ans. INDUSTRIAL LICENSING- an industrial license is a written permission from the government, to an industrial unit to manufacture goods. (licensing is a tool for channelizing scarce resources in predetermined priority sectors of an economy.)

22. What are tariffs?

Ans. TARIFFS-refers to taxes levied on imported goods. The aim was to make them expensive and discourage their use.

23. What are quotas?

Ans.QUOTAS- refers to fixing the maximum limit on the imports of a commodity by a domestic producer.

24. What are High Yielding Variety (HYV) seeds?

Ans. High Yield Variety (HYV) seeds were developed by scientists to improve food supplies and reduce famine in developing countries. These HYV or 'miracle' seeds can produce up to ten times more crops than regular seeds on the same area of land.

25. What do you mean by composition of trade?

Ans.Composition of trade means a study of the goods and services of imports and exports of a country.

26. What do you mean by volume of trade?

Ans.It refers to the quantum or value of export and import of a country.

27. What do you mean by direction of trade?

Ans. Direction of Trade refers to the countries to which a country exports its goods and services and the countries from which it imports.

28. What do you mean by trade deficit?

Ans. A trade deficit means when a country's imports exceed its exports during a given time period. It is also referred to as a negative balance of trade (BOT).

29. What is green revolution?

Ans. GREEN REVOLUTION- refers to the large increase in production of food grains due to use of High Yielding Variety (HYV) seeds.

30. Define subsidy.

Ans. SUBSIDY- A “a subsidy” may be defined as “a direct or indirect payment, economic concession or privilege granted by a govt. to the public on firms or companies in order to promote a public objective”.

31. What is cooperative farming?

Ans. CO-OPERATIVE FARMING- Under this scheme, all the landowners in the village form co-operative society for cultivation of land in the village.

32. What is import substitution?

Ans. IMPORT SUBSTITUTING INDUSTRIALISATION- The rationale of the import substitution strategy is based on Infant Industry Argument. The argument says that in the initial stages of industrialization, it is essential to protect domestic industries from foreign competition by imposing high import tariffs or imposing quantitative restrictions on imports. Such a strategy will help the developing countries to develop their industrial base. Once the process of industrialization is initiated in this way, it tends to become self-sustaining.

33. What is export promotion?

Ans. Export promotion defined as “those public policy measures which actually or potentially enhance exporting activity at the company, industry, or national level”.

34. What do you mean by balance of trade?

Ans. Balance of Trade (BoT) is the difference that is obtained from the export and import of goods.

35. What do you mean by favorable balance of trade?

Ans. Favorable Balance of Trade means receipts from exports of goods are more than payment on import of goods.

36. What do you mean by unfavorable balance of trade?

Ans. Unfavorable Balance of Trade means receipts from exports of goods are less than payment on import of goods.

37. What do you mean by Public Licence Raj?

PERMIT LICENCE RAJ- The licensing authorities, many a times, granted license to big business houses without carrying out a proper scrutiny of their applications.

38. What do you mean by MRTP Act?

Ans. MONOPOLIES AND RESTRICTIVE TRADE PRACTICES (MRTP) ACT 1969- is an act which is framed to prevent monopolies and regulate the conduct or business practices of firms that are not in public interest.

39. What is the full form of NITI.

Ans. National Institution for Transforming India (NITI)

40. Mention the period covered by the first five year plan.

Ans. 1951-1956.

41. Mention the period that comes under three annual plans.

Ans. 1966-1969

42. Why is Indian economy called a mixed economy?

Ans. Because there is co-existence of Public and private sector in India.

43. In which five year plan of India industrialization was accorded the top most priority?

Ans. Second Five Year Plan.

44. In which year was the planning commission established?

Ans. 15.March.1950.

45. Which organization replaces Planning Commission of India?

Ans. NITI Aayog.

46. When was the NITI aayog established?

Ans.01.Jan. 2015

47. Name the first vice-chairman of the NITI Aayog.

Ans. Mr. Arvind Panagaria.

48. Who is called the father of Indian planning?

Ans. Prasanta Chandra Mahalanobis.

49. Why did India opt for planning?

Ans.India achieved independence in 1947. The colonial government left India in a poor, backward and stagnant situation. From that time efforts have been made to solve people's problems in a sovereign Indian republic through a system of federal parliamentary democracy. Political independence has no meaning without economic prosperity. Planning was undertaken to sustain political independence and generate economic prosperity.

50. Why should plans have goals?

Ans. Plans should have goals or objectives which the country wants to achieve in a specific time period. Without goals, the planners would not know which sector of the economy should be developed on a priority basis.

51. Explain growth with equity as a planning objective.

Ans. Economic Growth is an increase in the aggregate output of goods and services in a country in a given period of time. Equity refers to reduction in inequality of income or wealth, uplifting weaker sections of the society and equal distribution of economic power. Higher levels of growth and social justice are two main objectives of India's economic planning. When these two objectives are clubbed together, it is called development with social justice.

52. Explain four common goals (or objectives) of development plans in India.

Ans. COMMON GOALS OF FIVE YEAR PLANS-

1-GROWTH-increase in the country's capacity to produce the output of goods and services within the country.

2-MODERNISATION-it refers to adoption of new technology, new methods of production and changes in social outlook.

3-SELF-RELIANCE- means reducing dependence on imports of those goods which can be produced within the country itself.

4-EQUITY-refers to reduction in inequality of income or wealth, uplifting weaker sections of the society and a more even distribution of economic power.

53. Explain the following terms-

- (a) Agricultural Subsidy
- (b) Consolidation of Holdings
- (c) Industrial Sickness
- (d) Foreign Capital

54. Give four reasons why small industries should be encouraged in India?

Ans. Reasons for encouraging SSIs-

1-Labour Intensive

2-Self –Employment

3- Less capital intensive

4-Decentralisation of Industries

5-Seed beds for Large-Scale Industries

6-Sustaining Agricultural Development

55. Explain the need and type of land reforms implemented in the agriculture sector.

Ans. In India, there existed a large army of middlemen like zamindars, mahalwars and ryotwars, who collected rent from the actual cultivators and deposited a part of it to the government as land revenue. They treated cultivators as slaves. The measure of abolition of intermediaries was adopted to make direct link between actual tillers and government, and to pass forests, wasteland, etc. to state government.

Tenancy Reforms are concerned with:

- (a) Regulation of Rent
- (b) Security of Tenure
- (c) Ownership Rights for Tenants.

Reorganisation of Agriculture is concerned with:

- (a) Redistribution of Land
- (b) Consolidation of Holdings
- (c) Co-operative Farming.

56. What is Green Revolution? Why was it implemented and how did it benefit the farmers? Explain in brief.

Ans. Green Revolution. This strategy, which was launched in October 1965, has been given different names such as, New Agricultural Strategy (NAS), or Seed-Fertilizers Water Technology.

Before adopting the New Agricultural Strategy (NAS), the state of Indian agriculture was as follows:

- (a) there was low and erratic growth,
- (b) there was extreme regional unevenness and growing interclass inequality,
- (c) there were serious droughts for two consecutive years
- (d) there was a war with Pakistan
- (e) USA denied India PL 480 imports.

India decided to get rid of this dependence on foreign aid in such a vital matter as food supply.

And that was the genesis of our Green Revolution, i.e., biochemical technology to step up output per acre by using scientifically inclined techniques and methods of production.

Benefits of Green Revolution.

(i) Increase in Income. Since the Green Revolution was limited to wheat and rice for a number of years, its benefits were enjoyed by wheat and rice growing areas of Punjab, Haryana, Western Uttar Pradesh and Andhra Pradesh. The income of farmers in these States grew sharply. Green Revolution succeeded in removing rural poverty in these States.

(ii) Impact on Social Revolution. Along with economic revolution there was a social revolution. The old social beliefs and customs were destroyed and people were willing to accept changes in technology, seeds and fertilizers. The traditional methods of farming were transformed into modern methods of farming.

(iii) Increase in Employment. Green Revolution solved the problem of seasonal unemployment to a great extent because with the possibility of growing more than one crop on a piece of land, more working hands were needed throughout the year. Also, package inputs required better irrigation facilities which raised the employment rate. Explain the statement that green revolution enabled the government to procure sufficient food grains to build its stocks that could be used during times of shortage.

Ans. Green revolution refers to the tremendous increase in agricultural production and productivity that has come about with the introduction of new agricultural technology. It transformed the economy of scarcity into an economy of plenty.

Rise in Production and Productivity. Green Revolution helped in removing continuing food shortages. HYVP was restricted to only five crops namely, wheat, rice, jowar, bajra and maize. Commercial crops were excluded from the ambit of the new strategy. Substantial increase in wheat production was noticed.

Rise Production and Productivity

Production	1965-66	2011-12
Wheat	11.1	93.9
Rice	35.1	92.8
Coarse Cereals	26.1	32.5

The wheat production increased from 11.1 million tonnes in the Third Plan to 93.9 million tonnes in 2011-12. Rice production initially increased slowly and later at a fast pace. The production increased from 35.1 million tonnes in the Third Plan to 92.8 million tonnes in 2011-12. The production of coarse cereals (jowar, bajra and maize) fell to 26.1 million tonnes in 1965-66 and then increased to 32.5 million tonnes in 2011-12.

57. While subsidies encourage farmers to use new technology, they are a huge burden on government finances. Discuss the usefulness of subsidies in the light of this fact.

Ans. . Subsidy is an economic benefit, direct or indirect, granted by a government to domestic producers of goods or services, often to strengthen their competitive position against foreign companies.

It helps farmers to buy HYV seeds, fertilizers and other inputs. The burden of granting subsidies falls on the government. The government has to bear the burden of financing subsidies.

There is scope for improving the resource use efficiency by reducing subsidies and aiming them better to small farmers and regions lagging behind.

58. Why, despite the implementation of green revolution, 65 percent of our population continued to be engaged in the agriculture sector till 1990?

Ans. The structural change in composition of GDP shows that India is on the path of sustained development. But the occupational structure pattern shows that India is still underdeveloped. When nearly 60.8 per cent of the working force is engaged in agriculture where productivity is low and employment uncertain this would surely lead to low per capita income and widespread poverty for the rural masses which form about 72.2 per cent of India's population. It also means that excessive pressure of population on land would be a hindrance in the way of productivity improvement in agriculture sector.

59. What is sectoral composition of an economy? Is it necessary that the service sector should contribute maximum to GDP of an economy? Comment.

Ans. The contribution made by each of these sectors in the GDP of a country is called sectoral composition of the economy. If the service sector or tertiary sector contributes maximum to GDP of an economy, then the country is economically developed.

60. Why was public sector given a leading role in industrial development during the planning period?

Ans. Public sector has been playing a very significant role in the development of industries in the following way:

- (a) Creation of a strong industrial base.
- (b) Development of Infrastructure.
- (c) Development of backward areas.
- (d) To mobilise savings and earn foreign exchange.
- (e) To prevent concentration of economic power.
- (f) To promote equality of income and wealth distribution.
- (g) To provide employment.
- (h) to promote import substitution.

61. Though public sector is very essential for industries, many public sector undertakings incur huge losses and are a drain on the economy's resources. Discuss the usefulness of public sector undertakings in the light of this fact.

Ans. Though many public sector undertakings are incurring huge losses, they are still very useful in the areas of strategic concerns and hazardous chemicals. Public sector undertakings are required for:

1. Creation of a Strong Industrial Base
2. Development of Infrastructure
3. Development of Backward Areas
4. To Mobilise Savings and Earn Foreign Exchange
5. To Prevent Concentration of Economic Power
6. To Promote Equality of Income and Wealth Distribution
7. To Provide Employment
8. To Promote Import Substitution.

62. Explain how import substitution can protect domestic industry.

Ans. The import substituting industrialisation was the objective of second FYP (1956-61) till the Seventh FYP (till 1990). The Mahalanobis strategy of development was based on import substitution. The rationale of the import substitution strategy is based on infant industry argument. It helped to save foreign exchange by drastically reducing import of goods. The foreign exchange saved was to be used for the developmental imports such as capital goods, sophisticated technology, etc. It created a protected market and large demand for domestically produced goods.

63. Why and how was private sector regulated under the IPR 1956?

Ans. Private sector was given minimum role in IPR 1956. New industry could start operation after it had obtained licence from the government. Licence was given after scrutiny by the government.

These categories were:

Schedule A: 17 industries which were to be an exclusive responsibility of the state/government.

Schedule B: 12 industries which were to be progressively state-owned and in which the state would generally set up new enterprises, but in which private enterprise would be expected only to supplement the effort of the state; and

Schedule C: all the remaining industries and their future development would, in general be left to the initiative and enterprise of the private sector.

CHAPTER- 3. Economic Reforms (1991)

Fill in the blank.

- 1- was founded in 1995 as the successor organisation to the GATT.
- 2- New Economic Policy announced in the year
- 3- To manage the economic crisis of 1991, Indian Government approached the World Bank and the International Monetary Fund (IMF) and received \$..... billion as loan.
- 4- Reduction in the role of government/state
- 5- Transfer of ownership, management and control of Public sector to Private Sector is called
- 6- Selling off part of the equity of PSUs to the Public
- 7- Integration of an economy with the world economy is known as
- 8- Hiring business services (such as call centres, transcription, clinical advice, teaching/coaching etc) from rest of the world.....
- 9- has subsumed multiple indirect taxes like excise duty, services tax, VAT, CST, luxury tax, entertainment tax, entry tax etc.
- 10- GST is one indirect tax for the whole nation, which will make India one unified common market. (One....., One Tax, One Market).
- 11- was the act of stripping a currency unit of its status as legal tender.
- 12- GATT was established in the year
- 13- a crisis in the livelihood of the weavers and fifty power loom workers committed suicide in a small town in Andhra Pradesh.
- 14- GST came into effect from

Answers:

- 1- WTO (World Trade Organisation)
- 2- 1991
- 3- \$7 billion
- 4- Liberalisation
- 5- Privatisation
- 6- Disinvestment
- 7- Globalisation
- 8- Outsourcing
- 9- GST (Goods and Services Tax)
- 10- Nation
- 11- Demonetisation
- 12- 1948
- 13- Siricilla Tragedy
- 14- 01.July.2017

Abbreviations

- 1-General Agreement on Tariffs and Trade (GATT).
- 2- International Monetary Fund (IMF)
- 3-International Bank for Reconstruction and Development (IBRD), World Bank
- 4- Liberalisation, Privatisation and Globalisation (LPG)
- 5- Licence, Permit, Quota (LQP)
- 6- New Economic Policy (NEP)
- 7- Reserve Bank of India (RBI)
- 8- Goods and Services Tax (GST)
- 9- Foreign Direct Investment (FDI)
- 10- Foreign Institutional Investment (FII)

CHAPTER- 3. Economic Reforms (1991):Continued:-

1. Why were reforms introduced in India?

Answer. In 1991, economic reforms were introduced in India because 1991 was the year of crisis for the Indian economy. It is clear from the following facts:

- (a) National income was growing at the rate of 0.8%.
- (b) Inflation reached the height of 16.8%.
- (c) Balance of payment crisis was to the extent of 10,000 crores.
- (a) India was highly indebted country. It was paying 30,000 crores interest charges per year.
- (e) Foreign exchanges reserves were only 1.8 billion dollars which were sufficient for three weeks.
- (f) India sold large amount of gold to Bank of England.
- (g) India applied for the loan from World Bank and IMF to the extent of 7 billion dollars.
- (h) Fiscal deficit was more than 7.5%.
- (i) Deficit financing was around 3%.
- (j) Trade relation with Soviet block had broken down.
- (k) Remittances from non-residence Indians stopped due to war in Arab countries.
- (l) Price of petroleum products was very high.

2. How many countries are members of the WTO (in 2020)?

Answer. At present there are 164 countries which are members of WTO.

3. How many countries are members of the IMF (in 2020)?

Answer. At present there are 190 countries which are members of IMF.

4. Why is it necessary to become a member of WTO?

Ans. Becoming a member of WTO (World Trade Organisation) is important in many ways as mentioned below:

1. Being a member of WTO, a member country gets equal rights like other member countries to trade in the international market.
2. It provides scope to produce more at a large scale so that it can cater to the needy people across boundaries.
3. WTO will work towards abolishing tariff barrier in order to encourage healthy competition among producers of different countries
4. Member countries of WTO which have a similar economic status can raise voice to safeguard common interests.

5. Do you think outsourcing is good for India? Why are developed countries opposing it?

Yes, it is good for India. These points below further help in justifying that:

1. For a country like India which is developing, employment generation is a concern and outsourcing provides a solution for generating employment opportunities.
2. It enables the transfer of knowledge about the processes and technology from developed countries to the developing countries.
3. By providing outsourcing services India makes itself credible in the international market, it will help in bringing international investment to India.
4. Outsourcing opens up avenues across service sectors and helps the educated youth in getting skills which will result in human capital formation
5. Jobs will help in the building of society by reducing poverty and also pave the way for education, which will build the nation as a whole.

Developed countries oppose outsourcing as it leads to outflow of jobs from the developed countries to the developing countries, it leads to outflow of investment and revenue and helps develop the weaker country, but results in job scarcity for the developed countries.

6. India has certain advantages which make it a favourite outsourcing destination. What are these advantages?

The following points will highlight the reasons that make India a favourite outsourcing destination:

1. Wage rates in India is less as compared to other developed nations and it makes MNC's invest in Indian workers and shifts a part of the business to India.
2. Indians are educated and can be easily trained, but lack job opportunities, so job training cost will be low.
3. India is an emerging market for goods and services, the cost of production is cut by half if it is produced in India, and therefore it makes sense to invest in India.
4. India offers a stable political environment suitable for setting up businesses.
5. India has been developing the infrastructure section since the last 10-20 years and connectivity has become much improved, this helped MNC's in reducing the cost of production.
6. India has abundant natural resources which make for a steady source of raw materials to ensure the proper functioning of MNC's.
7. India does not have companies that can provide competition on a global basis. Hence, it easier for MNC's to establish themselves as market leaders.

7. Do you think the navaratna policy of the government helps in improving the performance of public sector undertakings in India? How?

Navaratna status is given to those PSE or PSU (Public Sector Enterprises or Public Sector Undertaking) in 1997 that have been profitable in the market and have a comparative advantage. These organisations were given freedom in financial, operational and managerial autonomy. The result of this move was that the company expanded its footprints in the global market and became financially and operationally self-sufficient. Awarding them with navaratna status helped them improve their performance.

