PART-1 (MACROECONOMICS)

CHAPTER - 1- INTRODUCTION AND STRUCTURE OF MACROECONOMICS

1. Macroeconomics is the part of economic theory that studies the economy as a whole, such as national income, aggregate employment, general price level, aggregate consumption, aggregate investment, etc. Its main instruments are aggregate demand and aggregate supply. It is also called the 'Income Theory' or 'Employment Theory'.

2. Structure of macro economy: As we know, Macroeconomics is concerned with economic problems at the level of an economy as a whole. Structure of Macroeconomics implies study of different sectors of the economy.

An economy may be divided into different sectors depending on the nature of study.

(a) Producer sector engaged in the production of goods and services.

(b) Household sector engaged in the consumption of goods and services.

Note: Households are taken as the owners of factors of production.

(c) The government sector engaged in activities like taxation and subsidies

(d) Rest of the world sector engaged in exports and imports.

(e) Financial sector (or financial system) engaged in the activity of borrowing and lending.

3. Distinguish between Classical Theory and Keynesian Theory of income and employment.

Having discussed the two theories in the foregoing pages, we can now make the following comparison:

1. Classical Theory 2. Keynesian Theory

1 Equilibrium level of income and employment is established only at the level of full employment. The premise of full employment runs throughout the whole structure of this theory.

1 Equilibrium level of income and employment is established at a point where AD = AS. But this need not be a full employment level since equilibrium can be below the level of full employment.

2 Full employment equilibrium is a normal situation. There is no possibility of under-employment equilibrium in the long-run.

2 Under-employment equilibrium is a normal situation while full employment equilibrium is an ideal and special situation.

3 The theory is based on the belief that "supply creates its own demand" which implies that whole of output is demanded and sold out. Hence there is neither general over-production nor unemployment.

3 Supply by itself cannot create a matching demand which generally results in overproduction and unemployment. On the contrary, "demand creates its own supply".

4 In case of Temporary situation of unemployment, a cut in money wage increases employment.

4 Employment can be increased by increasing effective demand (or AD) and not by money wage cut.

5 Variation in rate of interest establishes equilibrium between saving and investment.

5 Variation in income brings about equilibrium between saving and investment.

6 Economy by itself brings about full employment equilibrium through flexible system of interest rates, wages and prices.

6 Prices, wages and interest rates may not be flexible due to presence of monopolies and trade unions.

7 Advocated policy of laissez faire and opposed government intervention since equilibrium is established automatically by market forces of demand and supply.

7 Advocated government intervention to bring about equilibrium between AD and AS through monetary and fiscal measures and to ensure full employment and its continuity.

8 The theory is based on the assumption of long-run full employment equilibrium.

8 The theory is meant for short period equilibrium of full employment.

CHAPTER-2 CIRCULAR FLOW OF INCOME.

It refers to flow of money, income or the flow of goods and services across different sectors of the economy in a circular form.

There are two types of Circular flow:

(a) Real/Product/Physical Flow

(b) Money/Monetary/Nominal Flow

(a) Real flow

(i) Real flow of income implies the flow of factor services from the household sector to the producing sector and corresponding flow of goods and services from the producing sector to the household sector.

(ii) Let us consider a simple economy consisting only of 2 sectors:

• Producer Sector.

• Household Sector.

(iii) These two sectors are dependent on each other in the following ways:

• Producers supply goods and services to the households.

• Household (as the owners of factors of production) supplies factors of production (or factor services) to the producers.

This interdependence can be explained with the help of the diagram given here.

(b) Money Flow

(i) Money flow refers to the flow of factor income, as rent, interest, profit and wages from the producing sector to the household sector as monetary rewards for their factor services as shown in the flowchart.

(ii) The households spend their incomes on the goods and services produced by the producing sector. Accordingly, money flows back to the producing sector as household expenditure as shown in the flowchart.

Circular Flow Of Income In Two Sector Model:

The following assumptions with regard to a simple economy with only two sector of economics activity are:

(i) There are only two sectors in the economy; that is, household and firms.

(ii) Household supply factor services to firms.

(iii) Firms hire factor services from Households.

(iv) Households spend their entire income on consumption.

(v) Firms sell all that is produced to the households.

(vi) There is no government or foreign trade.

Such an economy described above has two types of markets.

(i) Market for goods and services, that is product market.

(ii) Market for factors of production, factor market.

As a result we can derive the following, in the case of our simple economy:

(i) Total production of goods and services by firms = Total consumption of goods and services by Household Sector.

(ii) Factor Payments by Firms = Factor Incomes of Household Sector.

(iii) Consumption expenditure of Household sector = Income of Firm.

(iv) Hence, Real flows of production and consumption of Firms and households = Money flows of income and expenditure of Firms and Households.

Phases Of Circular Flow:

There are three types of phases of Circular flow.

(i) Production Phase:

• It deals with the production of goods and services by the producer sector.

• If we study it in term of the quantity of goods and services produced, it is a Real Flow. But, it is a Money flow, if we study it in terms of the market value of the goods produced.

(ii) Distribution Phase: It means the flow of incomein the form of rent, interest, profit and wages, paid by producer sector to the household sector. It is a Money Flow.

(iii) Disposition Phase:

• Disposition means expenditure made. This phase deals with expenditure on the purchase of goods and services by households and other sectors.

• This is a Money Flow from other sectors to the producer sector. These phases are illustrated in the figure given here.

CHAPTER- 3 NATIONAL INCOME AND RELATED AGGREGATES.

