UGC-NET STUDY MATERIAL
PART-2
(SECOND EDITION)

ECONOMICS HARBOUR

We Teach How to Reach Success!!!

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PUBLIC FINANCE

Part 2 – a

Notes by Economics Harbour

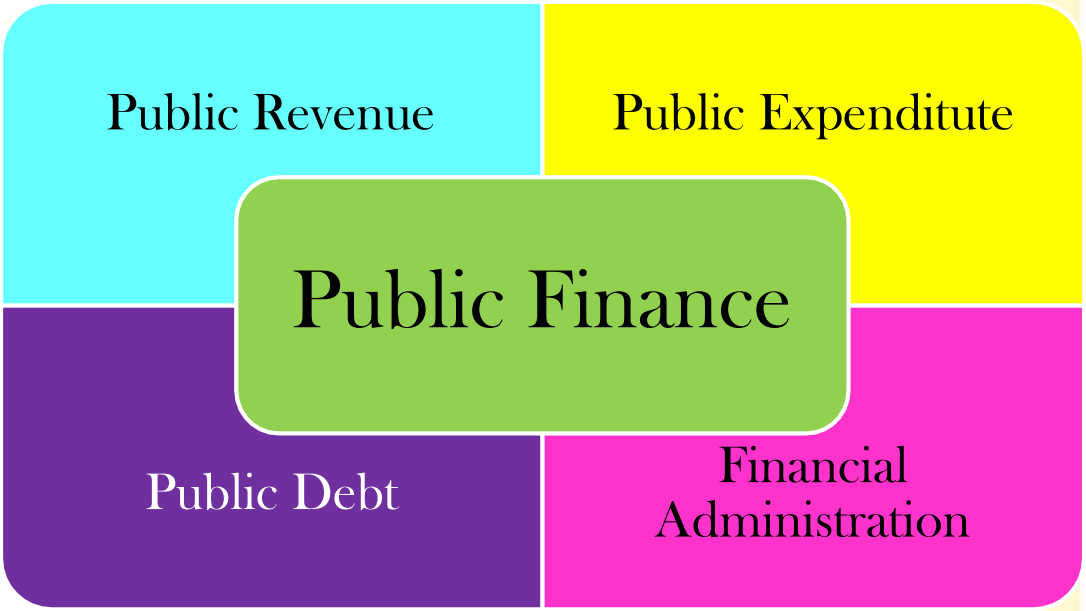
"The investigation into the nature and principle of state expenditure and state revenue is called public finance."