8. What are the major factors responsible for the high growth of the service sector?

Factors that helped in the growth of the service sector are as follows:

1. India being a major outsourcing market for services had high demand for banking, customer support, finance, software service, advertisement and communication which led to the growth of service sector.
2. India had undergone financial reforms in the year 1991 which expanded its economy by inflow of foreign investment which led to the growth of service industry.

3. Indian economy had undergone a structural change which shifted its focus from primary to the tertiary sector which opened up avenues for growth of services across segments.
4. By following a policy of low tariff and non-tariff barriers for products. India was able to gather a large part of the service sector from developed countries.
5. India provides a market for cheap and knowledgeable labour and this factor has helped in many developed nations in setting up subsidiaries in India to carry on their operations.
6. The growth of the IT sector and innovations in technology field has made India a favourite destination for investors and industries alike.

9. Agriculture sector appears to be adversely affected by the reform process. Why?

Economic reforms initiated in 1991 did not have an impact on the agriculture industry. Here are the reasons:

1. Public investment decreased in the agriculture sector after 1991, the Indian government has reduced support for research and development in agriculture and supported services that had a negative impact on agriculture.
2. As subsidies were removed from fertilisers, the cost of production escalated which made farming more expensive, it also affected poor farmers.
3. By complying with WTO regulations, import duties on agricultural products were reduced which made it difficult for poor farmers to compete against products of the international market.
4. Shifting focus on producing more cash crops and removal of subsidies exerted a double impact which resulted in inflation making the cost of production more expensive

10. Why has the industrial sector performed poorly in the reform period?

Ans. Industrial sector performance was poor due to the following reasons:

1. A reduced industrial output was observed due to cheaper imports. Imports were cheaper as import tariffs were removed. This led to reduced demand for domestic goods.
2. There was a lack of investment in infrastructure facilities due to which domestic firms were unable to compete with the developed counterparts from foreign countries in terms of cost and quality. Inadequate infrastructure raised the cost of production and made the goods non-feasible in the market due to the high price.
3. Non-tariff barrier maintained by many developed countries made Indian products less accessible in those countries which led to an overall decline in revenue.
4. Domestic industries did not develop in terms of technology and hence were unable to compete with industries of developed nations. Traditional technologies were not at all cost-effective or had a good quality which was the reason for poor growth.

11. Discuss economic reforms in India in the light of social justice and welfare.

Ans. Economic reforms enabled India to be an able competitor in the international market. Here are other positive points that happened as a result of the reforms:

1. Movement of goods and services across the globe.
2. The inflow of foreign capital led to more investor interest
3. The boom in the service sector boosted Eco tourism
4. GDP increased multiple times
5. Employment opportunities

Negative points

1. No benefits for agriculture industry
2. Reforms benefitted the high-income group and made life tougher for low and middle class
3. Development of areas nearby metropolitan cities made rural areas underdeveloped.

Thus it can be said that economic reforms did not provide social justice and was unable to work for welfare of general public.

12- Explain the set of policy measures adopted to introduce new economic reforms.

Ans. THE NEW ECONOMIC POLICY: was announced in 24.July.1991. The main aim of the policy was to create a more competitive environment in the economy and remove the barriers to entry and growth of firms.

The NEP can be broadly classified into two kinds of measures:

1-STABILISATION MEASURES: It refers to short term measures which aim at

a-Correcting weaknesses of the balance of payments by maintaining sufficient foreign exchange reserve

b-Controlling inflation by keeping the rising prices under control.

2-STRUCTURAL REFORM MEASURES: It refers to long term measures which aim at

a-Improving the efficiency of the economy

b-Increasing international competitiveness by removing the rigidities in various segments of the Indian economy.

13- Explain financial sector reforms.

Ans. FINANCIAL SECTOR REFORMS: Financial sector includes financial institutions like commercial banks, investment banks, stock exchange operations and foreign exchange market. The financial sector in India is controlled by the central bank-RBI.

1-Change in role of RBI from regulator to Facilitator- As a result, financial sector was allowed to take decisions on many matters, without consulting the RBI.

2-Origin of Private Banks- The reform policies led to the establishment of private sector banks, Indian as well as foreign such as ICICI, HSBC banks increased the competition and benefitted the consumers through lower interest rates and better services.

3-Increase in limit of Foreign investment- Foreign investment limit was raised to around 51%. FII such as merchant bankers, mutual funds and pension funds were now allowed to invest in Indian Financial markets. Though banks have given permission to generate resources from India and Abroad, certain aspects have been retained with the RBI to safeguard the interests of the account-holders and the nation.

4-Ease in Expansion Process- Banks were given freedom to set up new branches (after fulfilment of certain conditions) without the approval of the RBI.

14- Explain industrial sector reforms introduced in India in 1991.

Ans. INDUSTRIAL SECTOR REFORMS:

1-Abolition of Industrial Licensing-In July 1991, a new industrial policy was announced which abolished the requirement of licensing except for the following five industries such as liquor, cigarettes, defence equipments, industrial explosives and dangerous chemicals

2-Contraction of Public Sector- Under the new industrial policy number of industries reserved for public sector was reduced from 17 to 8 and thereafter 3.

3-De-reservation under small-scale Industries-Many goods produced by Small Scale Industries have now been de-reserved. The investment ceiling on plant and machinery for small undertakings enhanced to rupees one crore. Forces of the market were allowed to determine the prices and not by directive policy of the government.

4-Elimination of Monopolies and Restrictive Trade Practices Act- With the introduction of liberalization and expansion schemes, the requirement for large companies, to seek prior approval for expansion, establishment of new undertakings, merger, amalgamations etc. were eliminated.

Expansion of Production Capacity- Earlier production capacity was linked with licensing. Now freedom from licensing implied freedom from capacity constraints. 'What to produce and how much to produce' was now a matter of producer's choice depending on market conditions.

Freedom to Import Capital Goods-It implies freedom for the industrialists to import capital goods with a view to upgrading their technology. Permission was no longer required from the government to enter into international agreements for the import of technology.

15- Explain trade and investment policy reforms.

Ans. TRADE AND INVESTMENT POLICY REFORMS: Before 1991, a lot of restrictions (high tariffs and quotas) were imposed on imports to protect the domestic industries. However, this protection reduced the efficiency and competitiveness of domestic industries and led to slow growth. So the reforms in the trade and investment policy initiated- to increase the international competitiveness of industrial production, to promote foreign investments and technology into the economy, to promote efficiency of local industries and adoption of new technologies.

1-Removal of Quantitative Restrictions on Imports and Exports- Quantitative restrictions on imports of manufactured consumer goods and agricultural products were fully removed from April 2001.

2-Removal of Exports Duties-to increase the competitive position of Indian goods in the International markets.

3-Reduction in Import Duties- to improve the position of domestic goods in the foreign market.

4-Relaxation in Import Licensing System-It encourages domestic industries to import raw materials at better prices, which raised their efficiency and made them more competitive.

16- Explain fiscal reforms introduced in India in 1991.

Ans. FISCAL REFORMS or TAX REFORMS: It refer to reforms in government's taxation and public expenditure policies, which are collectively known as its Fiscal Policy.

1-Reduction in Tax Rates- Since 1991, there has been continuous reduction in income and corporate tax as high tax rates were an important reason for tax evasion.(moderate tax rates encourage savings and voluntary disclosure of income)

2-Reforms in Indirect Taxes- Considerable reform have been made in indirect taxes to facilitate establishment of common national market for goods and services.

3-Simplification of Process- In order to encourage better compliance on the part of taxpayers, many procedures have been simplified.

17- Explain Foreign Exchange reforms.

Ans. FOREIGN EXCHANGE REFORMS:

1-Devaluation of Rupee- To overcome Balance of Payment Crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange.

2-Market Determination of Exchange Rate- The Government allowed rupee value to be free from its control. As a result, market forces of demand and supply determine the exchange value of the Indian rupee in terms of foreign currency.

18- Define privatisation. Explain the objectives of privatisation in India.

Ans. Privatization: is defined as the transfer of a function, activity or organization from the public to the private sector.

Objectives of Privatisation:

1-Improving the government financial Composition by: (raising funds from the sales of enterprises or their assets; Making the enterprises raise internal resources and from capital markets.)

2-Improving the performance of an enterprise through: (increasing efficiency; requiring enterprises to meet performance objectives; greater responsiveness to consumers, in terms of quantity, quality, diversity or services; relief from public sector financial constraint; more managerial autonomy.)

Besides the above two broad objectives, privatization would help in reducing the burden on public administration by reducing the size of the public sector, strengthening market forces and competition within an economy and promoting wider share ownership among public.

19- Define disinvestment. Explain objectives and methods of disinvestment.

DISINVESTMENT: is sale of a part of equity holdings held by the government in any public sector undertaking to private investor.

Objectives of Disinvestment:

Disinvestment has been a major strategy by which the government has financed fiscal deficit. Besides financing fiscal deficit, the economic motivation behind it is to improve efficiency of PSUs.

Two main methods of disinvestment are:

1-Minority Sale: Under it, the general policy was to sell the shares of the PSUs maximum upto 49% so that government ownership of the companies is maintained.

In this method, equity is offered to investors through domestic public issue.

2-Strategic Sale: Under it, the government sells 50% or more shares of the PSUs. The ownership of the company transfers from the government to the private sector.

In this method, government offloads above 51% in strategic sale.

20- Give arguments in favour and against of privatisation.**Ans. Arguments in favour of Privatisation**

- 1-It will introduce Efficiency and profitability in PSUs
- 2-It will reduce budgetary deficits which results from expenditure on loss making PSUS.
- 3-It will help in reviving sick units which are a burden on public sector.
- 4-It will help in bringing about globalization by opening out of an economy and increasing its competitiveness in international market.
- 5-It will use modern techniques of production.
- 6-It will introduce accountability and responsibility in PSUs.

Arguments against Privatisation

- 1-It encourages growth of monopoly power in the hands of big business houses.
- 2-Private enterprises may not show any interest in buying shares of sick PSUs.
- 3-Private sector produces with profit motive and have no consideration from social welfare motive.
- 4-Private sector is not interested in those projects which take long time to complete and have low profitability. This includes water supply, salt production, education for poor etc.
- 5-Private sector is not interested in taking up risky projects.

21- Explain arguments in favour and against of New Economic reforms.**Ans. Arguments in favour of Globalisation**

Adoption of new, flexible Production Methods.

Restructure of Production and Trade Patterns

Raise Foreign Capital

Quality Improvement

Rise in employment

Rise in Banking and Foreign Sector Efficiency

Creation of New world Order

Accelerate Human Development

Reduce Poverty

Arguments against of Globalisation

Devastation of Local Producers (unable to compete with cheap imports)

Mounting Strikes

Public Employees are worse off

Small business are adversely affected

Decline in income

Weak Social safety Net Provisions

Raising Depth of Inequality.

Neglect of Agriculture Sector

22-Explain the functions of WTO.

Ans. The WTO

LOCATION: Geneva, Switzerland

ESTABLISHED: 1 January 1995

CREATED BY: Uruguay Round negotiations (1986-94)

MEMBERSHIP: 164 members representing 98% of world trade (as of 30 Sept 2018)

HEAD: Roberto Azevêdo (Director-General)

FUNCTIONS:

1-Administering WTO trade agreements

2-Forum for trade negotiations

3-Handling trade disputes

4-Monitoring trade policies

5-Technical assistance and training for developing economies

6-Cooperation with other international organizations

23- Explain the merits and demerits of GST.

ADVANTAGES/MERITS/PROS OF GST

1-Elimination of multiple indirect taxes like excise, octroi, sales tax, CENVAT, service tax, turnover tax, etc.

2-Easy Compliance – A robust and comprehensive IT system would be the foundation of the GST system in India. Therefore, all services like registrations, returns, payment etc would be available to the taxpayers online, which would make compliance easy and transparent.

3-Uniformity of tax rates and structures- aims to ensure that indirect tax rates and structures are common across country. It will increase certainty and ease of doing business, i.e., GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

4-Relief in overall tax burden-Introduction of GST means elimination of double charging in the system. It will reduce the prices of goods and service and it will help the common man to save more money.

5-Simple and easy to administer- GST backed with a robust indirect taxes infrastructure.

6-Increase in Revenue-GST will replace all indirect taxes with single tax.

7-Improved Competitiveness- Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

8-Removal of Cascading Effect-GST will be applicable at all stages from manufacturing to consumption. GST will provide tax credit benefit at every stage in chain. It will reduce cascading effect of tax, thereby reducing cost of product.

DISADVANTAGES/DEMERITS/CONS OF GST

1-Increase in Prices of Certain Goods-Some sectors like textile industry were exempted from taxes or pay low tax. GST has only 4 proposed tax rates of 5%, 12%, 18%, 28%. Thus, for many sectors, the tax burden will increase, which in turn, will increase the price of the final goods.

2-Higher Tax burden for small manufacturing enterprises-Small businesses in the manufacturing sector will bear most of the burnt of GST implementation. Earlier manufacturing business with turnover more than Rs1.50 crores have to pay excise duty. However, under GST, the turnover limit has been reduced to RS20 lakh.

3-Increase in Operating Costs-Most small businesses do not employ professionals and prefer to pay taxes and file returns on their own costs. However, they will require professional assistance as GST is a completely new tax system. While this will benefit the professionals, the small businesses will have to bear the additional costs of hiring experts. Moreover, businesses will need to train their employees in GST compliance increasing their overhead expenses.

4-Registration in multiple states-GST requires businesses to register in all states they are operating in. This will increase the burden of compliances.

5-Change in Business Software-Most businesses use accounting software or ERPs for filing tax returns which have excise, VAT, and service Tax already incorporated in them. The

change to GST will require them to change their ERPs, too ,leading to increased costs of purchasing new software and training employees.

6-Petroleum products excluded from GST- Petroleum products are being kept outside the scope of GST as of now. States will levy their own taxes on this sector. Tax credit for inputs will therefore not be available to related industries like the plastic industry which are heavily dependent on petroleum products. Petrol and diesel are required to run factory machinery and unavailability of input tax credit on petroleum products will most probably push up the final price of all manufactured goods.

7-Costlier Services-The service tax which stood at 15% in the previous regime, has now been replaced with GST at 18%. As such many services have become costlier with telecom, airline and banking affected majorly.

24- Write the merits and demerits of demonetisation introduced in India on 8.November.2016.

Ans. Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins.

Advantages of Demonetization

A major advantage of demonetisation is that it helped the government track black money. Large sums of black money was kept hidden by tax evaders. Demonetisation helped government uncover huge amount of unaccounted cash. According to estimates made by RBI, people have deposited more than rupees 3 lakh crores worth of black money in the bank accounts. This has helped the government in slowing down the plague of parallel economy.

A major reason behind demonetization was that a big part of black money was being used for funding terrorism, gambling, in inflating the price of major assets classes like real estate, gold and other social evils. Demonetization is acting as an effective countermeasure against such activities. Now all such activities will get reduced for some time and also it will take years for people to generate that amount of black money again and hence in a way it helps in putting an end this circle of people doing illegal activities to earn black money and using that black money to do more illegal activities.

Another benefit is that due to people disclosing their income by depositing money in their bank accounts government gets a good amount of tax revenue which can be used by the government towards the betterment of society by providing good infrastructure, hospitals, educational institutions, roads and many facilities for poor and needy sections of society.

Disadvantages of Demonetization

The biggest disadvantage of demonetization has been the chaos and frenzy it created among common people initially. Everyone was rushing to get rid of demonetized notes while inadequate supply of new notes affected the day to day budgets of citizens. Banks and ATMs

witnessed long queues while small businesses suffered temporary financial losses. The situation was even worse in rural India where people struggled to exchange and withdraw cash due to lack of enough number of banks and ATMs in their vicinity.

Another disadvantage is that destruction of old currency units and printing of new currency units involve costs which has to be borne by the government and if the costs are higher than benefits then there is no use of demonetization.

Another problem is that this move was targeted towards black money but many people who had not kept cash as their black money and rotated or used that money in other asset classes like real estate, gold and so on were not affected by demonetization.

UNIT-2:(Current Challenges facing Indian Economy) CHAPTER-4: Poverty

VERY SHORT ANSWER QUESTIONS-(1 Mark)

1. Define poverty?

Ans: It refers to the state in which an individual is unable to fulfill even the basic necessities of life.

OR

Poverty is a situation where a person is devoid of the basic necessities of life such as food; shelter education health protection from violence etc. poverty is a greater challenge for India as more than one fifth of the world population lives in India alone.

2. What is poverty Line?

Poverty line is defined by the monetary value of the minimum calorie intake that are estimated at 2400 calories for a rural person and 2100 calories for a person in the urban area.

Based on this in 2011-12, the poverty line was defined for rural areas as consumption worth Rs 816 per person a month and for urban areas it was Rs 1000.

3. Who are rural poor?

Ans: People who work mainly as landless agricultural labourers, cultivators with very small landholding, landless labourers who are engaged in a variety of non agricultural lands and tenant are called poor in rural in India.

4. Who are urban poor?

Ans: People who migrated to urban areas in search of alternative employment and livelihood, labourers who do a variety of casual jobs and the self employed who sell a variety of things on roadsides and are engaged in various activities.

5. Name the Estimator who discuss the concept of poverty line?

Ans: DadabhaiNaoroji.

6. What are the other tools for measuring the poverty line?

Ans.: The other tools for measuring the poverty line are poverty gap index and squad poverty gap.

7. What is “Head count ratio”?

Ans.: When the number of poor is estimated as the proportion of people below the poverty line, it is known as “Head count ratio.”

8. Name the states in India which account for the largest percentage of poor people?

Ans.: Uttar Pradesh, Bihar, Madhya Pradesh, West Bengal and Orissa.

9. Name the program which helps the poor old people, women and widows?

Ans.: National Social Assistance Program (NSAP).

10. When the National Rural Employment Guarantee Act passed?

Ans: 2005.