1. Factor Income

(a) Income earned by factor of production by rendering their productive services in the production process is known as Factor Income.

(b) It is a bilateral [Two-Sided] Concept.

(c) It is included in National Income as it contribute something in the flow of goods and services.

Examples: Rent, interest, wages and profit.

2. Transfer Income

(a) Income received without rendering any productive services is known as transfer income.

(b) It is a unilateral [one-sided] concept.

(c) It is not included in National Income as it does not contribute anything in the flow of goods and services.

Examples: Old Age Pension, Scholarship, Unemployment allowance.

There are two types of transfers:

(i) Current transfers (ii) Capital transfers

(i) Current Transfers

• Transfers made from the income of the payer and added to the income of the recipient (who receive) for consumption expenditure are called current transfers.

• It is recurring or regular in nature.

For example, scholarships, gifts, old age pension, etc.

(ii) Capital Transfers

• Capital transfers are defined as transfers in cash and in kind for the purpose of investment to recipients, made out of the wealth or saving of the donor.

• It is non recurring or irregular in nature.

For example, investment grant, capital gains tax, war damages, etc.

3. Stock

(a) Any economic variable which is calculated at a particular point of time is known as stock.

(b) It is static in nature, i.e., it do not change.

(c) There is no time dimension in stock variables.

For example, Distance, Amount of Money, Money Supply, Water in Tank, etc.

4. Flow

(a) Any economic variable which is calculated during a period of time is known as flow.

(b) It is dynamic in nature, i.e., it can be changed.

(c) There is time dimension in flow variables.

For example, Speed, Spending of Money, Water in River, Exports, Imports, etc.

5. Economic territory or Domestic Territory:

(a) According to the United Nations, economic territory is the geographical territory administered by a government within which persons, goods and capital circulate freely.

(b) The above definition is based on the criterion "freedom of circulation of persons, goods and capital". Clearly, those parts of the political frontiers (or boundaries) of a country where the government of that country does not enjoy the above "freedom" are not to be included in economic territory of that country.

(i) One example is embassies. Government of India does not enjoy the above freedom in the foreign embassies located within India. So, these are not treated as a part of economic territory of India. They are treated as part of the economic territories of their respective countries. For example the U.S. embassy in India is a part of economic territory of the U.S.A. Similarly, the Indian embassy in Washington is a part of economic territory of India.

(ii) International organizations like UNO, WHO, etc. located within the geographical boundaries of a country.

(iii) In layman terms, the domestic territory of a nation is understood to be the territory lying within the political frontiers (or boundaries) of a country. But in national income accounting, the term domestic territory is used in a wider sense. Based on 'freedom' criterion, the scope of economic territory is defined to cover:

• Ships and aircrafts owned and operated by normal residents between two or more countries. For example, Indian Ships moving between china and India i regularly are part of domestic territory of India. Similarly, planes operated by Air India between the resident country and rest of the world is also a part of domestic territory.

6. Final goods can be classified into two groups: Consumption Goods and Capital Goods.

(a) Consumption Goods:

(i) Meaning: Consumption goods are those which satisfy the wants of the consumers directly. For example, cars, television sets, bread, furniture, air-conditioners, etc.

(u) Categories of Consumption Goods:

• Durable goods: These goods have an expected life time of several years and of relatively high value. They are motor cars, refrigerators, television sets, washing machines, air-conditioners, kitchen equipments, computers, communication equipments etc.

• Semi-durable goods: These goods have an expected life time of use of one year or slightly more. They are not of relatively great value. Examples are clothing, furniture, electrical appliances like fans, electric irons, hot plates and crockery.

• Non-durable goods: Goods which can not be used again and again, i.e., they lose their identity in a single act of consumption are known as non-durable goods. These are foodgrains, milk and milk products, edible oils, beverages, vegetables, tobacco and other food articles.

• Services: Services are non-material goods which satisfy the human wants directly. They cannot be seen or touched, i.e., they are intangible in nature. These are medical care, transport and communications, education, domestic services rendered by hired servants, etc.

(b) Capital Goods:

(i) Capital goods are defined as all goods produced for use in future productive processes.

For example, all the durable goods like cars, trucks, refrigerators, buildings, aircrafts,

air-fields and submarines used to produce goods and are ready for sale in the market

are a part of capital goods.

(ii) Stocks of raw materials, semi-finished and finished goods lying with the producers at the end of an accounting year are also a part of capital goods.

(iii) Some more examples of capital goods are machinery, equipment, roads and bridges.

(iv) These goods require repair or replacement over time as their value depreciate over a period of time.

7. Investment - The addition made in the existing stock of capital is known as investment.

i.e, $I=\Delta K$. where Δk = change in capital, I= investment.

8. Types of investment- two types of investment namely gross investment and net investment.

I. Gross investment-the total addition made in the existing stock of capital during year is called gross investment it is further categorised into two parts that is gross fix investment and inventory investment.

(a) gross fixed investment- it is the total edition made in the existing stock of fixed asset during year. it is calculated as, closing stock of fixed assets minus opening stock of fixed assets

(b) inventory investment- it is the total addition made in the existing stock of inventory during a year. It is calculated as closing inventory minus opening inventory.

II. Net investment- the difference between the value of gross investment and depreciation is known as net investment. It is calculated as gross investment minus depreciation.

9. Consumption of fixed capital- it refers to the gradual decrease in the value of fixed assets or fixed capital investment during a year. It is also known as depreciation. It is calculated as-

Original value of fixed assets- scrap value /estimated working life.

PART-2 (INDIAN ECONOMIC DEVELOPMENT)

UNIT -1 INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

Question 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 main focus of the economic policies pursued by the colonial government was to make India a mere supplier of Britain's own flourishing industrial base. The policies were concerned mainly with the fortification and advancement for their home country. The interests of the Indian economy were completely ignored. Such policies brought structural changes in the Indian economy by transforming it to a supplier of raw materials and consumer of finished products from Britain. The impacts of these policies are discussed as follows in detail;

i. Low Economic Development

Throughout the British rule, Indian economy experienced very low level of economic development. As per some researches, Indian economy grew at even less than two percent during 1900-50. The reason for such a low level of development was that the British government was more concerned with the promotion of economic interests of their home country. Consequently, the colonial rule transformed India's agriculture sector to a mere supplier of raw materials for the British industries. This not only affected the production of the agricultural sector but also ruined the small manufacturing units like handicrafts and cotton industries.

ii. Backwardness of Indian Agriculture

Under the colonial rule, India was basically an agrarian economy employing nearly 85% of its population. Nevertheless, the growth of the agriculture sector was meager. This was due to the prevalence of various systems of Land Settlement, particularly Zamindari system. Under this system, the zamindars (owners of land) were required to pay very high revenue (lagaan) to the British government, which they used to collect from the peasants (landless labourers, who were actually cultivating). The zamindars were mainly concerned with extracting high revenues from the peasants but never took any steps to improve the productivity of the land. Moreover, in order to feed British industries with cheap raw materials, the Indian peasants were forced to grow cash crops (such as, indigo, cotton, etc.) instead of food crops (such as, rice and wheat). This commercialisation of agriculture not only increased the burden of high revenues on the poor peasants but also led India to face shortage of food grains. Therefore, Indian agriculture remained backward and primitive.

iii. Deindustrialisation of Indian Economy

India failed to develop a sound and strong industrial base during the colonial rule. The status of industrial sector during the British rule can be well defined by the term ‘systematic deindustrialisation’. The cause of deindustrialisation can be attributed to the downfall of India’s handicraft industry and the cause of bleak growth of modern industry was the lack of investment. On one hand, the British government imposed heavy tariffs on the export of Indian handicraft products and on the other hand, allowed free exports of Indian raw materials to Britain and free imports of British products to India. As a result of the heavy tariffs, the Indian exports became costlier and its demand in the international market fell drastically that led to the collapse of Indian handicrafts industries. Simultaneously, the demand for the handicrafts products also fell in the domestic markets due to stiff competition from the machine made textiles of Britain. As a result, the domestic industries lacked investment and growth initiatives.

iv. Regression in Foreign Trade

During the colonial rule, the British government owned the monopoly power over India’s foreign trade. The British government used the trade policy according to the interests of their home country. The exports and imports transactions were restricted only to India and Britain. On one hand, the exports from India

Question 2:

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

ANSWER:

As the British government was never interested in upliftment of our country, so they never took any initiative to measure India’s national and per capita income. Though some of the economists tried to estimate India’s national income and per capita income during the colonial rule, but the results are mixed and conflicting. The following are some of the notable economists who were engaged in estimation of national income and per capita income:

i. Dadabhai Naroji

ii. William Digbay

iii. Findlay Shirras

iv. V.K.R.V Rao

v. R.C. Desai

Out of these, V.K.R.V Rao's estimates are considered to be significant. Most of these studies revealed that Indian economy grew at even less than two percent during 1900-50 with half per cent growth in per capita output per year.

Question 3:

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

ANSWER:

The following are the causes explaining stagnancy in Indian agriculture sector during the colonial rule:

1. Introduction of Land Revenue System

This was due to prevalence of various systems of Land Settlement, particularly Zamindari system. This system was introduced by Lord Cornwallis in Bengal in 1793. Under this system, the zamindars(owners of land) were required to pay very high revenue (lagaan) to the British government, which they used to collect from the peasants (landless labourers, who were actually cultivating). The zamindars were mainly concerned with extracting high revenues from the peasants but never took any steps to improve the productivity of the land. This resulted in low agricultural productivity and worsened the peasants economically.

2. Forceful Commercialisation

Initially before the British rule, the farmers were practicing conventional subsistence farming. They used to grow crops like rice and wheat for their own consumption. But afterwards, in order to feed British industries with cheap raw materials, the Indian farmers were forced to grow commercial crops (like indigo required by British industries to dye textiles) instead of food crops (like rice and wheat). This led to the commercialisation of Indian agriculture. This commercialisation of Indian agriculture not only increased the burden of high revenues on the poor farmers but also led India to face shortage of food grains, resources, technology and investment. Therefore, Indian agriculture remained backward and primitive.

3. Lack of Irrigation Facilities and Resources

Besides the above factors, Indian agricultural sector also faced lack of irrigation facilities, insignificant use of fertilisers, lack of investment, frequent famines and other natural calamities, etc. that further exaggerated the agricultural performance and made it more vulnerable.

Question 4:

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

ANSWER:

The second half of the nineteenth century witnessed the emergence of modern industries. At the initial stage, development was confined to setting up of cotton and jute textile mills. The western parts of the country Maharashtra and Gujarat was the hub for cotton textile mills which were mainly dominated by the Indians whereas the jute industries were mainly concentrated in Bengal and were dominated by the British. In the beginning of the 20thcentury, Iron and steel industries also started emerging gradually. It was incorporated in 1907. Some other industries that were operating at a smaller scale during the British era were sugar industry, cement industry and paper industry.