MULTIPLE CHOICE QUESTIONS

1. What is the full-form of SJSRY:-
 - (i) Sampoorna Gramin yojna Rozgar
 - (ii) Sampoorna jayanti shahari rozgar
 - (iii) Swarna jayanti gram swarozgar yojna

ANSWER> Swarna jayanti shahri rozgar yojna

2. Which was the golden revolution of India :-

A) 1990-2002 B) 1991-2003 C) 1991-2002 D) 1992-2004

Answer> In 1991-2003

3. When was the regional rural banks act launched :-

ANSWER> In 1976

4. Who explain the phenomenon of poverty in terms of vicious circle of poverty?

A) Daclabhai Naroji B) Nurkse C) V.K.R.V.Rao D) R.C. desai

ANSWER> Nurkse

5. In pre-independent India, who was the first to measure poverty.

A) Daclabhai naeroji B) Nurse
C) V.K.R.V.Rao D) R.C. desai

ANSWER> Dadabhai Nairobi

6. Which type of poverty refers to the total number of people living below the poverty line.

A) Realative poverty B) Food poverty C) Absolute poverty D) Income poverty

ANSWER> Abolute

7. Which one of the following is a flaws in anti-poverty programmes?

A)Lack of accountability B) Rise is wages C) Indira awas yojna D) Annapurna Yojna

ANSWER> Lack of accountability

9.Which one of the following is an example of wage employment/

A)SGSY B)REGP C) MGNREGA D) PMRY

ANSWER> MGNREGA

10.Which one of the following is a category of poor people?

A. Malnutrition B. Hunger C. chronic Illiteracy D.

ANSWER> Chronic poor

11.Poverty line has been defined in terms of :-

a. Food intake b. Income poverty c. Absolute poverty d. Relative poverty

ANSWER> Food intake

12.In India who provides official data on poverty?

a. Dadabhai Naroji b. planning commission c. World trade organisation d.National sample survey organisation

ANSWER> NSSO

SHORT ANSWER QUESTIONS-(3 Marks)

Q. 1: State one difference between usually poor and occasionally poor.

Ans. : The people who are usually poor are always poor and may sometimes have a little more money but the people are occasionally are always rich and may sometimes have a patch of bad luck.

Q. 2: What is the problem with the first way of determining the poverty line?

Ans.: The major problem with the first way of determining the poverty line is that this mechanism is that it groups all the poor together and does not differentiate between the very poor and the other poor.

Q. 3: What are the causes of poverty?

Ans.: Causes of poverty are:

2. Social economic and political inequality
3. Social exclusion
4. Unemployment
5. Indebtedness
6. Unequal distribution of wealth

(Explain any three)

Q.4: What are the three major programs that aim at improving the food nutritional status of the poor?

Ans.: The three major programs are:

7. Public distribution system
8. Integrated child development scheme
9. Mid day meal scheme

(Explain them)

Q.5: What is the difference between relative and absolute poverty?

Ans: 1) Relative poverty refers to poverty of people in comparing to other people, regions and nations. On the other hand, Absolute poverty refers to the total no. of people living below poverty line.

2) Relative poverty helps in understanding the relative position of different segment of the population. On the other, hand Absolute poverty helps to measure the no. of poor people.

Q. 6: How can creation of income earning assets address the problem of poverty?

Ans: The income of a household is the total amount earned from the various incomes, earning assets so the distribution of income across household or the extent of poverty depends on how the income earning assets have been distributed among the household. If poor people are provided with high income earning assets, than they will be assured of minimum income. It would help them in coming above the poverty line.

Q. 7: What programs has the Govt. adopted to help the elderly people and poor destitute women?

Ans: National Social Assistance Program (NSAP) was initiated by the Central Govt. to help a few specific groups. Under this program, elderly people who do not have anyone to take care of them are given pension to sustain themselves. Poor women who are destitute and widows are also covered under this scheme.

8. Explain the Policies and programmed towards poverty alleviation.

Poverty alivation programmer implementation is based on the prospective of the Five years plan.

Explaining self employment programme a wage employment programmes are being considered as the major ways of addressing poverty.

Different poverty alleviation programs are:-

10. Rural employment generation programme(REGP)
11. Prime Minister RojgarYojana(PMRY)
12. Swarna Jayanti sahariRojgarYojana(SJSRY)
13. SwarnajayantiGraminRojgerYojana(SGRY)
14. Mahatma Gandhi National Rural Employment Guarantee Act. Ect

The major programmes that aims at improving the food and nutritional status of the poor are:-

15. Public distribution System
16. Integrated child development Schemes
17. Midday Meal Scheme.

Poverty alleviation programme –A critical Assessment.

There are three major areas of concerns which prevents the successful implementation of poverty elevation programme are

18. Due to unequal distribution of land and other wealth.
19. Ill motivated, inadequate trained, corrupted officials.
20. Government policies have failed to address the vast majority of the vulnerable people who are living on a just above the poverty line.

Conclusion:-

Though the steep taken up to alleviate poverty has been successful to some extent, yet there are many aspects to be taken care of to completely eradicate the poverty from India.

SHORT ANSWER QUESTION-(4 Marks)

Q. 1: What is meant by “Food for Work” Program? Give details

Ans: The “Food for Work” or “National Food for Work Program (NFFWP)” was launched in 2004 with the objective of intensify the generation of supplementary wage employment

21. NFFWP was initially implemented in 150 most backward districts of the country to provide additional resources available under SGRY.
22. The Program was implemented as a 100% Centrally Sponsored Scheme.
23. This program was incorporated in Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2005.

Q.2: Is there any relationship between unemployment and poverty? Explain.

Ans: Yes, poverty is closely related to nature of employment. The urban poor in India largely to the overflow of the rural poor who migrates to urban areas in search of employment and a livelihood .However, industrialization has not been able to absorb all these people. Most of the urban poor are either unemployed or temporarily employed as casual labourers. Such casual labourers are among the most vulnerable in society as they have limited skills, with no job surely, no assets and no surplus to sustain them.

Q.3: What are the different categories of poverty?Explain.

Ans: Categories of poverty are:

24. Chronic poor:
25. Always poor: The people who are always poor lies in this category.
26. Usually poor: The person who may sometimes have little more money e.g. casual workers lies under this category.
27. Transient poor:
28. Churning poor: The people who regularly move in and out of poverty, e.g. small farmers and seasonal workers lie under this category.
29. Occasionally poor: The people who are rich most of the time but may sometimes have a patch of bad luck.
30. Non- poor:
31. Never poor: The people who are never poor.

LONG ANSWER QUESTION-(6 Marks)

Q. 1: Briefly explain the three dimensional attack on poverty adopted by the government?

Ans: The Govt.'s approach to poverty deduction has three dimensions:

32. Growth oriented approach: This approach was initiated from the first five year plan. This approach is based on expectation that effects of economic growth would spread to all sections of the society and will trickle down to the poor section also. It was felt that rapid industrial development and down to the poor section of the community.
33. Poverty Alleviation Programs: This second approach has been initiated from the 5th five year plan and progressively enlarged since then. The Govt. has introduced a variety of program for reduction of poverty.
34. Minimum Needs Program: This approach has been initiated from the 5th five year plan. It aims to provide minimum basic amenities to the people. Programs under this approach are expected to supplement the consumption of the poor, create employment opportunities and bring improvements in health and education.

Q.2: Illustrate the difference between rural and urban poverty. Is it correct to say that poverty has shifted from rural to urban areas? Use the trends in poverty ratio to support your answer.

Ans: 1) In urban areas, poor people include pus cart vendors, street cobblers, rag pickers, beggars etc. On the other hand, in rural areas, poor people include landless agricultural laborers, cultivators with very small land holding, tenant cultivator with small land holding etc.

2) The urban poor are largely the overflow of the overflow of the rural poor who had migrated to urban areas in search of alternative employment and livelihood. However, rural people do not include people from urban areas.

The no. of poor people in rural areas reduced from 261.3 million to 170.3 million from 1973 - 1974 to 2004-2005, whereas, the no. of poor people in urban areas has increased from 60 million to 68.2 million in the same period. So, the trends in poverty in India support the statement that poverty has shifted from rural to urban areas.

Q.3. Why are employment generation programmes important in poverty alleviation in India?

Answer: The importance of employment generation programmes in poverty alleviation efforts in India are as follows:-

- (i) Direct Relationship between Employment and Poverty Alleviation: There exists a positive relationship between employment and poverty alleviation. If government aims at creating new employment opportunities, then more people will be employed that will raise their income and, thus, will pull them above the poverty line.
- (ii) Higher Standard of Living: With the increase in income, consequent to the new employment opportunities, poverty trodden people can enjoy higher standard of living and greater accessibility to education, better health facilities, proper sanitation, etc.

Question 4: The three dimensional attack on poverty adopted by the government has not succeeded in poverty alleviation in India. Comment.

Answer: A thorough analysis of the three dimensional approach yield the following conclusions:

1. Although there has been a reduction in the percentage of absolute poor in some of the states but still the poor people lack basic amenities, literacy, and nourishment.
2. There has not been significant change in the ownership of income-earning assets and productive resources.
3. Land reforms do not have high successful records (except West Bengal and Kerala) that further added to the inequality of income from land.

Therefore, it can be summed up that although various poverty alleviation programmes were well planned on papers but these were not implemented properly.

Question 5. What programmes has the government adopted to help the elderly people and poor and destitute women?

Answer: The government has adopted various programmes to help the elderly people and poor and destitute women. One of such programmes is National Social Assistance Programme, introduced by the central government. This programme targets elderly people, widows and the poor and destitute women who are alone and have no one to take care of them. Under this programme, these targeted people are given pension to sustain their livelihood.

Question 6: Is there any relationship between unemployment and poverty? Explain.

Answer: Yes, there do exist a direct and positive relationship between unemployment and poverty. Unemployment leads to poverty and poverty in turn leads to unemployment. An unemployed person has no means to earn money and cannot fulfill his own and his family's basic needs. He and his family cannot avail quality education, medical facilities and has no means to create income-earning assets. Such circumstances often compel indebtedness. Consequently, an unemployed person exaggerates poverty for his family due to indebtedness. This confirms the positive relationship between unemployment and poverty.

Q7: Illustrate the difference between rural and urban poverty. Is it correct to say that poverty has shifted from rural to urban areas? Use the trends in poverty ratio to support your answer.

Answer: The major difference between rural and urban poverty in India lies in the standard of living. The latter enjoys higher living standard compared to the former and the standard of living may be attributable to the wide income disparity and gap between the two. Another major difference is the level of education and also access to education. The urban Poor enjoy better access to quality education than the rural counterparts. Thirdly, health care facilities prevalent in the urban areas are far better than that of in the rural areas. Also the rural poor people lack access to these health facilities and important medical information.

Chapter: 5 -Human capital formation**Objective Questions (1 Mark)**

1.is the process of adding to the stock of human capital over time.

- (a) Physical capital
- (b) Human capital
- (c) Human capital formation
- (d) None of the above

Ans (c) Human capital formation

2. Which of the following is/are examples of physical capital?

- (a) Machine
- (b) Skill
- (c) Building
- (d) Both (a) and (c) .

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

3. The stock of skill and expertise of nation at a point of time is called

- (a) Human capital
- (b) Human development
- (c) Human capital formation
- (d) Physical capital

Ans (a) Human capital

4. is/are an important factor of human capital formation as it results in enhanced labour productivity.

- (a) Education
- (b) On-the-job training
- (c) Migration
- (d) All of the above

Ans (d) All of the above

5 Which Five Year Plan recognised the importance of human capital?

- (a) Tenth
- (c) Sixth
- (b) Seventh
- (d) Ninth

Ans (b) Seventh

6 Health expenditure directly increases the supply of Healthy.....

- (a) food
- (c) human
- (b) labourers
- (d) None of the above

Ans (b) labourers.

7. The main problems of human capital formation in India is/are

- (a) rising population
- (b) brain drain
- (c) high poverty levels
- (d) All of these

Ans (d) All of these

8. In India, education sector is regulated by

- (a) Ministry of Education
- (b) NCERT
- (c) UGC and AICTE
- (d) All of the above

Ans (d) All of the above

9.is an educationally backward state.

- (a) Kerala
- (c) Bihar
- (b) Goa

(d) Mizoram

Ans Bihar

Objective Type Questions |1 Mark|

10. What is the main purpose of human capital formation?

Ans- The main purpose of human capital formation is to make human beings more productive.

11. How does human capital formation improve quality of life?

Ans- Human capital formation helps an individual to earn more, thereby improving his quality of life.

12. Why do people migrate?

Ans- People migrate in search of better employment opportunities that fetch them higher earnings.

13. What are the two forms of health expenditures?

Two forms of health expenditures are Preventive medicine (vaccination) and Social medicine (spread of health literacy)

14. Write any one problem of human capital in India.

Ans- High poverty levels

15. What do you mean by 'brain drain'?

Ans- Brain drain is the large scale migration of a large Group of individuals with technical skills or knowledge to a foreign country.

Short answer type questions (3/4 marks)

1. Distinguish between physical capital and human capital.

Physical Capital	Human Capital
It is tangible	It is intangible.
It is separable from its owners.	It cannot be separated from its owners.
It is perfectly mobile between	Its mobility is restricted by

the countries.	nationality and culture.
It depreciates over time due to constant use or due to change in technology.	It though depreciates with ageing but can be made up through continuous investment in education and health.
It creates only private benefit.	It creates private benefit as well as social benefit.

Q2. Bring out the need for on-the-job-training for a person. (3)

Answer. Technical training adds to the capacity of the people to produce more. Firms given on- the-job- training to enhance the productive skills of the workers so as to enable them to absorb new technologies and modern ideas. It can be given in two forms:

I) The workers may be trained in the firm itself under the assistance of a senior and experienced worker.

II) The workers may be sent off the firm campus for the training.

Q3. How does investment in human capital contribute to growth?

Answer- Role of Human Capital Formation in Economic Growth:

1. Raises Production.
2. Raises Efficiency and Productivity
3. Brings Positive Changes in Outlook and Attitudes
4. Improves Quality of Life
5. Raises Life Expectancy
6. Raises Social Justice.

Q4. Examine the role of education in the economic development of a nation.

Or "Education plays a significant role in economic development'. Discuss.

Answer- Education is an important source of human capital formation. Investment in education stimulates economic development in the following ways:

- a) Raises production- Knowledgeable and skilled workers can make better use of resources at their disposal. It will increase production in the economy. An educated

and trained person can apply his knowledge and skill at farm, factory and office to increase production.

- b) Raises efficiency and productivity- Investment in education increases efficiency and productivity, and hence yields higher income to the people.
- c) Brings positive changes in outlook and attitudes. - Knowledgeable and skilled people have modern outlook and attitudes, that they make rational choice in respect of places and jobs.
- d) Improves quality of life. Education improves quality of life as it provides better job, high income and improves health. It results in better standard of living.

Q5. How do government organisations facilitate the functioning of schools and hospitals in India?

Ans-The following government organisations facilitate the functioning of schools and hospitals in India :
(i) National Council of Educational Research and Training (NCERT)- This body is engaged in developing content and text books up to the level of senior secondary.

(ii) University Grants Commission (UGC)- It is the apex body for controlling the working of various universities in the country. It provides funding to the universities and formulates rules and regulations regarding higher education in the country.

(iii) All India Council of Technical Education (AICTE)- This body formulates and enforces rules and regulations related to technical (engineering) education in India.

(iv) Indian Council of Medical Research (ICMR)- This body formulates and enforces rules and regulations related to medical education in India. It also regulates the health sector.

Q6. Write the difference between human capital and human development.

basis	Human capital	Human development
Meaning	It is the stock of a nation's skill and expertise at a particular point of time.	It is the overall development and well-being of a nation's human capital
End	It considers human being and improvement in productivity as the end.	It considers the welfare in human beings as the end.
Motive of investment	It aims at improving the efficiency and productivity	It aims at improving the overall welfare.

Q7. Why do we observe regional differences in educational attainment in India?

Ans- The per capita education expenditure differs considerably across states from as high 17000 in Himachal Pradesh to as low as 3600 in Bihar in 2011-12. This leads to regional differences in educational attainment. The states in which per Capita education expenditure is

more have high literacy rates as compared to those states with less Per capita education expenditure.

Q8. What are the sources of human capital formation?

Sources of human capital formation.

- (i) Expenditure on education.
- (ii) Expenditure on health.
- (iii) On the job training.
- (iv) Study programmes for adults.
- (v) Migration and expenditure on information.

Long answer types answers (6 marks)

Q1. What do you mean by human capital formation? What are the sources of human capital formation?

Ans) Meaning of Human Capital formation: Human capital formation means the development of abilities and skills among the population of the country.

Sources of Human Capital Formation:

1) Expenditure on education: It is one of the most important sources of human capital Formation. proper utility of man power depends on the system of education, training and experience of the people. Spending on education by individuals is similar to spending on capital goods by companies with the objective of increasing future profits once a period of time. This increase the income of the people and their standard of living. Investment in education is not only highly productive but also it yields increasing return and accelerates economic growth of all the resources.

2) Expenditure on Health: Health is an important input for a development of a nation.

Expenditure on health is needed in the following areas.

- (a) preventive medicine known as vaccination
- (b) curative medicines, i.e., medical intervention during the time of illness
- (c) social medicine I.e spread of health literacy.
- (d) Provision of clean drinking water and good sanitation is very important for improvement of health. Health expenditure directly increases the physical capacity of human being and it raises the supply of healthy labour force.

3) . On the job training: productivity of physical capital is substantially increased with the improvement in human capital. Due to this reason many firms provide on the job training to their workers. Such training has the advantage that it can be provided fast and without much cost. It increases the skill and efficiency of the workers and leads to an increase in production by productivity. Expenditure regarding on the job training is the source of human capital formation because it increases labour productivity than its cost.

4) Expenditure on migration: - people migrate to one place to another that gives them higher salaries. Unemployment people from rural migrate to urban areas. Technical qualified people migrate to other countries for higher salaries. Though it results in cost of migration and higher cost of living due to migration in migrated place. it enhances earning that their cost of migration. Hence it is a source of human capital formation.

5) Expenditure on Information: - Expenditure is incurred to acquire information relating to labour market and other market. It involves amount spent on seeking information about educational institutions, education standard their educational needs and cost of education. This information is necessary to make decisions regarding investment in human capital as well as for efficient utilization of the acquired human capital stock.

Chapter:6 -Rural Development

1 Mark Questions

1. SHG's (1)
 - a. None
 - b. Self Higher Group
 - c. Social Help Group
 - d. Self Help Group

Ans- (d) Self Help Group

Explanation: Self help group started in 1992

2. Which is the apex institute at national level which provide re-finance facilities to institutions engaged in providing rural credit (1)
 - a. NBAARD
 - b. DABARD
 - c. NABADR
 - d. NABARD

Ans- (d) NABARD

Explanation: National Bank for Agriculture and Rural Development bank has been entrusted with "matters concerning policy, planning and operations in the field of credit for agricultural and other economic activities in rural areas in India.

3. What is rural development?

Ans. Rural development is an action plan for the economic and social upliftment of rural areas.

4. What is meant by agricultural diversification?

Ans. Agricultural Diversification means a major proportion of the increasing labour force in the agricultural sector needs to find alternate employment opportunities in other nonfarm sectors.

5. Define non institutional sources of agricultural credit.

Ans. Non institutional sources include money lenders, traders, commission agents, landlords, relations and friends.

6. What is agricultural marketing?

Ans. Agricultural marketing is a process of marketing in which farm produce are distributed through wholesalers and stockiest to ultimate consumers.

7. Mention two limitations of rural banking.

Ans. Two limitations of rural banking are inadequate finance and large amount of over dues and default rate.

8. Name two institutional sources of agricultural credit.

Ans. Two institutional sources of agricultural credit are cooperative credit societies and commercial banks.

9. Which state has an efficient implementation of milk cooperatives?

Ans. Gujarat state has the efficient implementation of milk cooperatives.

10. . When was NABARD established?

Ans. NABARD (National Bank for Agriculture and Rural Development) was established in 1982

11. . What is sustainable development?

Ans. Sustainable development is a system of a long period sustainable process along with an eco-friendly environment.

12. Mention any two non-farm activities which should be developed in rural areas. (1)

Ans-There are many traditional household-based industries in rural areas which can be developed as non-farm activities. The two non-farm activities which should be developed in rural areas are

- a. Handicrafts
- b. Pottery

13. Why is rural development important in India? (1)

Ans- Rural development is important because around two-thirds of India's population lives in rural areas. India's development is not possible without the development of the rural sector.

14. What is agricultural diversification essential for sustainable livelihood?

Ans: Agricultural diversification is essential for rural people to generate supplementary gainful employment and realizing higher level of income.

15. What is cooperative marketing?

Ans: Cooperative marketing refers to a system in which marketing societies are formed by farmers to sell the output collectively and to take advantage of collective bargaining

16. What do you mean by agricultural marketing?

Ans: Agricultural marketing is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.

17. What are the 2 aspects of diversification of activities?

Ans: Diversification includes 2 aspects

18. Diversification of crop production

Diversification of productive activities (Shift of workplace from agricultural to other allied activities and non-agricultural sector

19. Classify rural credit on base of time

Ans: On the basis time, rural credit can be classified as: short-term credit, medium-term credit and long-term credit

20. Which is the apex institution in rural financing?

Ans: National Bank for Agricultural and Rural Development (NABARD), established in 1982.

21. Name three institutional sources of agricultural credit

Ans: 3 institutional sources of agricultural credit are:

Cooperative Credit Societies

Commercial Banks

Regional Rural Banks

22. Why do people seek employment in non-farm sectors?

Ans: People seek employment in non-farm sectors as agriculture is already over-crowded and cannot offer additional employment.

23. What is the main function of co-operative marketing societies.

Ans: The main function is to improve agricultural marketing.

24. State one advantage of organic farming

Ans: Organic farming requires cheaper agricultural inputs

3 Mark Questions

25. Explain three non-farm areas of employment for rural population. (3)

Ans- Census reports reveal that around 42 million people work for the non-farming activities in rural India. This census constitutes nearly about 47% of the total nonfarm employment of rural areas. Manufacturing, social or personal service and most importantly retail trade are the three major own account establishments of non-farming activities. The percentage of the three however varied to a large extent.

- a. So while the category of retail and manufacturing constituted about 43.12%, example pickle industry, farm-based manufacturing and handicraft etc.
- b. the social and personal service shopkeeper etc. constituted only about 7.67% of the total employment in the own account establishments in the rural areas.
- c. Employment in the non-farming sectors like mining, quarrying, electricity, gas and water supply, or other activities like financial intermediation was found to be near to negative. However, trade, transport, manufacturing, business services or construction- such non-farming activity percentage was seen to be much higher.

26. Why is it important to develop proper storage facilities in rural areas? (3)

Ans- Farmers are forced to sell their crops at very low prices to traders because of the fear of it getting damaged from fire, rodents or pests due to lack of proper storage. It is essential to develop proper storage facilities in rural areas so that farmers are not compelled to sell their produce immediately after the harvesting of crops and can wait for a better price for their produce in the market. This enhances the bargaining power of the farmers. The government and cooperative societies have taken some important steps towards the provision of such facilities. As a result, many godowns and warehouses have been built at the village and mandi-town level.

4 Mark Questions

27. Why is agricultural diversification essential for sustainable livelihoods? (4)

Ans- The agricultural diversification implies diversification of crop production and shifting of agricultural workforce to other allied activities such as livestock, poultry, fisheries, etc and non-agricultural sector. Diversification is essential because there is greater risk in depending exclusively on farming for a livelihood and to provide productive sustainable livelihood options to rural people. Most of the agricultural employment activities are concentrated in the Kharif season while during the Rabi season it becomes difficult to find gainful employment in areas lacking in irrigation facilities.

Therefore, expansion into other sectors is essential to provide supplementary gainful employment and in realising higher levels of income for rural people to overcome poverty and other problems. A substantial portion of Indian farming is dependent on the vagaries of monsoon, making it a risky affair to rely upon solely. Accordingly, the need for diversification is required to enable the farmers to earn from other alternative non-farm occupations. Also, agriculture being overcrowded cannot further generate employment opportunities. Therefore, the prospects of the non-farm sectors should be opened up in rural areas to provide job opportunities This lessens the excess burden on agriculture by reducing disguised unemployment. Hence, there is a need to focus on allied activities, non-farm employment and other emerging alternatives of livelihood for providing sustainable livelihoods in rural areas.

6 Mark Questions

28. Explain the term Rural Credit. What are the sources of rural credit

Ans- Rural Credit means provision of loans specially in production for agriculture and non-agricultural sectors.

Credit facilities in the rural areas have contributed a large increase in agricultural productivity and employment facilities in non-agricultural sectors.

The loans have provided in rural areas to the frames in order to purchase machineries agricultural implements etc.

Sources of Rural Credit:

Rural Credit availability can be broadly classified into 2 categories:

- (i) Non-institution Sources: - These are the traditional sources of agricultural credit in India. They include money lenders, relatives, traders, commission agents and land lords.
- (ii) Institutional Sources:- They are cooperative credit, land development banks, commercial banks, regional rural banks, govt., national bank for agricultural and rural development(NBNR) and also self-help groups.

29. What is Agricultural Marketing System? What are the measures can be followed to Improve Agricultural Marketing?

Ans- Agricultural marketing is a process which involves assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.

Measures to Improve Agricultural Marketing:After Independent govt. has adopted various measures to improve of the system of agricultural marketing in the country.It has brought about following measures in order to regulate the markets:-

- (i) Regulated Markets:- The first measure was regulation of markets, to create orderly and transparent marketing condition. This is organized in order to protect farmers from malpractices of sellers and brokers.
- (ii) Cooperative Marketing:-Marketive societies are formed by farmers to sell the output collectively and to take advantages of collective bargaining , for obtaining a better price. Cooperatives are not functioning properly in a recent past due to inadequate coverage of farmer members and processing cooperatives and also inefficient management.
- (iii) Infrastructural facilities:- Govt. had also provided infrastructural facilities like roads, railways, warehousing, old storage and processing units.
- (iv) Standardization and Grading:- Grading And quality control helps farmers to get good price for quality products produced by them.
- (v) Minimum Support Price:- To safeguard the Interest of the farmers government fixes the minimum support price for agricultural products like wheat, rice, maize, cotton, sugarcane, pulses etc. the government willingly will buy any amount of grains from the farmers at a price higher than the market price in order to help them recover their loss. This is normally done by good cooperation of India & the Government in turn will supply these products in public distribution system against BPL & APL card.

30. What do you mean by Organic Farming? What are the Advantages and Disadvantages of Organic Farming?

Ans- Organic farming is the process of producing food naturally.This method avoids the use of synthetic chemical fertilizers and genetically modified organisms.It is very

eco-friendly and very essential for sustainable development. It has a zero impact on environment.

Advantages of Organic Farming

- (i) It substitutes costlier agricultural inputs such as HYV seed, Chemical fertilizers, pesticides etc. locally produced organic inputs, which are cheaper and thereby generate good returns on Investments.
- (ii) It generates income through export as the demand, for organically grown crops are on the raise.
- (iii) It provides healthy food as organically grown food has more nutritional value than food grown through chemical farming.
- (iv) It can provide more employment opportunities in India as it requires more labourers for production than chemically produced goods.
- (v) Organic food is a pesticide free and is produced in an environmentally sustainable way.

Disadvantages of Organic Farming- A Demerits or challenges before organic farming

- (i) Organic farming needs to be popularized by creating awareness and willingness on the part of the farmers for adoption of new methods.
- (ii) There is no proper infrastructure and marketing facilities for these products alone. An appropriate agricultural policy should be brought in for organic farming.
- (iii) The fields from organic farming are less than modern agricultural farming in the initial years. Therefore small and marginal farmers may find it difficult to adapt to large scale production.

Important Questions for Bright learners: 1 Mark Questions

1. Name the state where Kudum shree was started. (1)
 - a. Kerala
 - b. Uttar Pradesh
 - c. Assam
 - d. Tamil Nadu

Ans- (a) Kerala

Explanation: Kudumbashree is a women-oriented community -based poverty reduction programme being implemented in Kerala

2. An academy called _____ for rural prosperity has been established (1)
 - a. Janta Tata National Virtual Academy
 - b. Jamshedji Tatron National Real Academy
 - c. Jamshedji Tata Net Virtual Academy
 - d. Jamshedji Tata National Virtual Academy

Ans- (d) Jamshedji Tata National Virtual Academy

Explanation: This academy is to impart operational training to nearly 10 lakh rural people to run 'info- kiosks'

3. What is TANWA?

Ans. TANWA (Tamil Nadu Women in Agriculture) is a project initiated in Tamil Nadu where rural women find employment in nonfarm jobs, as well as they are trained in latest agricultural techniques.

4. What is 'Golden Revolution'?

Ans. The period between 1991-2003 is called 'Golden Revolution' because during this period the named investment in horticulture became highly productions and the sector emerged as a sustainable livelihood option.

5. Write two instruments to safeguard the interests of farmers by the government.

Ans. Two instruments are fixation of minimum support price (MSP) buffer stock.

6. What is cooperative marketing?

Ans. Cooperative marketing is a measure to ensure a fair price of farmers. Member farmers sell their surplus to the cooperative society which substitutes collective bargaining in place of individual bargaining and hence provides best advantages to the farmers.

7. What do you mean by 'Operation Flood'?

Ans. From 1966 onwards operation flood is a system whereby all the farmers can pool their milk produce according to different grading (based on quality) and the same is processed and marketed to urban centers through cooperatives.

8. 8. What do you mean by micro credit programmer.

Ans. Credit provisions made by self help groups (SHG) to its different members is known as micro credit programme.

9. What is distress Sale?

Ans: It refers to a sale in which farmers are forced to sell their surplus produce to the money lenders or traders at lower price.

10. What is organic farming?

Ans: Organic farming is a production system that sustains the health of soils, ecosystem and people. It relies on ecological processes bio diversity and cycles adapted to a local conditions, rather than the use of inputs with adverse effects.

11. What is Micro-finance?

Ans: Micro finance is a credit scheme extended to the poor through Self Help Groups (SGHs)

12. Why have Self Help Groups (SGHs) been set up?

Ans: The Self-Help Groups (SGHs) have been set up to promote thrift in small proportions by a minimum contribution from each member. From the pooled money, credit is given to the needy numbers to be repayable in small installments at reasonable interest rates.

13. Give any one limitation of Organic farming?

Ans: Yields from Organic farming are less than modern farming.

14. Why is minimum support price (MSP) fixed by the government?

15. Ans: Minimum support price is fixed by the govt. to safe guard the interest of farmers.

16. What is the share of total fish production in the total GDP in the year 2005-06?

Ans: 1.4 percent

17. Why is the period of 1991-2003 is known as period of Golden Revolution?

Ans: The period of 1991-2003 is known as Golden Revolution because during this period, the planned investment in horticulture became highly productive and the sector emerged as a sustainable livelihood option.

3 Mark Questions

18. Why does a farmer need risk management and insurance? (3)

Ans- Agriculture is a risky occupation especially in India where irrigation facilities are there only in 43% of land area under agriculture. Crops have risk due to natural causes like flood, rain, drought etc. In such circumstances, we need to provide farmers with risk management and insurance.

19. What is contribution of marine and inland sources to total fish production? (3)

Ans- Fish production from inland sources contributes about 64% and marine sources contribute the remaining 36% to total fish production. Hence, India is the third-largest producer of fish and the second-largest producer of inland fish in the world.

4 Mark Questions

20. Explain the importance of self help groups (SHGS) in rural areas. (4)

Ans- In order to change the face of socio-economic scenario, micro-enterprises and SHGs are playing significant role in the self-employment by raising the level of income and standard of living rural people. In this framework, one of the most vital aspects of rural self-employment is the formation of SHGs which is a valuable investment in human capital through training and capacity-building measures. From dairy to mechanised farming, weaving, poultry, food processing units, mushroom cultivation; Rural India has been busy setting up micro-enterprises by forming SHGs. The group members use collective wisdom and peer pressure to ensure appropriate use of fund and its timely repayment. These are informal groups in nature where members come together towards collective action for common cause. The common need is meeting their emergent economic needs without depending on external help. SHG movement is supposed to build economic self-reliance of rural poor, overcome misuse and create confidence predominantly among women who are mostly unseen in the social structure.

21. What do you understand by the term 'distress sale'? (4)

Ans- A distressed sale occurs when a sale must be made under unfavorable conditions for the seller. Lack of agricultural marketing infrastructure often forces the farmers to sell their produce at low prices for fear of spoilage or to pay off an imminent debt. This is termed as distress sale. Farmers tend to suffer highly on account of these sales because they not only get a low price for their products but are also cheated by the use of false weights and are charged a high commission. The government is likely to soon launch some measures that aim to end distress sales by farmers of tomato, onion and potato (TOP) crops.

6 Mark Questions

22. How are credit and marketing significant for the progress of agriculture? (6)

Ans- Importance of Credit: In agriculture there is a long 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 especially when they are seasonally unemployed. Therefore, credit is one of the factors which contribute in rural development. If institutional sources are not be available, farmers will borrow from informal sources which will increase cost of borrowing and thereby cost of production. Therefore growth of rural economy depends primarily on infusion of capital from time to time to realise higher productivity in agricultural and non agricultural sectors.

Importance of Marketing: Marketing is important for any production process. What if goods are produced but due to lack of marketing facilities the do not reach to the consumer especially agriculture produce which will perish after some time? It will be total waste of output. Therefore, we need marketing facilities in the form of regulated markets, proper transportation and communication facilities, market information, storage, insurance etc. Even today 10% of goods produced in farms are wasted due to lack of storage. So orderly and transparent marketing is very important for rural development.

23. Discuss some of the institutional weaknesses in Indian agriculture. (6)

Ans- Some of the institutional weaknesses in Indian agriculture are as follows:

- a. We need to involve the small and marginal farmers and the landless labour in deriving benefits of increased agricultural exports through integrated co-operatives like the mother dairy, and other service co-operatives; contract farming, etc.
- b. Present system of credit does not ensure timely availability of credit. In many states, land reform remains woefully unfinished and tenancy regimes need urgent reform.
- c. Indian agricultural credit system is suffering from the problems of subsidised interest rates, poor recovery of loans, high intermediation costs of cooperatives and commercial banks and debt write-offs.
- d. We also need to make efforts to develop new technologies for the farming sector and making it available for small farmers so that they may diversify their production towards high value commercial and export commodities.
- e. We need to create institutions like trading houses, market intelligence services and creation of network of information on national and international prices.
- f. We also need infrastructure for processing, marketing and grading of produce, investment in information etc.

24. What are the defects of Agricultural Market in India? What are the remedial measures to improve agricultural marketing?

Ans- The existing system of Agricultural marketing has no. of defects the following are some of the defects due to which the marketing system is not properly organized.

- (i) Lack of storage facility for food grain and crops has damaged the products either by rats or insects or due to rain.

- (ii) Distress Sale: Most Indian farmers are poor and they have no capacity to wait for better price. They sell the commodities at whatever the price available immediately. As a result they go for distress sale of their output, to the village money lenders or traders for poor price.
- (iii) Lack of transportation as a result farmer cannot reach nearby mandhis to sell their produce at a fair price.
- (iv) Long chain of middleman or intermediaries between the cultivator and the consumer will also reduce the profit of the producer.
- (v) There are also other defects like lack of institutional finance, lack of guiding etc.. This makes Indian marketing system disorganized.

Remedial measures for improvement of agricultural marketing-Following are some of the measures to improve the system agricultural marketing in the country.

- (i) Extension of storage facilities at the farm level and storage and warehousing facilities in the markets and consumption centers.
- (ii) Establishments of regulated markets.
- (iii) Improvement of transport facilities between the village and the mandhis.
- (iv) Establishment of cooperation marketing societies.
- (v) Provision of cheap credit, especially from institutional sources.
- (vi) Provision for grading of the produce to ensure good quality to the consumers and better prices for the producers.
- (vii) Prompt supply of marketing information.

CHAPTER - 7: EMPLOYMENT: GROWTH, INFORMALISATION AND OTHER ISSUES

Key Term

1. Workforce Participation Rate/Worker-Population Ratio:

$$= \frac{\text{Total No of workers in India}}{\text{Total Population in India}} \times 100$$
 It is an indicator used for analysing the employment situation in the country.
2. Self employed: Workers who own and operate an enterprise to earn their livelihood, e.g. a cement shop owner. They constitute 52% of workforce in India.
3. Casual Wage Labourers: Labourers who are casually engaged in others' farms and in return, get a remuneration for the work done, e.g. construction worker. They constitute 30% of workforce in India.
4. Regular Salaried Employees: When a worker is engaged by someone or an enterprise and paid his/her wages on a regular basis. They constitute 18% of workforce in India.
5. Jobless growth: Increased in GDP growth rate without generating employment is referred to as phenomenon of 'jobless growth'.
6. Casualisation of workforce: The process of moving from self-employment and regular salaried employment to casual wage work.
7. Formal and informal sector establishments and workers: 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. All other enterprises and workers working in those enterprises form the informal sector.
8. Unemployment: NSSO defines unemployment as a situation in which all those who, owing to lack of work, are not working but express their willingness or

availability for work under the prevailing condition of work and remunerations.