Question 5:

What was the two-fold motive behind the systematic deindustrialisation affected by the British in pre - independent India?

ANSWER:

The following are the two-fold motives behind the systematic deindustrialisation affected by the British:

1. Making India a Supplier of Raw Materials: The main motive of the British government was to make India a mere supplier of cheap raw materials to feed its own flourishing industrial base.

2. Making India a Market for Finished Goods: Another important objective of the British government was to use India as a virgin market to sell the finished goods produced by the British industries.

Question 6:

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, we do agree with the above statement that the traditional handicrafts industries were ruined under the British times. The following are the reasons in favour of the statement.

1. Discriminatory Tariff Policy: The British rule in India corresponded with its industrialisation. The British rule used India both as a source of cheap raw materials as well as easy accessible market for their finished products. Thereby, they imposed heavy tariffs (export duties) on India's export of handicraft products, while allowed free export of India's raw material to Britain and free import of British products into India. This made Indian exports costlier and its international demand fell drastically leading to the collapse of handicrafts industries.

2. Competition from Machine made Britain Goods: The demand for the handicrafts products experienced a downward trend in the domestic markets as well. This was due to stiff competition from the machine made textiles from Britain. This was because of the reason that the goods produced mechanically in Britain were comparatively cheaper and of superior quality than the Indian handicraft goods. This narrowed the market for Indian industries.

3. Emergence of New Class: The British rule in India popularised western lifestyle in India. There was an emergence of a new section of population (consisting mainly of zamindars) in India who liked the British goods. This section used to spend lavishly on the British products that provided impetus for the development of British industries at the cost of the domestic industries. Hence, gradually Indian industries perished away.

4. Disappearance of Princely State: Prior to the advent of British, India was ruled by princely states. They used to patronise handicrafts industries and consequently, Indian handicrafts gained reputation in the international markets. But during the British rule, these princely states were ruined thereby ruining the protection of these handicrafts industries. Thus, gradually Indian handicrafts lost its reputation and its importance deteriorated.

Question 7:

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

ANSWER:

One cannot deny the fact that under the British rule, there was significant change in the infrastructural development in the country. But the bonafide motive of the British behind the infrastructure development was only to serve their own colonial interests. There was infrastructural development in the fields of transport and communication. The roads served the purpose of facilitating transportation of raw materials from different parts of the country to ports, and ports were developed for easy and fast exports to and imports from Britain. Similarly, railways were introduced and developed for the transportation of finished goods of British industries to the interiors of India. Railways assisted British industries to widen the market for their finished products. Post and telegraphs were developed to enhance the efficiency and effectiveness of the British administration. Hence, the aim of infrastructural development was not the growth and deve

Question 8:

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

ANSWER:

The focus of the industrial policies pursued by the colonial government in India was to make our country a mere supplier of Britain's own flourishing industrial base. The policies were concerned mainly with the fortification and advancement for their own country. The industrial policy pursued by the British colonial administration has the following shortfalls:

1. Neglect of Indian Handicraft Industries: The British followed a discriminatory tariff policy under which they imposed heavy tariffs (export duties) on India's export of handicraft products while allowed free export of India's raw material to Britain and free import of British products to India. This made Indian exports costlier and its international demand fell drastically leading to the collapse of handicrafts industries. Also, Indian handicrafts faced a stiff competition from machine made textiles of Britain. The emergence of a new section of people who liked the British goods more in comparison to the domestic goods encouraged British industries at the cost of Indian industries. This led to the declining demand for Indian products and encouraged foreign products.

2. Lack of Investment in Indian Industries: The modern industries in India demanded investments in capital goods that were beyond the means of Indian investors. On the other hand, British government was least interested in investing in Indian industries. Thus, due to the lack of sufficient investment, the growth of Indian industries was acutely constrained.

Question 9:

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

ANSWER:

Dadabhai Naroji advocated the theory of 'Drain of Wealth' in the 19th century. The colonial period was marked by the exploitation of Indian resources. The sole motive of Britain to conquer India was to own a perennial source of cheap raw materials to feed its own industrial base in Britain. Further, British government used India's manpower to spread its colonial base outside India. Also, the administrative expenses that were incurred by the British government to manage the colonial rule in India were borne by Indian Exchequer. Thus, the British rule drained out Indian wealth for the fulfillment of its own interests.

Question 10:

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

ANSWER:

The year 1921 is regarded as the defining year or the 'Year of Great Divide' because prior to 1921, population growth in India was never consistent. India was in the first phase of demographic transition till 1921 that was characterised by high birth rate and high death rate. It implies low survival rate (or low life expectancy), which was nearly 8 per thousand per annum. Therefore, the period before 1921 witnessed stagnant population growth rate. After 1921, India's population growth never declined and showed a consistent upward trend.

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

ANSWER:

India's Demographic conditions during the British rule depict our economy as stagnant and backward. Both the birth rate and death rate were as high as 48 and 40 per thousand. Due to high birth rate and high death rate the population growth was stagnant. The Infant Mortality Rate was also very high of about 218 per thousand. The Life Expectancy Rate was as low as 32 years while presently it is 63.5 years. The literacy rate was less than 16 percent which denotes social backwardness and gender bias in the economy. We can infer from the above figures that India was featured with massive poverty, low standard and quality of living and low survival rate in the country. The lack of health care facilities and lack of health awareness were the main causes behind such demographic conditions of India.