9. Unemployed person: Economists define unemployed person as one who is not able to get employment of even one hour in half a day.
10. Worker: All those persons who are engaged in various economic activities and hence contribute to gross national product are workers.

OBJECTIVE TYPE QUESTIONS

QUESTION 1: A person who contributes to the production of goods and services is called as a _____. (Labour/ Worker) (Fill up the blank with correct option)

Answer: Worker

QUESTION 2: Labour force comprises worker + _____ people in a country. (Employed /Unemployed)

Answer: Unemployed

QUESTION 3: What is the female worker's participation rate in rural areas in India?
1) Lower 2) Higher 3) Equal 4) Earlier higher but lower now

Answer: 2) Higher

QUESTION 4: In which sector workers enjoy job security? (choose the correct option)
1) Unorganized Sector 2) Organized Sector 3) Agriculture sector 4) Private Sector

Answer: 3) Organized Sector

QUESTION 5: In a tertiary sector which of the following economic activity does not exist?
1) Bee-keeping 2) Teaching 3) Banking 4) Working in the Call Center

Answer: 1) Bee-keeping

QUESTION 6: Which type of unemployment is not found in rural India?
1) Disguised Unemployment 2) Frictional Unemployment 3) Seasonal Unemployment 4) Structural Unemployment

Answer: 2) Frictional Unemployment

QUESTION 7: What is Worker participation ratio?

Answer: Worker Participation Ratio refers to the total percentage of the total population who is

truly engaging in a fruitful activity. It is also known as workers population ration.

Worker Participation Ratio = $\frac{\text{Total Workers}}{\text{Total Population}} \times 100$

QUESTION 8: What are the three sources that collect data on unemployment?

Answer: 1) Census reports of India

2) National sampler survey organization reports of employment and unemployment situations

3) Directorate general of employment and training date of registration with employment exchange.

QUESTION 9: Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I:

COLUMN I

a. An eligible person who is searching for the job but fails to get it

Unemployment

b. A situation when people are working lesser than potential

unemployment

c. More population than the capital formation of a country

unemployment

d. Unemployment due to natural phenomenon of inflation and deflation

unemployment

Choose the correct sequence.

a)iii, iv, i, ii

b)iii, iv, ii, I

c)iv, ii, i, iii

d)iv, ii, iii, i

Answer: b)

QUESTION 10: In last four decades (1972-2012), people have moved from self employment and regular salaried employment to casual wage work. This phenomenon is called as _____ of workforce. (Fill up the blank with correct answer)

Answer: Casualisation

QUESTION 11: An establishment with four hired workers is known as which sector establishment.

1) Informal 2) Formal 3) Both 4) None

Answer: Informal sector

QUESTION 12: Which of the following is false regarding disguised unemployment

- 1) The mounting pressure of population in rural areas with no alternative employment
- 2) The marginal productivity of a worker is high
- 3) A feature of the agrarian economy
- 4) Worker works less than its potential

Answer: The marginal productivity of a worker is high

QUESTION 13: If there are about 473 million workers in the country out of which about 30 million workers in the formal sector. Estimate the percentage of people employed in the formal sectors.

a)15.8 b)6.3 c)0.63 d)none

Answer: 6.3%

QUESTION 14: In the early 1980s, textile mills all over the country began to close down spread over 10 years. Over this period, approximately over 80,000 permanent workers and over 50,000 non-permanent workers lost their jobs and were driven to the informal sector. This process is called as _____ of work force.
(Fill up the blank with correct answer)

Answer: Informalisation

QUESTION 15: Tick () mark against those which are in the informal sector
 i) Worker in a hotel which has seven hired workers and three family workers
 ii) A private school teacher in a school which has 25 teachers
 iii) A police constable
 iv) Nurse in a government hospital
 v) Cycle-rickshaw puller
 vi) The owner of a textile shop employing nine workers
 vii) Driver of a bus company which has more than 10 buses with 20 drivers, conductors and other workers
 viii) Civil engineer working in a construction company which has 10 workers
 ix) Computer operator in the state government office working on a temporary basis
 x) A clerk in the electricity office.

Answer: i), v), vi)

QUESTION 16: Choose the correct pair from column I and column II

COLUMN I

- a) NABARD
- b) Regional Rural Banks
- c) Land Development Banks
- d) Self Help Group of land

COLUMN II

- i) Set up in 1984
- ii) Set up under RRB Act of 1976
- iii) Micro credit needs of rural people
- iv) provide long term loans on security

Answer: b), ii)

QUESTION 17: Supply of labour is measured in terms of _____.

Ans.- man days of work.

Objective Type Questions, MCQs/ Very Short answer type question (1 mark each)

1. During 2011-12, India had about _____ strong workforce. The rural workers constitute about _____ of this.
2. Women workers account for _____ of the rural workforce; whereas in urban areas, they are just _____ of the work force.

3. The worker-population ratio in rural India is higher than that in urban areas. Give reason.
4. Why are women, in general, and urban women, in particular, not working? Give reason.
5. Workers who own and operate an enterprise to earn their livelihood are known as _____
 . About _____ workforce in India belongs to this category.
6. _____ account for _____ of India's workforce. Such labourers are casually engaged in others' farms and, in return, get a remuneration for the work done.
7. When a worker is engaged by someone or an enterprise and paid his or her wages on a regular basis they are known as _____. They account for _____ of India's workforce.
8. _____ is a major source of livelihood for both men and women as this category accounts for more than 50 per cent of India's workforce.
 (a) Self-employment (b) Casual wage labour
 (c) Regular salaried employment (d) None of these
9. The newly emerging jobs are found mostly in the _____ sector.
 (service/manufacturing)
10. Over the last four decades (1972-2012) people have moved from self employment and regular salaried employment to _____. Scholars call this process as _____.
11. An establishment with four hired worker is known as _____ (formal/informal) sector establishment.
12. Those who work in private sector establishments which employ 10 hired workers or more are called _____.
13. Find the odd man out:
 (a) A clerk in the electricity office
 (b) Computer operator in the state government office working on a temporary basis
 (c) Worker in a hotel which has seven hired workers and three family workers.
 (d) A police constable
14. Which of the following is working in the informal sector?
 (a) A private school teacher in a school which has 25 teachers.
 (b) The owner of a textile shop employing nine workers.
 (c) Driver of a bus company which has more than 10 buses with 20 drivers, conductors and others workers.
 (d) Civil engineer working in a construction company which has 10 workers.
15. In India, about _____ of the workforce are in the informal sector.
16. Owing to the efforts of the _____ the Indian government has initiated the modernisation of informal sector enterprises and provision of social security measures to

informal sector workers.

17. Some people look for jobs in newspapers, some look for a job through friends and relatives.

In many cities, people standing in some select areas looking for people to employ them for that

day's work. Some go to factories and offices and give their bio-data and ask whether there is any vacancy in their factory or office. Some go to employment exchanges. The situation described in the above paragraph is called _____ .

- (a) Disguised unemployment (b) Seasonal unemployment
(c) Open unemployment (d) None of these

18. Unemployed person is one who is not able to get employment of even one hour in half a day.

This definition is given by:

- (a) Economists
(b) National Sample Survey Organisation
(c) Census of India
(d) Directorate general of Employment and Training

19. Unemployment is a situation in which all those who, owing to lack of work, are not working

but either seek work through employment exchanges, intermediaries, friends or relatives or by making applications to prospective employers or express their willingness or availability for work under the prevailing condition of work and remunerations. This definition is given by:

- (a) Economists
(b) National Sample Survey Organisation
(c) Census of India
(d) Directorate general of Employment and Training

20. Economists call unemployment prevailing in Indian farms as _____ .

21. Suppose a farmer has four acres of land and he actually needs only two workers and himself to carry out various operations on his farm in a year, but if he employs five workers and

his family members such as his wife and children, this situation is known as _____ .

22. Many people migrate to urban areas, pick up jobs and stay there for some time, but come back to their home villages then. Why do they do so? Give reason.

23. When there is no work to do on farms, people go to urban areas and look for jobs. This kind of unemployment is known as _____ .

24. Though we have witnessed slow growth of employment in India, have you seen people being unemployed over a very long time? Give reason.

25. _____ is the major formal sector employer in the country.

26. The nature of employment has become more _____ (formal/informal) with only

limited availability of social security measures to the workers.

27. Name the three sources of data on unemployment in India, which provide us with the attributes of the unemployed and the variety of unemployment prevailing in our country.

Answer

1. 473 million; three-fourth
2. one-third; one-fifth
3. People in rural areas have limited resources to earn a higher income. People cannot stay at home as their economic condition may not allow them to do so. They participate more in the employment market.
4. It is common to find that where men are able to earn high incomes, families discourage female members from taking up jobs.
5. self-employed; 52 percent
6. Casual wage labourers; 30%
7. regular salaried employees; 18%
8. (a) Self-employment
9. service
10. casual wage work; casualisation of workforce
11. informal
12. formal sectors workers
13. (c)
14. (b)
15. 94 per cent
16. International Labour Organisation (ILO)
17. (c) Open unemployment
18. (a)
19. (b)
20. disguised unemployment
21. disguised unemployment
22. This is because work in agriculture is seasonal: there are no employment opportunities in the village for all months in the year. When there is no work to do on farms, people go to urban areas and look for jobs.
23. Seasonal unemployment
24. Scholars say that in India, people cannot remain completely unemployed for very long because their desperate economic condition would not allow them to do so. Rather, they are forced to accept unpleasant or even dangerous jobs in unclean or unhealthy surroundings.
25. Government
26. informal
27. (i) Reports of Census of India
(ii) National Sample Survey Organisation's Reports of Employment and unemployment

situation

(iii) Directorate General of Employment and Training Data of Registration with employment Exchanges.

“Understanding, Analysing, Evaluating and Creating” type questions (with answers)

Q.1. “Since the late 1970s, many developing countries, including India started paying attention to enterprises and workers in the informal sector.” Comment. (3)

Ans. The given statement is correct. The reason is that employment in the formal sector is not growing. The percentage of people employed in the formal sectors in India is only 6 per cent. The rest 94 per cent are in the informal sector. However, workers and enterprises in the informal sector do not get regular income; they do not have any protection from the government. Workers are dismissed without any compensation. Technology used in the informal sector enterprises is outdated. Workers of the informal sector live in slums and are squatters.

Of late, owing to the efforts of the International Labour organisation (ILO), the Indian government has initiated the modernisation of informal sector enterprises and provision of social security measures to informal sector workers.

Q.2. Explain briefly the different types of unemployment prevailing in India. (3)

Ans. 1. Open unemployment – In many cities, people look for jobs in factories and offices, give their bio-data and ask for any vacancy in their factory or office. Many people standing in some select areas look for people to employ them for that day’s work. Such type of unemployment is called ‘open unemployment’.

2. Disguised unemployment – It is a kind of unemployment prevailing in Indian farms, where more labour are working on a farm than actually required. Thus, Marginal product gained by employing one additional unit of labour is zero.

3. Seasonal unemployment – Work in agriculture is seasonal: there are no employment opportunities in the village for all months in the year. When there is no work to do on farms, people go to urban areas and look for jobs. This kind of unemployment is known as seasonal unemployment.

Q.3. What measures/steps have been taken by the government of India in generating employment or creating opportunities for employment generation in India? (6)

Ans. The Union and State governments have played an important role in generating employment or creating opportunities for employment generation in India. Their efforts can be broadly categorised into two — direct and indirect.

- Direct employment generation – The government employs people in various departments for administrative purposes. It also runs industries, hotels and transport companies, and hence provides employment directly to workers.

- Indirect employment generation opportunities – When the output of goods and services from

government enterprises increases, the private enterprises will also raise their output and hence increase the number of employment opportunities in the country.

For example, when a government owned steel company increases its output, it will result in direct increase in employment in that government company. Simultaneously, private companies, which purchase steel from it will also increase their output and thus employment. This is the indirect generation of employment opportunities by the government in the country. Moreover, many programmes that the governments implement, aimed at alleviating poverty, are through employment generation. They are also known as employment generation programmes. For example, Mahatma Gandhi National Rural Employment Guarantee Act 2005,

Pradhan Mantri Jan-Dhan Yojna 2014, Swarna Jayanti Gram Swarozgar Yojna (SGSY), Pradhan Mantri Gramodaya Yojna, Valmiki Ambedkar Awas Yojna etc. All these programmes

aimed at providing not only employment but also services in areas such as primary health, primary education, rural drinking water, nutrition, assistance for people to buy income and employment generating assets, construction of houses and sanitation, assistance for constructing houses, etc.

NCERT Solution

Question 1: Who is a worker?

Answer: All people who are engaged in economic activities in whatever capacity are called workers.

Question 2: Define worker-population ratio.

Answer: The percentage of number of workers in respect to total population is called workerpopulation ratio.

Question 3: Are the following workers — a beggar, a thief, a smuggler, a gambler? Why?

Answer: These are not examples of workers because although they are earning their livelihood but they are not doing economic activities. Activities of a thief, a smuggler and a gambler are illegal activities and thus they are doing crimes. A beggar is proving to be a liability for the society, as he is not contributing towards economic development of the society.

Question 4: Find the odd man out (i) owner of a saloon (ii) a cobbler (iii) a cashier in Mother Dairy (iv) a tuition master (v) transport operator (vi) construction worker.

Answer: A cashier in Mother dairy is different from all others because the cashier is working in a regular salaried job.

Question 5: The newly emerging jobs are found mostly in the sector (service/manufacturing).

Answer: Service Sector

Question 6: An establishment with four hired workers is known as (formal/informal) sector

establishment.

Answer: Informal sector

Question 7: Raj is going to school. When he is not in school, you will find him working in his farm. Can you consider him as a worker? Why?

Answer: Raj can be considered as a worker because he is contributing towards productivity of his farm.

Question 8: Compared to urban women, more rural women are found working. Why?

Answer: Women in rural areas often work in various farming processes; like harvesting and threshing. We know that farming processes need more number of workforce and this need can

only be met with participation of women workers as well. Following are the reasons:

i)Poverty: In rural areas people are more poor, so in order to feed the family women are bound

to work. Only one person's income is insufficient.

ii)Illiteracy among women: Sometimes, it is cost saving for the farm owner to hire a female worker because female workers are paid less than male workers. In urban areas women work less as compared to women. Main reasons are

iii)Patriarchal system: In urban areas, most of the people work in regular salaried jobs and as self employed. In well off families, women do not prefer to do the job, so urban women restrict

themselves doing job.

iv)Social Stigma: Another important fact is the prevalent mindset which sees women in their traditional role of a housewife. These are the reasons, more rural women are found working compared to urban women.

Question 9: Meena is a housewife. Besides taking care of household chores, she works in the cloth shop which is owned and operated by her husband. Can she be considered as a worker? Why?

Answer: When she is working in the cloth shop, she is doing an economic activity and hence she can be considered as a worker.

Question 10: Find the odd man out (i) rickshaw puller who works under a rickshaw owner (ii) mason (iii) mechanic shop worker (iv) shoeshine boy.

Answer: The shoeshine boy is different because he is a self-employed person.

Question 11: Why are regular salaried employees more in urban areas than in rural areas?

Answer: In most of the villages, offices or factories are not established and hence there are negligible regular salaried jobs in rural areas. The situation is just opposite in urban areas. Hence, regular salaried employees are more in urban areas than in rural areas.

Question 12: Why are less women found in regular salaried employment?

Answer: There are many reasons for low representation of women in regular salaried employment.

i) Division of work: Deep rooted social beliefs are the main reason which segregate women's work as homemakers who are not supposed to venture out of their homes. Even though women

are educated they prefer work at less wages.

ii) Low female literacy: Female literacy level is still below the male literacy level which means a

less number of women are properly qualified and skilled to get a regular salaried job.

iii) Patriarchal System of Society: On the other hand, a male is expected to earn a livelihood so that he can support his family and thus a boy is mentally conditioned since his childhood to

do something. A regular salaried job usually ensures a better social recognition and hence most of the unemployed first try to land a regular salaried job.

Question 13: Analyse the recent trends in sectoral distribution of workforce in India.

Answer: Distribution of workforce by industrial sectors shows substantial shift from farm work

to non-farm work (see Table 7.3).

Primary sector: In 1972-73, about 74 per cent of workforce was engaged in primary sector and in 2011-12, this proportion has declined to about 50 per cent.

Secondary sector's contribution was about 11% in 1972-73, its share has increased from 11 to 24% in 2011-12. It showed at least 12% increase, which is a good transformation.

Tertiary sector's contribution raised tremendously from 15% to 27% from 1972-73 to 2011-12.

Since independence, distribution of workforce in primary sector has declined to some extent but this decline is not significant. While the share of secondary sector in the GDP has grown, this sector has failed to generate employment in that ratio. The tertiary sector has grown quite significantly both in terms of contribution to GDP and employment generation. However, even

the tertiary sector has failed to generate enough employment so that the load on primary sector

could be reduced.

Question 14: Compared to the 1970s, there has hardly been any change in the distribution of workforce across various industries. Comment.

Answer: There have been major changes in terms of share of different sectors in employment generation; as shown by data discussed in previous question's answer. However, selfemployment

continues to be the major employment provider. The ratio of self employed workers to total population has reduced marginally from 61% in 1970s to 51% 2010. The ratio

of regular salaried employees has remained static at 15% during this period. But the most disheartening fact is the increase in ratio of casual workers which increased from 23% to 33% during this period. This shows that although the economy has grown but we are moving from salaried employment and self employment towards casual employment. Some economists argue this as jobless growth.

Question 15: Do you think that in the last 50 years, employment generated in the country is commensurate with the growth of GDP in India? How?

Answer: In the last 50 years, employment generation in India is not commensurate with the growth of GDP. This can be understood by one of the graphs given in this chapter. The GDP growth was about 3.5% during 1950s and it grew at a healthy rate of more than 8% in 2010. Employment generation was 0.39% in the 1950s and it maintained some semblance of growth between 1960s and 1990s. But by the second half of the 2010s, employment generation nosedived to very low rate.

Question 16: Is it necessary to generate employment in the formal sector rather than in the informal sector? Why?

Answer: The formal sector not only provides employment but also several social security benefits. A worker in the formal sector gets higher salary and social security benefits. Various social security benefits that the worker can be assured of better quality of life when he becomes old or physically disabled. After the life of a worker, his family members can be assured of a decent life. The situation is totally opposite in the informal sector where even regular salary is a dream for most of the workers. Hence, it is necessary to generate employment in the formal sector rather than in the informal sector.

Question 17: Victor is able to get work only for two hours in a day. Rest of the day, he is looking for work. Is he unemployed? Why? What kind of jobs could persons like Victor be doing?

Answer: According to definition, if a person is able to get at least two hours job in a day then that person is considered as an employed person. Hence, Victor cannot be termed as unemployed. But since he is looking for work for the rest of the day, it can be assumed that he is not getting enough from two hours' work. Another definition terms the unemployed as person who keeps on looking for work because he does not have enough work. According to this definition, Victor is unemployed. Victor may be doing some part time job; like supplying milk in the morning or distributing newspaper or pamphlets.

Question 18: You are residing in a village. If you are asked to advice the village panchayat, what kinds of activities would you suggest for the improvement of your village which would also generate employment.

Answer: I will suggest increasing the scope for alternate sources of livelihood. The farmers should be educated and trained in food processing or in animal husbandry or horticulture. People can also be trained in various handicrafts so that cottage industry can be started in the village. These steps would help in improving employment opportunities in the village.

Question 19: Who is a casual wage labourer?

Answer: A worker who does not get a regular salaried job and is neither self employed is termed

a casual wage labourer. A casual wage labourer may not get work on a regular basis.

Although

the government prescribes minimum wages for such workers but most of them are unable to get even the minimum wages.

Question 20: How will you know whether a worker is working in the informal sector?

Answer: If the worker is not getting social security benefits then it is clear that he working in the informal sector. Pension, gratuity and provident fund are the major tools for providing social security net.

Question 21: The following table shows distribution of workforce in India for the year 1972-73.

Analyse it and give reasons for the nature of workforce distribution. You will notice that the data is pertaining to the situation in India 30 years ago!

Answer: This table reveals some interesting facts about workforce composition in India during

1970s. A very high proportion of the workforce (about 80%) is in rural areas, compared to just

20% of the workforce in urban India. This can be correlated to the fact that during this period, a majority of Indians lived in villages. Participation of female workers is much better in rural areas compared to in urban areas.

This is in tune with the prevailing situation in our country. Various data in this chapter shows that women workforce is in better ratio in rural areas than in urban areas.

Question 22: The following table shows the population and worker population ratio for India in

1999- 2000. Can you estimate the workforce (urban and total) for India?

Answer: Urban (9.6 crores), total (39.6 crores)

CHAPTER -8: INFRASTRUCTURES

Key Terms

1. Economic infrastructure: Infrastructure associated with energy, transportation and communication.

2. Social infrastructure: Infrastructure related to education , health and housing.

3. Commercial sources of energy: Coal, petroleum and electricity are commercial sources of energy (as they are bought and sold). They are exhaustible (exception hydro power). They constitute 74 % of total energy consumed in India.

4. Non-commercial sources of energy: Firewood, agricultural waste and dried dung are noncommercial sources of energy (as they are found in nature / forests) . They are generally renewable. They constitute 26% of total energy consumed in India.

5. Conventional sources of energy: Commercial and non-commercial sources of energy both are conventional sources of energy.

6. Non-conventional sources of energy: Solar energy, wind energy and tidal power are nonconventional sources of energy.

7. CFL(Compact Fluorescent Lamps) – CFLs consume 80% less power as compared to ordinary bulbs.

8. LED (Light Emitting Diode) – LED bulbs consume 1/10 energy as much as an incandescent bulb and 1/2 as much as a CFL to produce the same amount of light.

9. Health infrastructure: It includes hospitals, doctors, nurses and other para-medical professionals, beds, equipment required in hospitals and a well-developed pharmaceutical industry.

10. Primary health centres (PHCs): At the village level, a variety of hospitals are technically known as PHCs.

11. ISM (Indian Systems of Medicine): Includes six systems: Ayurveda , Yoga , Unani , Siddha, Naturopathy and Homeopathy. (AYUSH)

12. GBD (Global Burden of Diseases): GBD is an indicator used by experts to gauge the number of people dying prematurely due to a particular disease , as well as , the number of years spent by them in a state of ‘disability’ owing to the disease.

OBJECTIVE TYPE QUESTIONS

QUESTION 1: National Rural Health Mission was launched in which year?

1) 2006 2) 2005 3) 2000 4) 2009

Answer: The National Rural Health Mission was launched in the year 2005

QUESTION 2: On health infrastructure what is the percentage of GDP that India invest?

Answer: India invests nearly 5 percent of GDP on health infrastructure

QUESTION 3: The State of India which is popularly known as ‘God’s Own Country’

Answer: Kerala

QUESTION 4: Coal, petroleum and electricity are _____ sources of energy as they are bought and sold. (Commercial/ Non Commercial)

Answer: Commercial

QUESTION 5: Which of the following is not a non commercial source of energy?

a)Cow Dung b)Firewood c)Coal d)Agricultural waste

Answer: c)

QUESTION 6: Which states in India are lagging behind in the health care system?

Answer: The major states lagging behind in the health care system are Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh

QUESTION 7: What percentage of tap water is available in the rural household and how much population drink open source water.

1) 24,76 2) 60,40 3) 40,60 4) 70,30

Answer: In the present, the percentage for both is 24,76.

QUESTION 8: In India, the total energy consumption of commercial energy is 65 percent. Which source has the largest share of consumption?

1) Coal 2) Natural Gas 3) Oil 4) Hydro-Energy

Answer: Coal has the largest share of consumption

QUESTION 9: The conventional source of energy are

1) Non- Commercial 2) Commercial Source 3) Both 4) None

Answer: 3) Both

QUESTION 10: Name the secondary source of energy?

1) Nuclear Energy 2) Electricity 3) Hydrocarbon 4) Oil

Answer: Oil is the secondary source of energy.

QUESTION 11: The word 'Health' does not only mean absence of disease. It is known as _____,

_____ and _____. (Fill up the blank with correct answer)

Answer: Physical, mental and social wellbeing

QUESTION 12: Whether the following statement is true or false?

'The deterioration in the child sex ratio in the country from 927 in 2001 to 914 in 2011 points to the growing incidence of female foeticide'.

Answer: True

QUESTION 13: Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I:

COLUMN I

a. Six Indian System of Medicine

b. Proneness to fall ill

c. number of people dying prematurely due to a particular disease,

d. A herbal mosquito repellent

COLUMN II

i)MORBIDITY

ii)AYUSH

iii)JAG

iv)GLOBAL BURDEN OF DESEASE

Choose the correct sequence.

a)ii, i, iv, iii b)iii, iv, ii, I c)iv, ii, i, iii d)ii, iv, iii, i

Answer: a)

QUESTION 14: Name the basic sources of generating power.

Answer: Oil, Coal, and Water are the basic sources of generating power

QUESTION 15: At present nuclear/atomic energy accounts for only _____ of the total energy consumption, against a global average of 13%.

Answer:2%

QUESTION 16: In a rural area, what is the female worker's participation rate?

1) Lower in a rural area 2) Higher in rural areas

3) Higher in urban areas 4) Lower in both the areas

Answer: 2) Higher in rural areas

QUESTION 17: Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I:

COLUMN I

II

a. SEWA

COLUMN

i)Nilguries

b. ACCORD

c. CMSS

d. Kashtkari Sangathan

ii) Thane, Maharashtra

iii) Ahmedabad

iv) Durg Madhya Pradesh

Choose the correct sequence.

a) ii, i, iv, iii b) iii, i, iv, ii c) iii, ii, i, iv d) ii, iv, iii, i

Answer: b)

QUESTION 18: _____ energy is generated from radio-active elements.

Ans.-atomic.

QUESTION 19: An indicator used by experts to gauge the number of people dying prematurely,

due to particular diseases as well as the numbers of years spent by them in a state of disability owing to the disease is called as _____ (Morbidity/ Global Burden of disease)

Choose the correct option):

Answer: GBD

QUESTION 20: What per cent of GDB does India bear?

(a) 4% (b) 50% (c) 20% (d) 74%

Answer: c) 20%

QUESTION 21: Which of the following is a renewable of energy?

(a) Thermal energy (b) Wind energy (c) Nuclear Energy (d) none

Answer: (b)

QUESTION 22: How does infrastructure contributed economic development of a country?

(a) By increase the productivity of factors of production

(b) By improving the quality of life of its people.

(c) both (a) and (b) (d) none of these

Answer: (c)

QUESTION 23: Full form of BEE

a) Board of Efficiency Enhancement b) Bureau of Energy Efficiency

c) Barrier on Energy Emission d) Board of Employee Efficiency

Answer: b)

QUESTION 24: Full form of LED is _____. (Light Efficiency Device/ Light Emitting Diode)

(Fill in the blank with correct option)

Answer: Light Emitting Diode

QUESTION 25: _____ Scheme aims at replacing incandescent bulbs with LEDs to save 5905 MW power. (UJALA/ ROSHNI) (Fill up the blank with correct option)

Answer: Ujala

QUESTION 26: Whether following statement is true or false?

‘CFLs consume 80% less power as compared to ordinary bulbs‘

Answer: True

QUESTION 27: Since independence power management in National capital has changed four times. Which of the following has not managed it?

a) Delhi State Electricity Board (DSEB) b) Delhi Electric Supply Undertaking (DESU)

c) Delhi electricity Board (DEB) d) Delhi Vidyut Board (DVB)

Answer: c)

QUESTION 28: Now distribution of electricity vests with two leading private companies. Name them.

Answer: i) Reliance Energy Limited (BSES Rajdhani Power Limited & BSES Yamuna Power limited)

ii) Tata Power Limited (NDPL)

QUESTION 29: The tariff structure and other regulatory issues of Electricity in Delhi are monitored by the _____ . (Fill in the blank with correct answer)

Answer: Delhi Electricity Regulatory Commission (DERC).

QUESTION 30: _____ city in Maharashtra is acquiring environment friendly image by using solar energy for water heater, traffic light and advertisement hoardings etc. (Fill up the blank with correct answer)

Answer: Thane

NCERT Solution

Question 1: Explain the term 'infrastructure'.

Answer: The supporting services in agricultural and industrial production and in domestic and foreign trade and commerce are called infrastructure. Road, railways, ports, airports, dams, power stations, oil and gas pipelines and telecommunication facilities come under infrastructure. Even healthcare facilities, educational institutions and sanitation facilities are parts of infrastructure.

Question 2: Explain the two categories into which infrastructure are divided. How are both Interdependent?

Answer: The two categories into which infrastructure are divided are as follows:

a. Economic Infrastructure: That directly affects the production from within the production process. Like - Energy, Roads, railways, ports, telecommunication, etc. come under economic infrastructure.

b. Social Infrastructure: That indirectly affects the production from outside the production process. Like - Healthcare, educational facilities, housing, civic amenities etc. come under social infrastructure.

Question 3: How do infrastructure facilities boost production?

Answer: Infrastructure facilities help in seamless availability of raw materials, energy and manpower for agricultural and industries. By doing so, infrastructure facilities boost production.

Question 4: Infrastructure contributes to the economic development of a country. Do you agree? Explain.

Answer: Infrastructure definitely contributes to the economic development of a country. In any country, the need for a particular type of infrastructure depends on the stage of development in that country. For low income countries, basic infrastructure is more important. As the economy matures, need for service related infrastructure increases more. Infrastructure not only boosts production but also helps in minimizing the morbidity of people. Thus, infrastructure ensures better economic development.

Question 5: What is the state of rural infrastructure in India?

Answer: The state of rural infrastructure is very poor in India. Some of the examples illustrate this fact. According to 2001 census, only 56% of rural households have electricity connection and 43% still use kerosene. Bio-fuels are still used by 90% of rural households for cooking. Only 24% of rural households have access to tap water. Only 20% of rural India has access to improved sanitation.

Question 6: What is the significance of energy? Differentiate between commercial and noncommercial sources of energy.

Answer: Energy is highly important for us. Energy is required for agricultural and industrial production. Energy is required by every household for cooking and heating. Energy is required for transportation. Sources of energy which are bought and sold are called commercial energy, e.g. coal, petroleum and electricity. On the other hand, non-commercial energy sources are freely available in nature, e.g. firewood, cowdung, etc.

Question 7: What are the three basic sources of generating power?

Answer: The three basic sources of generating power are; thermal power, hydel power and Nuclear energy.

Question 8: What do you mean by transmission and distribution losses? How can they be reduced?

Answer: Significant portion of electricity is lost during transmission and distribution. Power theft and faulty equipments are the major reasons of distribution related losses. Transmission losses can be reduced by using better equipments and regular maintenance of transmission lines. Distribution losses can be reduced by preventing power theft and by reducing subsidies.

Question 9: What are the various non-commercial sources of energy?

Answer: Firewood and biofuels are the non-commercial sources of energy.

Question 10: Justify that energy crisis can be overcome with the use of renewable sources of energy.

Answer: A major portion of energy we are using comes from non-renewable sources of energy; like coal and petroleum. A time will come when coal and petroleum will be fully exhausted and this will be a crisis situation. The energy crisis can be tackled by developing renewable sources of energy; like solar energy, wind energy, tidal energy, etc. Renewable sources of energy are not only non-exhaustible in nature, they are eco-friendly as well.

Question 11: How has the consumption pattern of energy changed over the years?

Answer: During the 1950s, transport sector was the biggest consumer of energy (44%); followed by industries (40%) and agriculture used just 1% of total energy consumed. This pattern has changed dramatically in over 50 years. In 2012-13, transport sector uses only 2% of energy, while industries are at top (45%). The share of agriculture has increased manifold to 18%. Even the energy consumed by households has grown from 10% to 22%.

Question 12: How are the rates of consumption of energy and economic growth connected?

Answer: Consumption of energy and economic growth are closely related. This can be exemplified by change in pattern of consumption of energy in India during five decades after independence. During the initial years, transport sector used to be the largest consumer of energy. This situation has changed with transport sector going to the bottom. This shows that industrial and agricultural activities have increased manifold over the years. The growth in consumption of energy is always more than GDP growth. According to economists, for ensuring 8% growth in GDP, the consumption of electricity would grow by 12%. This fact also shows the relation between consumption of energy and economic growth.

Question 13: What problems are being faced by the power sector in India?

Answer: Following are the main problems being faced by the power sector in India:

- The installed capacity is not enough to meet 7 – 8% of growth in GDP. To make matters worse, the installed capacity is underutilized and hence power production is not matching the demand.
- The state electricity boards (SEBs) incur huge loss which is to the tune of Rs. 500 billion. The losses are due to transmission and distribution losses, wrong pricing of electricity and other inefficiencies.
- The private sector is yet to participate in power sector in significant way.
- The public unrest is too much whenever the authorities try to raise power tariffs. Thus, power tariff is a politically sensitive issue.
- Thermal power plants which supply the major portion of power are facing acute shortage of raw materials.

Question 14: Discuss the reforms which have been initiated recently to meet the energy crisis in India.

Answer: Various reforms have been initiated recently to meet the energy crisis in India. The government is channelizing resources so that non-conventional sources of energy can be

developed. Wind farms are coming up in a big way in various states. At present Tamil Nadu is the leading producer of wind energy in India. Government is providing solar water heater and solar lanterns at subsidized rates to encourage the general public to switch over to solar power. As the example of Thane city shows, use of solar energy can help in saving energy and environment. In some cities; like Delhi and Mumbai power distribution has been handed over to private companies so that distribution related losses could be minimized. Some new nuclear plants have also started generating electricity. The energy related reforms in India are working on two fronts; at increasing power production and at promoting a culture of energy saving.

Question 15: What are the main characteristics of health of the people of our country?

Answer: If we analyze some of the indicators of health, then India's situation is not encouraging compared to some of the developed as well as developing countries. Infant mortality rate is very high at 47 per thousand live births. This figure is 10.5 for country like Sri Lanka and 6.4 for USA. Mortality rate among children below 5 years is even higher at 61 per thousand populations. India accounts for 17% of the world population but its share in global burden of disease (GBD) is higher at 20%. In India, more than 50% of GBD is due to communicable diseases. Thus, India cannot be termed as a healthy country.

Question 16: What is a global burden of disease?

Answer: Global Burden of Disease (GBD) is an indicator which shows the number of premature deaths due to a particular disease and also the number of years spent by them in disability due to the disease. In other words, GBD shows the number of years in which a person remain economically non-productive due to a disease and the loss to the economy because of the death of that person.

Question 17: Discuss the main drawbacks of our health care system.

Answer: The biggest problem of our health care system is the shortage of doctors; especially in Rural areas. Every year, about 30,000 medical graduates are produced by various medical colleges in India. But one-fifth of these doctors leave the country in pursuit of greener pastures. A majority of those who remain in the country prefer to settle in cities rather than serving in the villages. There are only 0.36 hospitals per lakh people in rural areas. Situation is somewhat better in urban areas where there are 3.6 hospitals per lakh people. The PHCs do not provide even basic facilities like X-rays and blood test. A majority of hospitals are in the private sector but their costs are beyond reach for the majority of people.

Question 18: How has women's health become a matter of great concern?

Answer: Although women constitute about half the population of the country but their healthcare always gets second priority in most of the families. The sex ratio has decline from 927 in 2001 to 914 in 2011; which shows the alarming situation of women's health in India. About 300,000 girls under the age of 15 are married and most of them already have children. Incidence of anemia among women between 15 and 49 years of age is very high. Abortions are also a major cause of maternal morbidity and mortality in India. These facts show that women's health has become a matter of great concern.

Question 19: Describe the meaning of public health. Discuss the major public health measures undertaken by the state in recent years to control diseases.

Answer: The science and art of preventing disease, prolonging life and promoting health through the organized efforts and informed choices of society, organizations, public and private, communities and individuals is called public health. This definition was given by Winslow in 1920. Thus, public health involves prevention of diseases so that health can be promoted and prolonged life can be ensured for the general public. According to this definition, public health also needs organized efforts from society, organizations, communities and individuals. The government has taken various measures to control diseases. Diseases; like tuberculosis, small pox and malaria have been brought under control

due to various steps taken by the government. Similarly, thanks to the Pulse Polio Programme, polio has been completely eradicated from India. The government has also continued various awareness campaigns to increase public awareness about issues related to health and hygiene.

Question 20: Differentiate the six systems of Indian medicine.