Question 12:

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

ANSWER:

The occupational structure that refers to the distribution of population engaged in different occupations, showed no variation throughout the British rule. The following are the salient features of India's pre-independence occupational structure:

1. Agriculture- The Prime Occupation: Under the colonial rule, India was basically an agrarian economy, employing nearly 85% of its population. As India had a massive poverty during the colonial rule, so a large proportion of the population was engaged in agricultural sector to earn their subsistence. But due to the prevalence of Zamindari system, agricultural sector lacked investment and, thereby, its growth was highly constrained. Thus, in other words, despite employing a significant proportion of the population, the growth of agriculture sector was meager.

2. Industry- The Bleak Occupation: Apart from agriculture, a small proportion of population was employed in manufacturing sector. Nearly 10% of the total workforce was engaged in manufacturing and industrial sector. This was due to the stiff competition that the Indian industries faced from the machine made cheap goods from Britain. Further, the lack of investment, initiatives and the unfavourable tariff structure constrained industrial sector. Thus, the Indian industrial sector failed to contribute significantly to India's GDP.

3. Unbalanced Growth: The three sectors of Indian economy, i.e. agricultural, industrial and tertiary sector were unequally developed. While the agricultural sector was relatively developed, whereas, the other two sectors were at their infant stage. In addition, there was regional variation in the occupational structure of India. While on the one hand, states like Tamil Nadu, Andhra Pradesh and Bombay experienced a fall in the agricultural work force on the other hand states like Orissa, Rajasthan and Punjab experienced a rise in the agricultural workforce.

Question 14

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

ANSWER:

The exploitative colonial rule of the British hampered almost every spheres of Indian economy badly. As an end-result, India faced acute economic challenges at the time of independence. The following are some of the economic challenges faced by the Indian economy:

1. Low Level of Agricultural Productivity: During the colonial rule Indian agricultural sector was used by the British to suit to their own interest. Consequently, Indian agricultural sector experienced stagnancy, low level of productivity, lack of investment, poor condition of landless farmers and peasants. Thus, the immediate concern for India was to develop its agricultural sector and its productivity. Some of the immediate reforms needed at the time of independence were abolition of Zamindari system, need of land reforms, reducing inequality of land ownership and upliftment of the peasants.

2. Infant Industrial Sector: India failed to develop a sound industrial base during the colonial rule. In order to develop the industrial sector, India needed huge capital, investments, infrastructure, human skills, technical knowhow and modern technology. Further, due to stiff competition from the British industries, India's domestic industries failed to sustain. Thus, developing small scale and large scale industries simultaneously was the main concern for India to develop its industrial sector. Moreover, the need to increase the share of industrial sector to India's GDP was one of the important economic challenges for India.

3. Lack in Infrastructure: Although there was a significant change in the infrastructural development in the country but this was not sufficient to improve the performance of agricultural and industrial sector. Also, there was a need to upgrade the existing infrastructure and to modernise the infrastructure to enhance its efficiency and effectiveness.

4. Poverty and Inequalities: India was trapped in the vicious circle of poverty and inequality. The colonial rule drained out a significant portion of India's wealth to Britain. Consequently, majority of India's population was poverty trodden. This further exaggerated economic inequalities across the country.

Question 14:

When was India’s first official census operation undertaken?

ANSWER:

India’s first official census operation was undertaken in the year 1881. After that the census has been conducted after every 10 years. It involves a detailed estimation of population size, along with a complete demographic profile of the country.

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

ANSWER:

During the colonial rule, the British followed a discriminatory tariff policy under which they imposed heavy tariffs (export duties) on India’s export of handicraft products, while allowing free export of India’s raw material to Britain and free import of British products to India. This made Indian exports costlier and its international demand fell drastically. India’s export basket during the colonial rule comprised mainly of primary products like sugar, jute, silk, etc. and the imports comprised of finished consumer goods like cotton, woolen clothes, etc, from Britain. As the monopoly power of India’s export and import rested with Britain, so, more than half of India’s trade was restricted to Britain and the remaining imports were directed towards China, Persia, and Srilanka. The opening up of Suez Canal further intensified the monopoly power of the British over India’s foreign trade. It led to the fast movement of goods from India to Britain and vice-versa. The surplus generated from India’s foreign trade was not invested in Indian economy; rather it was used for administrative and war purposes. This led to the drain of Indian wealth to Britain.

Question 16:

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

ANSWER:

Yes, there were various positive contributions that were made by the British in India. The contributions were not intentional but purely the effects of colonial exploitation of the British. The following are the positive contributions made by the British:

1. Introduction of Railways: The introduction of railways by the British was a breakthrough in the development process of Indian economy. It opened up the cultural and geographical barriers and facilitated commercialisation of Indian agriculture.

2. Introduction of Commercialisation of Agriculture: The introduction of commercial agriculture is an important breakthrough in the history of Indian agriculture. Prior to the advent of the British, Indian agriculture was of subsistence nature. But with the commercialisation of agriculture, the agricultural production was carried out as per the market requirements. It was due to this factor that today India can aim at attaining self-sufficiency in food grains production.

3. Introduced Free Trade to India: British forced India to follow free trade pattern during the colonial rule. This is the key concept of globalisation today. The free trade provided domestic industry with a platform to compete with the Britain industries. The introduction of free trade led to an increase in the volume of India's export rapidly.4. Development of Infrastructure: The infrastructure developed in India by the British proved as useful tool to check the spread of famines. The telegram and postal services served Indian public.

6. Role Model: The way and the technique of British administration acts as a role model for the Indian politicians and planners. It helped Indian politicians to govern the country in an efficient and effective manner.

UNIT -2 INDIAN ECONOMY 1950 - 1990

Question 1:

Define a plan.