Answer: The six systems of Indian medicine are; ayurveda, yoga and naturopathy, unani, siddha, homeopathy and other alternative medicines. Ayurveda is the traditional Indian medicine system in which medicines are prepared from herbs and other natural ingredients. Yoga and naturopathy are based on practicing yoga exercises and maintaining the balance in the body by a combination of right diet. Unani medicine system is based on traditional system which was practiced in middle east and south Asian countries. Siddha is more advanced form of yoga and is supposed to give paranormal abilities in its practitioner. Homeopathy was created by Hahnemann and works on the principle of like cures like. Any other medicine system which is practiced to cure or prevent diseases is taken under other alternate medicines.

Question 21: How can we increase the effectiveness of health care programmes?

Answer: As the definition of public health shows, any health care programme needs full participation of government and private agencies, communities and individuals. Thus, participation of all the stakeholders is important for success of healthcare programmes. Government's role is in providing proper infrastructure and necessary finance for the programme. The private sector also needs to work in tandem with the government in providing infrastructure and finance. Communities and individuals need to participate to ensure that health care programme reaches each and every individual.

EXTRA QUESTIONS:

QUESTION 22: Explain the six systems of Indian medicine?

Answer: System medicine looks after the system of the human body as a part of incorporation biochemical, environment interaction, and physiology. The Ministry of Ayurveda, Yoga, Naturopathy, Unani, Siddha, and Homeopathy (AYUSH) under Government of India looks after the developing, education, and research in Ayurveda, Yoga, Naturopathy, Unani, Siddha, and Homoeopathy, Sowa Rogpa (Traditional Tibetan Medicine) and other medical systems.

The six systems of Indian medicine AYUSH are explained below.

- 1) Ayurveda- The Ayurveda goal is to keep the body functional and structural in a functional state of equilibrium, which marks good health.
- 2) Sidha- This system is not only focused on medicine and its treatment but also takes into account the patient's environment, age, physical condition, habit, etc. Sidha treatment is a popular treatment in Tamil speaking areas of India.
- 3) Unani- The system of medicine is based on practice and knowledge focused on positive health and prevention of diseases.
- 4) Homeopathy- This medicine system is a special course of treatment for curing diseases by administration of potency drug.
- 5) Yoga- It is a way of dealing life that has a potential for development of personal behavior, social, improvement of physical health by stimulating better circulation of oxygenated blood in the body, restraining sense organ, and serenity of mind.

6) Naturopathy- It is a drugless treatment. It is based on the ancient treatment of diseases like following simple laws of nature.

QUESTION 23: Analyse the contribution of different sources of energy in India.

Answer: In India, in 2016, thermal sources accounted for 67 per cent of the power generation

capacity. Hydel power accounted for 14 per cent, while nuclear power accounted for only 2 per cent. India's energy policy encourages two energy sources — hydel and wind — as they do not rely on fossil fuel and, hence, avoid carbon emissions. Yet, this has not resulted in faster growth of electricity produced from these two sources. Atomic energy is an important source of electric power, it has economic advantages. At present, nuclear energy accounts for only 2 per cent of the total energy consumption, against a global average of 13 per cent. This is far too low. Hence, some scholars suggest to generate more electricity through atomic (nuclear) sources and yet a few others object about this, from the viewpoint of environment and sustainable development.

QUESTION 24: On the basis of table 8.2 given below Analyse the trends in sectoral share of Energy consumption.

Answer: The sectoral pattern of consumption of commercial energy is given in Table 8.2.

- Transport sector was the largest consumer of commercial energy in 1953-54. However, there has been continuous fall in the share of the transport sector to 2% in 2014-15.
- Household Sector: While the shares of the household sector was 10% in 1953-54 which has increased to 23% in 2014-15.
- Agriculture sector has increased the energy consumption from 01% in 1953-54 to 18% in 2014- 15.
- Industrial sector is the highest among all commercial energy consumption, though there is small increase since 1953-54. It has increased from 40% to 44% till 2014-15. With the rapid rate of economic growth, there has been a corresponding increase in the use of energy.

Analysis:

- i) Transport sector has declined the use of energy mainly due to use of diesel engines instead of coal and now use of CNG is becoming popular.
- ii) Household sector has more than double consumption of electricity due to increase in population, urbanisation and use of modern lifestyle that includes more use of electrical appliances.
- iii) In agriculture mechanisation is increasing the use of energy. And industries also increase the energy consumption.

HOTS

Q.1 What is infrastructure? Explain its types/categories. (4)

Ans. Infrastructure provides supporting services in the main areas of industrial and agricultural production, domestic and foreign trade and commerce. These services include roads, railways, ports, airports, dams, power stations, oil and natural gas pipelines, telecommunication facilities, education system including schools and colleges, health system including hospitals, sanitary system including clean drinking water facilities and the monetary system including banks, insurance and other financial institutions.

Two types/categories of infrastructure:

- (1) Economic infrastructure: Infrastructures associated with energy, transportation and communication.
- (2) Social infrastructure: Infrastructure related to education, health and housing.

Q.2 “Infrastructure contributes to economic development of a country.” Do you agree with the given statement? Give reasons in support of your answer. (6)

Ans. The given statement is correct. Infrastructure is the foundation of economic development of a country.

A. Infrastructure contributes to economic development of a country by increasing the productivity of the factors of production. Infrastructure is the support system on which depends the efficient working of the modern industrial economy.

(1) Modern agriculture depends, to a considerable extent, on the adequate expansion and development of irrigation facilities. Agriculture also largely depends on infrastructure for speedy and large-scale transport of seeds, pesticides, fertilizers, and the produce using modern roadways, railways and shipping facilities. In recent times, agriculture also depends on insurance and banking facilities because of its need to operate on a very large scale.

(2) Industrial progress depends on the development of power and electricity generation, transport and communications. Obviously, if proper attention is not paid to the development of infrastructure, it is likely to act as a severe constraint on economic development.

B. Infrastructure also contributes to economic development of a country by improving the quality of life. Infrastructure in water supply and sanitation have a large impact by reducing morbidity from major waterborne diseases. Inadequate infrastructure can have multiple adverse effects on health.

Q.3 “Infrastructure is the foundation of economic development of a country.” How far India has been able to develop its infrastructure? (4)

Ans. Though infrastructure is the foundation of economic development of a country, India is yet to wake up to the call.

Country Investment in infrastructure as a % of GDP (2015)

Access to improved sanitation (%) (2015) Power generation (billion kwh) (2016)

India 34 40 1423

China 46 77 6015

- India invests only 34 per cent of its GDP on infrastructure, which is far below that of China.
- Only 40% of India’s population has access to improved sanitation. Out of that, access to improved sanitation in rural areas is only 20%.
- If the Indian economy wants to touch the GDP growth rate between 7-8% it must target to produce electricity with a growth rate of 7% which is not possible with the present production capacity in the power sector.

Some economists have projected that India will become the third biggest economy in the world a few decades from now. For that to happen, India will have to boost its investment in infrastructure.

Q.4 What is the state of rural infrastructure in India? (4)

Ans. State of rural infrastructure in India (according to census 2011 data):

- (1) About 49% of the rural households still use biofuels for cooking, such as crop residues, dung and fuel wood.
- (2) In rural India still 44.7% households do not have an electricity connection.
- (3) About 63% of the rural households do not have a source of drinking water at home, and 1/5 of rural households walked more than 500 meters to get drinking water.
- (4) Only 32.7% of rural households are having access to improved sanitation.

Q.5 “In any country as the income rises, the composition of infrastructure requirements changes significantly.” Discuss the given statement. (3)

Ans. The given statement is correct.

- For low-income countries, basic infrastructure services like irrigation, transport and power are more important.
- As economies develop and most of their basic consumption demands are met, the share of agriculture in the economy shrinks and more service-related infrastructure is required. This is why, the share of power and telecommunication infrastructure is greater in high-income countries.

Q.6 What are the major problems/challenges in the power sector in India? Explain. (6)

Ans. Problems of the power sector in India:

- (1) Electricity generated by various power stations is not consumed entirely by ultimately consumers; a part is consumed by power station auxiliaries. Also, while transmitting power, a portion is lost in transmission.
- (2) Insufficient installed capacity to generate electricity – India is able to add only 20,000 MW a year. Even the installed capacity is underutilised because plants are not run properly. If the Indian economy wants to touch the GDP growth rate of 7–8%, it must target to produce electricity at a growth of 7%, which is not possible with the present production capacity.
- (3) SEBs (State Electricity Boards) which distribute electricity, incur losses which exceed ₹500 billion. This is due to transmission and distribution losses, wrong pricing of electricity and other inefficiencies. Some scholars also say that distribution of electricity to farmers is the main reason for the losses; electricity is also stolen in different areas which also adds to the woes of SEBs.
- (4) Private sector power generators are yet to play their role in a major way; same is the case with foreign investors.
- (5) There is general public unrest due to high power tariffs and prolonged power cuts in different parts of the country.
- (6) Shortage of raw material and coal supplies in thermal power plants, which produce 67% electricity.

Q.7 Continued economic development and population growth are driving the demand for energy faster than what India is producing currently. Instead of investing in the power sector by adding to the installed capacity, the government has gone for privatisation of the power sector and particularly allowed much higher prices for electricity that have impacted certain sectors very badly. Do you think it is a right policy of the government? If not, give a few suggestions. (3)

Ans. No; the government's policy of privatisation of the power sector gave unsatisfactory results such as power cuts in many parts of the country, removal of subsidy on electricity and steep rise in the power tariff.

Suggestions to improve installed capacity of power sector:

- (1) Increased investments (by both public and private players) in the power generation sector.
- (2) Better utilization of the present infrastructure.
- (3) Better Research & Development efforts, exploration and technological innovation.
- (4) Use of renewable energy sources.

Q.8 Discuss the major public health measures undertaken by the state in recent years to control diseases. (6)

Ans. Significant expansion in physical provision of health services since independence (1951- 2017).

- Hospitals and dispensaries: increased from 9,300 to 51,300.
- Hospitals beds: increased from 1.2 to 7.1 lakh
- Allopathic doctors: increased from 0.62 to 10.4 lakhs
- Nurses: increased from 0.18 to 28.8 lakhs

The expansion of health infrastructure has resulted in eradications of small pox, guinea worms and the near eradication of polio and leprosy. Private sector health infrastructure increased.–

More than 70% hospitals run by the private sector.

- Control 2/5 of the beds available in the hospitals.
- Private sector playing a dominant role in medical education and training, medical technology and diagnostics, manufacture and scale of pharmaceutical, hospital construction , and the provision of medical services.

Q.9 What are the major problems of health sector in India? Explain. (6)

Ans. Problems of health sector in India:

(1) Low public expenditure: Expenditure on health sector by government is only 4.7% of the total GDP, which is abysmally low as compared to other developing countries.

(2) Global Burden of Diseases (GBD)– Child Health Issues:

India has about 17% of the world's population but it bears a frightening 20% of the GBD; more than half of GBD is accounted for by communicable diseases such as diarrhoea, malaria and tuberculosis. Every year, around 5 lakh children die of water-borne diseases. Malnutrition and inadequate supply of vaccines lead to the death of 2.2 million children every year.

(3) Urban-Rural and Poor-Rich Divide: People living in rural India do not have sufficient medical infrastructure.

– Nearly 70% of the population lives in rural areas which have only 20% of the total hospitals of the country.

– Out of about 6.3 lakh beds in government hospitals only 30% are available in rural areas.

– Only 38% of the PHCs have the required number of doctors and only 30% of the PHCs have sufficient stock of medicines.

– The PHCs located in rural areas do not even offer X-ray or blood testing facilities.

(4) Women's health Issues:

– Decrease in the child sex ratio from 927 in 2001 to 914 in 2011 points to the growing incidence of female foeticide.

– Close to 3 lakh girls aged below 15 years are not only married but have at least one child.

– More than 50% of the married women in the age groups of 15-49 years have iron deficiency,

which has contributed to maternal deaths.

– Abortions are also a major cause of maternal morbidity and mortality in India.

Q.10 "Health is a vital public good and a basic human right." How can all citizens get better health facilities? Give a few suggestions. (3)

Ans. (1) Public health services should be decentralized.

(2) Success in the long term battle against diseases depends on education and efficient health infrastructure. Awareness should be created on health and hygiene; and efficient health systems should be provided. There is a great role of telecom and IT sectors in this process.

(3) The effectiveness of health care programmes also rests on primary health care. 'Urban-Rural and Poor-Rich divide' must be reduced. In order to provide basic health care to all, accessibility and affordability need to be integrated in our basic health infrastructure.

CHAPTER: 9:-SUSTAINABLE DEVELOPMENTS

“The report by the **Brundtland Commission developed** the most widely used **definition of sustainable development** as “**development** which meets the needs of current generations without compromising the ability of future generations to meet their own needs”

Q1.State whether the following statement is *true* or *false*:

“Smoke emitted by the industries leads to environmental pollution.”

1

ANSWER: TRUE

Q2. State and discuss any two principal causes of environmental degradation.

3

Answer: Two principal causes behind environmental egradation:

i. Population Rise - Rising population is one of the major causes for degradation of the environment as it adds to the burden on natural resources, leading to environmental crisis.

Consumption Levels: It has been observed that the developing and developed nations have witnessed affluent consumption levels in the past, bringing disequilibrium in the demand and supply of the natural resources, pushing the world to the threshold of the environmental crisis.

(any other valid answer should be allotted marks)

Question 1. What is meant by environment?

3

Answer. Environment is defined as the total planetary inheritance and the totality of all resources. It includes all the biotic and abiotic factors that influence each other. Biotic elements are all living elements — the birds, animals and plants, forests, fisheries, etc. Abiotic elements are like air, water, land, rocks, sunlight, etc.

Question 2. What happens when the rate of resource extraction exceeds that of their regeneration?

3

Answer. Environment includes sun, soil, water and air which are essential ingredients for the sustenance of human life. The carrying capacity of the environment 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. Carrying capacity of the environment helps to sustain life. Absence of carrying capacity of environment means absence of life.

Question 3. Explain how the opportunity costs of negative environmental impact are high.

Answer. Opportunity cost is the cost of alternative opportunity given up. The country has to pay huge amount for damages done to human health. The health cost due to degraded environmental quality have resulted in diseases like asthma, cholera, etc. Huge expenditure is incurred in treating the diseases.

Q4.State any four pressing environmental concerns of India. Correction for environmental damages involves opportunity costs—explain.

Answer: The four pressing environmental concerns of India are; air pollution, groundwater pollution, pollution of rivers and soil erosion.

It is indeed true that correction of environmental damages involves opportunity costs. Let us take example of air pollution. For minimizing air pollution, we need to fit vehicles with catalytic converters which means increased cost of the vehicle. For rectifying the pollution of water bodies, we need to clean up our rivers which is a gargantuan task.

Q 5) Demand for electricity has "increased". However supply cannot be increased due to lack of resources. Explain how, in any two ways, demand for electricity can be "decreased".

Consumer can:

- (i) Use energy saving electrical appliances.
- (ii) Use alternate sources of energy like solar energy, etc

Q 6): Is environmental crisis a recent phenomenon? If so, why?

Answer: Before the industrial revolution, the rate of extraction of resources was very low and it was less than that of renewal of resources. But after so many years of industrial revolution and subsequent development, the rate of extraction of resources has grown manifold. This has resulted in exhaustion of resources in many countries. It has also resulted in high levels of environmental pollution. Hence, it can be said that environmental crisis is a recent phenomenon.

Question 7: Give two instances of Overuse of environmental resources.

Answer: Overuse of fossil fuels and minerals
Misuse of environmental resources and
Wastage of drinking water, wastage of paper

Question 8: State any four pressing environmental concerns of India. Correction for environmental damages involves opportunity costs—explain.

Answer: The four pressing environmental concerns of India are; air pollution, groundwater pollution, pollution of rivers and soil erosion.

It is indeed true that correction of environmental damages involves opportunity costs. Let us take example of air pollution. For minimizing air pollution, we need to fit vehicles with catalytic converters which means increased cost of the vehicle. For rectifying the pollution of water bodies, we need to clean up our rivers which is a gargantuan task.

Q 9): Account for the current environmental crisis.

Answer: The current environmental crisis is because of our unsustainable practices. We are overusing and misusing the natural resources. As a result, many resources have either exhausted or are on the verge of exhaustion. The excess use of natural resources has created a huge amount of waste which is beyond the waste absorption capacity of the environment. This has resulted in a situation in which our environment's ability to sustain life has been compromised. This situation is called environmental crisis.

Q 10): Highlight any two serious adverse environmental consequences of development in India. India's environmental problems pose a dichotomy — they are poverty induced and, at the same time, due to affluence in living standards—is this true?

Answer: One of the serious consequences of development in India is air pollution and another is heavily polluted rivers. Ganga; the holiest river of India; resembles a dirty drain near most of the cities it passes through. It is absolutely true that India's environmental problems are poverty induced as well as due to affluence in living standards. The poor people continue to fell tree to obtain firewood because they cannot afford LPG. Felling of trees has serious environmental consequences. On the other hand, the affluent lifestyle means increased consumption of fossil fuels which also causes serious damage to the environment.

Q 11) What can the present generation do to achieve sustainable development?

1. 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.

FOUR MARKS QUESTIONS:

1) EXPLAIN THE SUPPLY DEMAND REVERSAL OF ENVIRONMENTAL RESOURCES

From the very inception of civilization till the advent of industrialization the rate of extraction of the natural resources was far behind the rate of their regeneration. That is in other words the demand for resources falls short of the supply of the resources. The exploitation of nature by man was within the absorptive capacity of the environment. But in today's scenario with population explosion and industrial revolution the demand for resources for both production and distribution has risen at a much more rapid rate. However the rate of regeneration of these resources is relatively much lower than the rate of their extraction. In other words the rate of consumption demand of the natural resources exceeds that of their supply. This is beyond the absorptive capacity of the environment and has made environmental crisis more probable. This reversal in the demand and supply relationship is referred to as the supply-demand reversal of the environmental resources.

Before the beginning of the Industrial Revolution the supply of natural resources was higher than demand. But after many years of Industrial Revolution there has been a role reversal. At present, the demand of natural resources is higher than supply

2) State any four pressing environmental concerns of India. Correction for environmental damages involves opportunity costs—explains.

Answer: The four pressing environmental concerns of India are; air pollution, groundwater pollution, pollution of rivers and soil erosion.