ANSWER:

A plan is a proposed list of goals that an economy wants to achieve within a specific period of time. It suggests the optimum ways to utilise the scarce available resources to achieve the enlisted goals. In India, planning is done for a period of five years, which is called five year plan. Plans have both specific and general goals. Some of the common goals are economic growth, modernisation, self-reliance and equity. Plans lay down the basic framework over which the policies are designed. Often various goals are conflicting to each other, for example, modernisation reduces labour employment. So there is a need to maintain a balance among different goals.

Question 2:

Why did India opt for planning?

ANSWER:

Soon after independence, India faced an important choice to opt either for capitalism or socialism. Finally, India, inspired by the extraordinary success of planning in Soviet Union, opted for socialism. Although, Indian political and economic conditions were not as favourable as it was for Soviet Unions to opt for socialism, yet India adopted socialism but with a difference. India hinged upon the socialist idea with a strong emphasis on public sector and active participation of the private sector in a democratic framework. The Planning Commission (1950) was established with the motive that the government would undertake comprehensive planning for the nation as a whole, where public sector would lay down the basic economic framework and would encourage private sector for their active contribution to the economic growth.

Question 3:

Why should plans have goals?

ANSWER:

Every plan should have specified goals. Plan without goal is like life without soul. While a plan specifies the means and ways to allocate scarce resources to achieve proposed targets, goals are the ultimate targets, the achievement of which ensures the success of plans. Thus, plans must include the goals.

Question 4:What are high Yielding Variety (HYV) seeds ?

ANSWER:

High Yielding Variety of seeds was developed by the Nobel Laureate Dr. Narman Barlauf in Mexico. These seeds are more productive and need regular and adequate irrigation facilities along with greater use of fertilisers and pesticides. In 1966, consequent to the use of HYV seeds, Indian agricultural sector experienced Green Revolution, especially in the crops of rice and wheat. HYV seeds grow faster than the normal seeds and, consequently, crops can be harvested in a much shorter time period. Initially, HYV seeds were used in states like Punjab, Andhra Pradesh and Tamil Nadu (as these states had more suitable irrigation facilities) and later on to other states. Consequent to the use of HYV seeds, the production of food grains in 1967-68 increased by 25% (approx).

Question 5:

What is marketable surplus?

ANSWER:

Marketable surplus refers to the difference between the total output produced by a farmer and his on-farm consumption. In other words, it is that portion of the total output that the farmer sells in the market.

Marketable surplus = Total farm output produced by farmer – Own consumption of farm output.

Question 6:

Explain the need and type of land reforms implemented in the agriculture sector.

ANSWER:

The need for land reforms in India was very necessary due to the following reasons:

1. Land Tenure System: There were three types of land tenure systems namely, the Zamindari System, the Mahalwari System and the Ryotwari System prevalent in the Indian agricultural sector at the time of independence. The common feature of these three systems was that the land was mostly cultivated by the tenants and the land revenues were paid by them to their landlords. This led to the exploitation of tenants in the form of exorbitant rents.

2. Size of Land Holdings: The size of land holdings owned by the farmers was very small. In addition, the land holdings were fragmented. This obstructed the use of modern techniques.

3. Lack of Initiative: As most of the land was owned by the landlords, so the farmers lacked initiative and neither had enough means to undertake mechanised methods of cultivation.

4. Traditional Approach and Low Productivity: Indian farmers used to rely on the conventional and the traditional inputs and methods and climatic conditions that hampered the productivity of agricultural sector.

5. Absence of Marketing System: Due to the absence of well developed marketing system, the farmers used to rely on the intermediaries to sell their product in the market. These intermediaries used to purchase the farm products at a very low price and sell them at higher price at market. Consequently, the correct profit share did not accrue to the farmer and, hence, this led to the lack of finance and investment on farm.

6. Nature of Farming: The basic motive for farming was for subsistence. That is, farming was done basically to earn survival and not for sale and to earn profit.

Due to the above problems in the Indian agriculture, it was very necessary to undertake land reforms. Land reforms comprise of the following steps:-

1. Abolishing Intermediaries: The prime focus of land reforms was to abolish intermediaries like Zamindars, Jagirdars, etc. There were many steps undertaken to make the tillers, the owners of the land.

2. Regulation of Rent: The cultivators were exploited in the form of exorbitant rents. In the first five year plan, the maximum rent fixed was one-fourth or one-fifth of the total farm produce (except in Punjab and Haryana, where it was rd). The regulations of rent not only reduced the burden from the tenants but also enabled them with greater portion of finance to invest on farm.

3. Consolidation of Holdings: As the land holdings were small and also fragmented, so it was very necessary to consolidate the land holdings for the use of modern and advanced technology. The farmers were given consolidated holdings equal to the total of the land in their various fragmented plots. This enabled them the benefits associated with the large scale production.

4. Land Ceilings: It means legislated fixed amount of land that an individual may hold. The basic motive behind this step was to promote equality of ownership of land holdings. This eradicated the concentration of land holdings in few hands. Government used to confiscate the excess land over the fixed amount of land and distribute it among the landless farmers.

5. Co-operative Farming: This step was taken to counter the problems due to sub-division of holdings. Small scale farming by an individual land holder is neither profitable nor productive, so, these steps encouraged different farmers to pool their farms and perform farming jointly. This enhanced the productivity and greater profits were shared .

Question 7:

What is Green Revolution? Why was it implemented and how did it benefit the farmers? Explain in brief.

ANSWER:

Due to low productivity, frequent occurrence of famines and low levels of agricultural products in the latter half of second five year plan, a team was formed to suggest various ways to counter these problems. As per the recommendations of the team, government introduced the use of HYV seeds, modern techniques and inputs like fertilisers, irrigation facilities and subsidised credit. These steps collectively are known as Intensive Area Development Programme (IADP). Consequently, in the year 1967-68, food grains production increased nearly by 25%. Due to this substantial increase of food grains production, this outcome is known as ‘Green Revolution’. The word Green Revolution comprises of two words ‘Green’ that is associated to crops and ‘Revolution’ is associated to the substantial increase.

Need of Green Revolution

The needs of Green Revolution are as follows.

1. Low Irrigation Facility: The well irrigated and permanent irrigated area was only 17% in 1951. The major part of area was dependent on rainfall and, consequently, agriculture suffered from low level of production.

2. Conventional and Traditional Approach: The use of conventional inputs and absence of modern techniques further hampered the agricultural productivity.

3. Frequent Occurrence of Famines: Famines in India were very frequent during the period 1940s to 1970s. Further, due to higher growth rate of populations, agriculture failed to grow at the same speed.

4. Lack of Finance (credit): Small and marginal farmers found it very difficult to get finance and credit at cheap rate from the government and banks ,hence, fell an easy prey to the money lenders.

5. Self-sufficiency: Due to the traditional agricultural practices, low productivity, and to feed growing population, often food grains were imported that drained away scarce foreign reserves. It was thought that with the increased production due to Green Revolution, government can maintain buffer stock and India can achieve self-sufficiency and self-reliable.

6. Marketising Agriculture: Agriculture was basically for subsistence and, therefore, less amount of agricultural product was offered for sale in the market. Hence, the need was felt to encourage the farmers to increase their production and offer a greater portion of their products for sale in the market.

Question 8:

Explain ‘growth with equity’ as a planning objective.

ANSWER:

Both growth and equity are the two important aspects of India's five year plans. While growth refers to the increase in GDP over a long period of time equity refers to an equitable distribution of GDP so that the benefits due to higher economic growth are shared by all sections of population. Equity implies social justice. Growth itself is desirable but growth in itself does not guarantee the welfare of people. Growth is assessed by the market value of goods and services (GDP) and it may be possible that the goods and services that are produced may not benefit the majority of population. In other words, only a few with high level of living and money income may get the share of GDP. Hence, growth with equity is a rational and desirable objective of planning. This objective ensures that the benefits of high growth are shared by all the people equally and, hence, this not only leads to reduction of inequality of income, poverty promotion of egalitarian society but also enables everyone to be self-reliant. Therefore, to conclude, it can be said that growth with equity is the most important objective of an economic planning.

Question 9:

Does modernisation as a planning objective create contradiction in the light of employment generation? Explain.

Answer

No, modernisation as a planning objective does not contradict employment generation. In fact both modernisation and employment generation are positively correlated. While modernisation refers to the use of new and modern technology in production process that may make some people lose their jobs in the initial stages. But gradually, the use of modern technology and input will raise the productivity and, consequently, the income of the people that will further raise the demand for goods and services. In order to fulfill this increased demand, there will be more job opportunities that will lead more people to be hired and, hence, more employment opportunities will be generated. Hence, both modernisation and employment generation are not contradictory but are complementary to each other.

Question 10:

Why was it necessary for a developing country like India to follow self-reliance as a planning objective?

ANSWER:

Self-reliance implies discouraging the imports of those goods that could be produced domestically. Achieving self-reliance is of prime importance for a developing country like, India as otherwise, it would increase the country's dependence on foreign products. Dependence on foreign goods and services can promote economic growth of India but this would not contribute to the development of domestic productive resources. Dependence on foreign goods and services provides impetus to foreign country's industries at the cost of domestic infant industries. Further, imports drain away the scarce foreign reserves that are of prime importance to any developing and underdeveloped economy. Therefore, achieving self-reliance is an important objective for developing countries in order to avoid themselves from being acquiescent to the developed nations.

Question 11:

What is sectoral composition of an economy? Is it necessary that the service sector should contribute maximum to GDP of an economy? Comment.

ANSWER:

The sectoral composition of an economy is the contribution of different sectors to total GDP of an economy during a year. That is, the share of agricultural sector, industrial sector and service sector in GDP.

Yes, it is necessary that at the later stages of development, service sector should contribute the maximum to the total GDP. This phenomenon is called Structural Transformation. This implies that gradually the country's dependence on the agricultural sector will shift from the maximum to minimum and, at the same time, the share of industrial and service sector in the total GDP will increase. This structural transformation together with the economic growth is termed as economic development.

Question 12:

Why was public sector given a leading role in industrial development during the planning period?

ANSWER:

At the time of independence, Indian economic conditions were very poor and weak. There were neither sufficient foreign reserve nor did India have international investment credibility. In the facet of such poor economic condition it was only the public sectors that need to take the initiative. The following are the reason that explains the driving role of the public sector in the industrial development:

1. Need of Heavy Investment: There was a need of heavy investment for industrial development. It was very difficult for the private sector to invest such a big amount. Further, the risks involved in these projects were also very high and also these projects had long gestation period. Thus, the government played the leading role to provide the basic framework of heavy industries.

2. Low Level of Demand: At the time of independence, the majority of population was poor and had low level of income. Consequently, there was low level of demand and so there was no impetus for any private sector to undertake investment in order to fulfill these demands. Thus,

India was trapped into a vicious circle of low demand. The only way to encourage demand was by public sector investments.