It is indeed true that correction of environmental damages involves opportunity costs. Let us take example of air pollution. For minimizing air pollution, we need to fit vehicles with catalytic converters which means increased cost of the vehicle. For rectifying the pollution of water bodies, we need to clean up our rivers which is a gargantuan task

SIX MARKS QUESTION

Question 1 How do the following factors contribute to the environmental crisis in India? What problem do they pose for the government?

1. **Rising population**
2. **Air pollution**
3. **Water contamination**
4. **Affluent consumption standards.**
5. **Illiteracy**
6. **Industrialisation**
7. **Urbanisation**
8. **Reduction of forest coverage**
9. **Poaching**
10. **Global warming.**
11. The high rate of growth of population adversely affects the environment. It certainly leads to soil and water pollution.
12. India is one of the ten most industrialised nations of the world. It has led to unplanned urbanisation, pollution and the risk of accidents. The CPCB (Central Pollution Control Board) has identified 17 categories of industries which are significant polluters.
13. Many states in India are on the edge of famine. Whatever water is available, it is polluted or contaminated. It causes diseases like diarrhoea and hepatitis.
14. With affluent consumption standards, people Use more air conditioners. CFCs are used as cooling agents in air condition which leads to ozone depletion.
15. Illiteracy and ignorance about the use of non-renewable resources, alternative energy sources, lead to environmental crisis.
16. With rise in national income or economic activity, there is rise in industrialisation and urbanisation. This raises pollution of air, water and noise. There are accidents, shortage of water, housing problems, etc. In other words, with rise in national income there is ecological degradation which reduces welfare of the people.
17. Whenever there is large migration of population from rural to urban areas, it leads to fast growth of slum areas. There is excess of load on the existing infrastructural facilities. It causes environmental degradation and ill health.
18. The per capita forestland in the country is only 0.08 hectare. There is an excess felling of about 15 million cubic metre forests over the permissible limit. Indiscriminate felling of trees has led to destruction of forest cover. Once forests have been cut down, essential nutrients are washed out of the soil all-together. This leads to soil erosion. It leads to disastrous flooding since there is no soil to soak up the rain.
19. Poaching leads to extinction of wildlife.
The long-term results of global warming are:
 - (a) Melting of polar ice caps with a resulting rise in the sea level and coastal flooding.
 - (b) Disruption of drinking water supplies as snow melts.
 - (c) Extinction of species.
 - (d) Frequent tropical storms and tropical diseases.

Question 2. What are the functions of the environment?

Answer. The environment performs four vital functions:

1. **Environment Supplies Resources.** Resources include both renewable and non-renewable resources. Renewable resources are those which can be used without the possibility of the resource becoming depleted or exhausted. In other words, a continuous supply of the resource remains available. Examples of renewable resources are trees in the forest and fish in the ocean. Non-renewable resources are those which get exhausted with extraction and use. Example, fossil fuels.
2. **Environment Sustains Life.** Environment includes sun, soil, water and air which are essential ingredients for the sustenance of human life. The carrying capacity of the environment 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. Carrying capacity of the environment helps to sustain life. Absence of carrying capacity of environments means absence of life.
3. **Environment Assimilates Waste.** Production and consumption activities generate waste. This occurs mostly in the form of garbage. Environment absorbs garbage.
4. **Environment Enhances Quality of Life.** Environment includes oceans, mountains, deserts, etc. Man enjoys these surroundings, adding to the quality of life.

Question 3. Outline the steps involved in attaining sustainable development in India.

Answer. Steps and Strategies to Achieve Sustainable Development in India:

1. Use of Non-Conventional Sources of Energy
2. LPG, Gobar Gas in Rural Areas
3. CNG in Urban Areas
4. Wind Power
5. Solar Power through Photovoltaic Cells
6. Mini-Hydel Plants
7. Traditional Knowledge and Practices
8. Biocomposting
9. Biopest Control

Question 4: Explain the relevance of intergenerational equity in the definition of sustainable development

Meeting the basic needs of all that requires the distribution of resources is our moral obligation. It becomes obligatory to hand over the earth to the future generation in a good order. But, it is realised that if the resources (non renewable) are utilised fully, then these will deplete so fast that it will reduce the production capacity of the future generations. The economic development achieved today in such manner cannot be sustained for a long time as the production capacity of the future generations in absence of productive resources reduces. Therefore, sustainable development is the process of economic development that aims at meeting the needs of the present generation without comprising the needs of the future generations. Sustainable development maximises the welfare of both present and future generations. This development does not mean a check on the existing pace of economic growth. It only means a judicious or optimum utilisation of resources in such a manner that pace of economic growth sustains with inter generational equity.

.5) : What is sustainable development? Keeping in view your locality, describe any four strategies of sustainable development

Answer: The development which ensures a good quality of life for the current generation and also ensures that the future generation would get at least the same quality of life is called sustainable development.

The following strategies can help in ensuring sustainable development for any locality:

- Switching to alternate sources of energy; like solar energy and wind energy
- Promoting afforestation to recover the loss of greenery.
- Promoting the use of CNG in vehicles
- Building better public transport facilities

12) **According to Herman Daly, a leading environmental economist, to achieve sustainable development, what needs to be done to achieve sustainable development**
Answer :According to Herman Daly, a leading environmental economist, to achieve sustainable development, the following needs to be done

- (i) Limiting the human population to a level within the carrying capacity of the environment. The carrying capacity of the environment is like a 'plimsoll line' of the ship which is its load limit mark. In the absence of the plimsoll line for the economy, human scale grows beyond the carrying capacity of the earth and deviates from sustainable development
- (ii) technological progress should be input efficient and not input consuming
- (iii) renewable resources should be extracted on a sustainable basis, that is, rate of extraction should not exceed rate of regeneration
- (iv) for non-renewable resources rate of depletion should not exceed the rate of creation of renewable substitutes and
- (v) inefficiencies arising from pollution corrected

CHAPTER: 10-DEVELOPMENT EXPERIENCES OF INDIA: A COMPARISON WITH NEIGHBOURS

The higher the value of **HDI**, higher will be the level of growth and development of a country. The **rankings** are accorded to the **countries** as per their **HDI**. **China** ranked 81, **India** 128th and **Pakistan** 136th.(FOR INFORMATION)

ONE MARK QUESTIONS:

1) Question: Arrange the following events in chronological order and choose the correct answer from the given alternatives: /

- (i) Establishment of People's Republic of China
- (ii) Creation of Pakistan
- (iii) First Five-Year Plan of India
- (iv) First Five-Year Plan of China

Alternatives :

- (A) (i), (iv), (ii), (iii)
- (B) (iii), (ii), (i), (iv)
- (C) (ii), (i), (iii), (iv)
- (D) (iv), (iii), (ii), (i)

Answer: (C) (ii), (i), (iii), (iv)

2) The main aim of 'Great Leap Forward' was to ensure rapid increase in _____ (primary/secondary/tertiary) sector in China. (Choose the correct alternative)

Answer: secondary

3) Question- Mao initiated the 'Great Leap Forward' in the year _____.

(A) 1951 (B) 1955 (C) 1958 (D) 1962

ANSWER :(C) 1958

4) The system in which people collectively cultivated land in China is known as.

Answer:

Commune System

5) Which of the following countries has the highest population growth rate?

(i) India

(ii) China

(iii) Pakistan

Answer:

(iii) Pakistan

6) in which year, China announced its first five-year plan?

(i) 1950

(ii) 1951

(iii) 1952

(iv) 1953

Answer:

(iv) 1953

7) India introduced economic reforms in _____ .

(i) 1990

(ii) 1991

(iii) 1993

(iv) 1995

Answer:

(ii) 1991

8) China's great leap forward was in the year _____ .

(i) 1953

(ii) 1958

(iii) 1978

(iv) 1991

Answer:

(ii) 1958

9) Commune system is the feature of

(i) India

(ii) China

(iii) Pakistan

(iv) All the above

Answer:

(ii) China

10) Reforms in were introduced in 1978. (China, Pakistan, India)

Answer:

China

**Standing of growth rates (2011-15) of India, Pakistan and China in descending order is :
(Choose the correct alternative)**

India, Pakistan and China

India, China and Pakistan

China, India and Pakistan

Pakistan, India and China

Answer :

A

Solution :

(a) China, India and Pakistan

THREE MARK QUESTION:

Question 1.a.- Compare and analyze the given data of India and China with valid reasons:

Country Annual growth rate of population (2015) Sex ratio (per thousand males) 3

India 1.2% , 929, China 0.5% , 941

Source: World Development Indicators, 2015

Answer a)

The given data shows that China could arrest its annual population growth rate with the implementation of some stringent measure in late 1970's like the introduction of one child norm. This step has been instrumental in controlling the growth of population in China. India stands virtually more than double to China at its annual population growth rate of 1.2% as compared to China's annual population growth rate of 0.5% pa.

b) The social dynamics of both the countries are similar to each other; sex ratio is low and biased in both the countries due to preference for male child. Whereas, India stands at 929 females per 1000 males, China is not far ahead at 941 females per 1000 males.

Q1.b. Mention some examples of regional and economic groupings.

Answer. Every country aims to strengthen its own domestic territory. The nations are forming regional and global economic groupings such as:

1. SAARC. It has 8 countries of South Asia.
2. EU has 25 independent states based on European Communities.
3. ASEAN. It has 5 countries of South East Asia.
4. G-8 (Group of Eight). It has 8 countries.
5. G-20 (Group of Twenty). It consists of 19 world's largest economies

Question 2. What are the various means by which countries are trying to strengthen their own domestic economies? 3

Answer. Countries are trying to strengthen their own domestic economies by:

1. Forming regional and global economic groupings like SAARC, EU, ASEAN, G-8, G-20, etc.
2. By having economic reforms.

Question 3. What similar development strategies have India and Pakistan followed for their respective developmental paths?

Answer. Similar developmental strategies of India and Pakistan are: 3

1. India has the largest democracy of the world. Pakistan has authoritarian militarist political power structure.
2. Both India and Pakistan followed a mixed economy approach. Both countries created a large public sector and planned to raise public expenditure on social development.

Question 4. What is the important implication of 'one child norm' in China?

Answer. One-child norm introduced in China in the late 1970s is the major reason for low population growth. It is stated that this measure led to a decline in the sex ratio, that is, the proportion of females per 1000 males.

FOUR MARKS QUESTION

1) "India, China and Pakistan have travelled more than seven decades of developmental path with varied results." Explain the given statement with valid arguments.

4

Answers-

- i. Till the late 1970s, all the three countries were maintaining the same level of low development.
- ii. Over the last three decades, the three countries have taken different levels of development. India has performed moderately over the years. Majority of its people still depend on agriculture. Infrastructure is lacking and more than one fourth of its population live below poverty line. Pakistan performed low because of political instability, overdependence on remittances and foreign aid along with volatile performance of agriculture. China has used the market system to succeed in raising the rate of growth in economy with stress on alleviation of poverty. **(to be marked as a whole)** (any other valid argument should be allotted marks)

2) Describe the path of developmental initiatives taken by Pakistan for its economic development. 4

Answer. The developmental initiatives taken by Pakistan were:

1. In the late 1950s and 1960s, Pakistan introduced a variety of regulated policy framework (for import substitution industrialisation). The policy combined tariff protection for manufacturing of consumer goods together with direct import controls on competing imports.
2. The introduction of Green Revolution led to mechanisation of agriculture. It finally led to a rise in the production of foodgrains. This changed the agrarian structure dramatically.
3. In the 1970s, nationalisation of capital good industries took place.
4. In 1988, structural reforms were introduced. The thrust areas were denationalisation and encouragement to private sector.

5. Pakistan received financial support from western nations and remittances from emigrants to the Middle East. It helped in raising economic growth of the country.

3) What similar developmental strategies have India and Pakistan followed for their respective developmental paths?

ANSWER:

India and Pakistan both have followed a similar developmental strategy. The main similarities between the developmental strategies can be summed up as:

- i. India and Pakistan both have started their developmental programmes based on economic planning soon after their independence in 1947.
- ii. Both the countries relied on the public sector for initiating the process of growth and development.
- iii. Both of them have followed the path of mixed economic structure involving the participation of both the state as well as the private sector.
- iv. Both of them introduced economic reforms at the same time to strengthen their economies.

SIX MARKS QUESTIONS

Question1. Explain the Great Leap Forward campaign of China as initiated in 1958.

Answer. Communist China or the People's Republic of China, as it is formally known, came into being in 1949. There is only one party, i.e., the Communist Party of China that holds the power there. All the sectors of economy including various enterprises and all land owned by individuals was brought under governmental control. A programme called 'The Great Leap Forward' was launched in 1958. Its aim was to industrialise the country on a large scale and in as short a time as possible. For this, people were encouraged to set up industries in their backyards. In villages, village Communes or cooperatives were set up. Communes means collective cultivation of land. Around 26000 communes covered almost all the farm population in 1958.

The Great Leap Forward programme faced many problems. These were:

1. In the earlier phase, a severe drought occurred in China and it killed some 3 crore people.
2. Soviet Russia was a comrade to communist China, but they had border dispute. As a result, Russia withdrew its professionals who had been helping China in its industrialisation bid.(TO BE MARKED AS AWHOLE)

Question 2 Compare and contrast India and China's sectoral contribution towards GDP. What does it indicate?

Answer. Sectoral Distribution of Output and Employment:

1. Agriculture Sector. China has more proportion of urban people than India. In China in the year 2009, with 54 per cent of its workforce engaged in agriculture, its contribution to GDP is 10 per cent. In India's contribution of agriculture to GDP is at 17 per cent.
2. Industry and Service Sectors. In both India and China, the industry and service sectors have less proportion of workforce but contribute more in terms of output. In China, manufacturing contributes the highest to GDP at 46 per cent whereas in India it is the service sector which contributes the highest. Thus, China's growth is mainly contributed by the manufacturing sector and India's growth by service sector.

Question3. Mention the various indicators of human development.

Answer. Parameters of human development are:

6

1. HDI— (a) Value—higher the better.
(b) Rank—lower the better.
2. Life expectancy—higher the better.
3. Adult literacy rate—higher the better.
4. GDP per capita (PPP US \$)—higher the better –
5. Percentage of population below poverty line (on \$1 a day)—lower the better.
6. Infant mortality rate (per 1000 live births)—lower the better.
7. Maternal mortality rate (per 100,000 live births)—lower the better.
8. Percentage of population having access to improved sanitation—higher the better.
9. Percentage of population having access to improved water source—higher the better.
10. Percentage of population which is undernourished (% of total) – lower the better

Q4)China's rapid industrial growth can be traced back to its reforms in 1978. Do you agree? Elucidate.

ANSWER:

6

Yes, it cannot be denied that China's rapid industrial growth is an aggregate outcome of the various economic reforms that were introduced in phases since 1978.

In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors.

The system of collective farming known as Commune System was implemented. Under this system, land was divided into small plots that were allocated to the individual households.

These households were allowed to keep the remaining income from land after paying the taxes to the government.

In the later phase, reforms were initiated in the industrial sector. During this phase, the private firms and village and township enterprises were allowed to produce goods and services and to compete with the State Owned Enterprises. The reforms also included dual pricing.

The dual pricing implies that the farmers and the industrial units were required to buy and sell a fixed quantity of inputs and output at the price fixed by the government and the remaining quantities were traded at the market price.

Gradually, with the rapid increase in the aggregate production in the later years, the quantities traded in the market increased by many folds.

The reforms also included setting up of Special Economic Zones to attract foreign investors. Therefore, China's rapid industrial growth is attributable to the success of different phases of its economic reforms.

Q5) Mention the salient demographic indicators of China, Pakistan and India.

The important demographic indicators of Indian, China and Pakistan are tabulated as below.

Demographic Indicators, 2000-01

Country	Estimated Population (in millions)	Annual Growth Rate of Population (1990-2003)	Density (per sq. km)	Sex Ratio	Fertility Rate	Urbanisation
India	1103.6	1.7	358	933	3.0	27.8
China	1303.7	1.0	138	937	1.8	36.1
Pakistan	162.4	2.5	193	922	5.1	33.4

.Q6). ELLUCIDATE THE FAILURES AND SUCCESS OF PREREFORM PERIOD IN CHINA.

Pre-Reform Period : Failures

(a) There was slow pace of growth and lack of modernisation in the Chinese economy under the Maoist rule.

(b) It was felt that Maoist vision of economic development which was based on decentralisation, self-sufficiency and shunning of foreign technology, goods and capital, had failed.

(c) Despite extensive land reforms, collectivisation, the Great Leap Forward and other initiatives, the per capita grain output in 1978 was the same as it was in the mid-1950s.

Pre-Reform Period: Success

(a) There was existence of infrastructure in the areas of education and health.

(b) There were land reform.

(c) There was decentralised planning and existence of small enterprises.(d) There was extension of basic health services in rural areas.

(Q7) APPRAISE THE POST REFORM PERIOD SUCCESS OF CHINA.

Post-Reform Period (after 1978): Success

(a) In agriculture, by handing over plots of land to individuals for cultivation, it brought prosperity to a vast number of poor people.

(b) It created conditions for the subsequent phenomenal growth in rural industries and built up a strong support base for more reforms.

(c) More reforms included the gradual liberalisation of prices, fiscal decentralisation,

increased autonomy for state owned enterprises (SOEs), the introduction of a diversified banking system, the development of stock markets, the rapid growth of the non-state sector, and the opening to foreign trade and investment.

(d) The restructuring of the economy and resulting efficiency gains have contributed to a more than ten-fold increase in GDP since 1978. Measured on a Purchasing Power Parity (PPP) basis, China in 2005 stood as the second largest economy in the world after the US.

(e) China's economic growth as measured in terms of GDP on an average is 10.9% per year. In economic size, China is surpassed today only by the US, Japan, Germany and France.

(f) If its present growth trend continues, China is likely to be the world's largest economic power by any measure by the year 2025. e) Through the commune system, there was more equitable distribution of foodgrains.

Q8) COMMENT ON THE GROWTH TRENDS WITNESSED IN CHINA AND INDIAN THE LAST TWO DECADES

ANSWER:

India with democratic institutions performed moderately but the majority of its people still depend on agriculture. Infrastructure is lacking in many parts of the country. The country used the market system without losing political commitment and succeeded in raising the level of growth along with poverty alleviation. China used the market mechanism to create additional social and economic opportunities. The country has also ensured social security in the rural areas by retaining collective farming known as Commune System. Public intervention in social infrastructure prior to the introduction of the economic reforms has brought positive results in the human development indicators of China.

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