Question 13:

Explain the statement that green revolution enabled the government to procure sufficient foodgrains to build its stocks thatcould be used during times of shortage.

ANSWER:

Green Revolution led to an increase in the production of food grains. With the use of modern technology, extensive use of fertilisers, pesticides and HYV seeds there was a significant increase in the agricultural productivity and product per farm land. In addition, the spread of marketing system, abolition of intermediaries and easy availability of credit has enabled farmers with greater portion of marketable surplus. All these factors enabled the government to procure sufficient food grains to build the buffer stock and to provide cushion against the shocks of famines and shortages.

Question 14:

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.

ANSWER:

Subsidy means availing some important inputs to farmers at a concessional rate that is much lower than its market rate. During 1960s, in order to adopt new technology HYV seeds and use of modern fertilisers and insecticides, farmers were provided inputs at a subsidised rate. Thus, the public sector role was needed to invest heavily, so as to raise the income of people that will in turn raise the demand and so on.

The following arguments are given in favour of subsidy:

1) Subsidy is very important for marginal land holders and poor farmers who cannot avail the essential farm inputs at the ongoing market rate.

2) Subsidy in 1960s was basically an incentive for the farmers to adopt modern techniques and vital inputs like fertilisers, HYV seeds, etc. The subsidy was mainly of convincing and lucrative nature so that the farmers do not hesitate to use these modern techniques.

3) Subsidy is generally provided to the poor farmers with the motive of reducing inequality of income between rich and poor farmers and to promote an egalitarian distribution of income.

4) It is argued that the adoption of new technology and techniques are not risk free and only daring farmers are only willing to adopt them.

The following arguments are given against subsidy.

1) It is generally argued that subsidy favours and benefits fertiliser industries than the farmers. Subsidies provide a protective shield against the market conditions and, consequently, these industries need not to bother about their market share and competition.

2) Subsidies are also enjoyed by the potential farmers who do not need them. This often leads to the misallocation and wastage of the scarce resources.

3) Subsidies, if provided at a much lower rate than the market rate may lead to the wastage of resources. For example, subsidised electricity leads to the wastage of energy.

Question 15:

Why, despite the implementation of green revolution, 65 per cent of our population continued to be engaged in the agriculture sector till 1990?

ANSWER:

Although Indian agricultural production increased substantially that enabled India to attain the status of self-sufficiency in food grains but this increase is substantial only in comparison to food grain production in the past. Further, India failed to achieve structural transformation associated with the agricultural revolution and development. That is, in other words, industrial and service sector failed to generate significant employment opportunities in order to attract and absorb excess agricultural labour. The agricultural contribution to GDP has fallen from 51% in 1960-61 to 44% in 1970-71, on the other hand, the share of industry and service sector in India’s GDP increased merely from 19% to 23% and from 30% to 33% during the same period. Meantime, the percentage of population dependent on agriculture decreased merely from 67.50% (in 1950) to 64.9% (in 1990). Hence, the industrial and service sector growth was not very significant and, hence, failed to employ and attract surplus labour from agricultural sector. This may be because of the flaws in the economic policies that became the bottleneck for the growth of secondary and tertiary sector.

Question 16:

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.

ANSWER:

Although, the mismanagement and wrong planning in PSUs may lead to misallocation and, consequently, to wastage of the scarce resources and finance but PSUs do have some positive and useful advantages.

1. Enhancing Nation's Welfare: The main motive of the PSU was to provide goods and services that add to the welfare of the country as a whole. For example, schools, hospitals, electricity, etc. These services not only enhance welfare of country's population but also enhance the future prospects of economic growth and development.

2. Long Gestation Projects: It was not feasible and economically viable for the private sectors to invest in the big and wide projects like basic industries and electricity, railways, roads, etc. This is because these projects need a very huge initial investment and have long gestation period. Hence, PSU is the most appropriate to invest in these projects.

3. Basic Framework: An important ideology that was inherited in the initial five year plans was that the public sector should lay down the basic framework for industrialisation that would encourage the private sector at the latter stage of industrialisation.

4. Socialist Track: In the initial years after independence, Indian planners and thinkers were more inclined towards socialist pattern. It was justified on the rational ground that if the government controls the productive resources and production, then it won't mislead the country's economic growth. This was the basic rationale to set up PSUs. These PSUs produce goods not according to the price signals but according to the social needs and economic welfare growth of the country.

5. Reduce Inequality of Income and Generate Employment Opportunities: It was assumed that in order to reduce inequalities of income, eradicate poverty and to raise the standard of living, government sector should invest in the economy via PSUs.

Question 18:

Why and how was private sector regulated under the IPR 1956?

ANSWER:

IPR 1956 was adopted in order to accomplish the aim of state controlling the commanding heights of economy. This policy was aligned with the Indian economy's inclination towards socialist pattern of system of Soviet Union. According to this resolution, industries were classified into following three categories:

Category 1: Those industries that are established and owned exclusively by the public sector.

Category 2: Those industries in which public sector will perform the primary role while the private sector will play the secondary role. That is, the private sector supplements the public sector in these industries.

Category 3: Those industries that are not included in Category 1 and Category 2 are left to the private sector.

These industries that were left to the private sector, the government owns an indirect control by the way of license. In order to initiate a new industry, private entrepreneurs should obtain license (or permit) from the government. By licensing system, tax holidays and subsidies government can promote industries in a backward region that will ,in turn, promote the welfare and development of that region. This was supposed to reduce regional disparities.