-Adam Smith

Public Finance

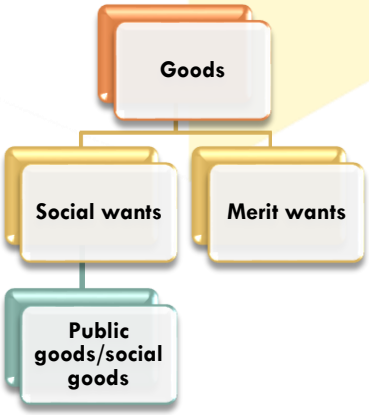
NOTESBYECONOMICSHARBOUR

1. OUTLINE

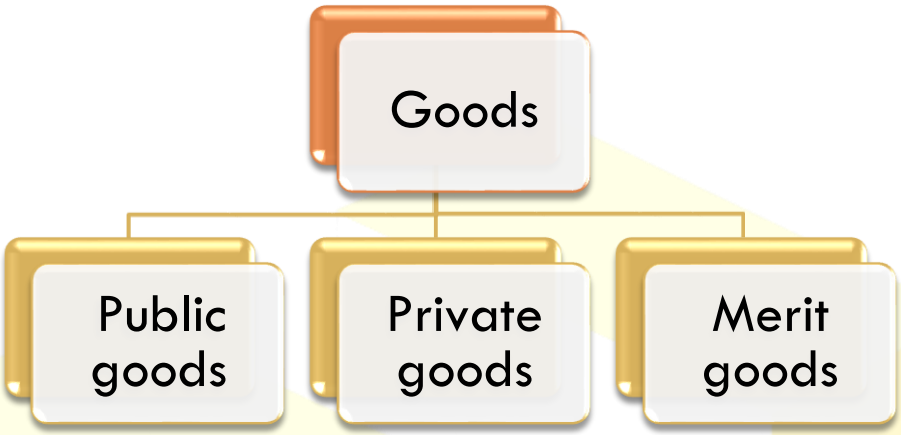


2. TYPES OF GOODS

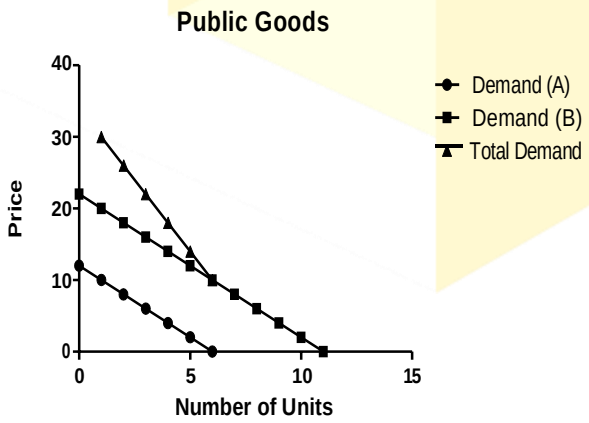
Musgrave classified the types of goods on the basis of wants diagrammatically represented as below:

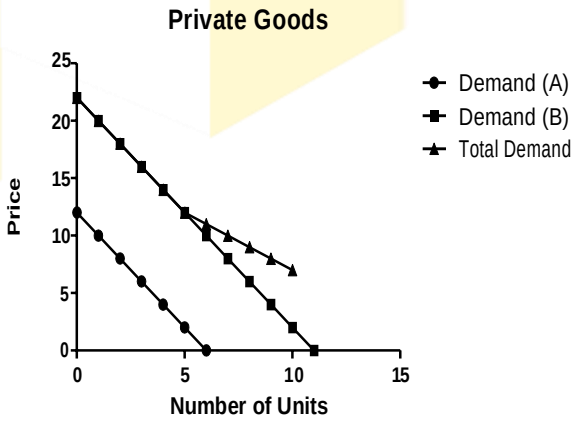


The common classification of types of goods is as follows:



1. **Public goods**: The public good is that good which consumed by one person, doesn't reduce the quantity available for others. In simple words, these goods are **non-rival** in nature. The benefits derived on consuming the good by one person doesn't reduce the benefits derived by others, that is, the same benefits can be obtained by all and thus there is **no mutual interdependence**.
   The **characteristics** of public goods are
   a. They are **Non-Rival** in nature
   b. They are **Non-Excludable**, that is, you cannot exclude anybody from consuming those goods.
   c. They are **indivisible**.
   d. Marginal cost for providing the good to an additional consumer is **zero or near zero.**
   e. **Same commodity is provided at different prices**. For example, everybody pays different amounts of tax, but has an equal right on travelling on national highways.
   f. The total demand is calculated by the mode of **Vertical Addition** of individual demands.
   g. There exists a problem of **free riding or externalities** in case of public goods.





2. **Private goods**: Private goods are those goods which give utility to the person consuming the commodity, and benefits derived are denied to others. It is a good whose price is determined in the market and those who pay for it are allowed to consume it, thus the principle of non-excludability comes into picture.
   The **characteristics** of private goods are:
   a. They are **excludable** in nature.
   b. They have **rivalry** characteristics.
   c. They are **divisible** in nature.
   d. The **price charged per unit is the same**.
   e. The **total demand** is calculated by **horizontally adding** the individual demands
   f. Marginal Benefit received by A is not equal to Marginal Benefit received by B (**$MB_A \neq MB_B$**)

3. **Merit Goods**: The concept of Merit goods was given by **Musgrave**. These are the goods whose consumption should be encouraged. For example, free education, low cost housing, etc. Also, these are the goods which the individual or the **society should have** on the basis of some concept of **need**, rather than the ability and willingness to pay.

3. PRINCIPLES OF PUBLIC FINANCE

The principles of Public Finance was given by **Prof. Dalton and Prof. Pigou**. The concept is also known as the **Principle of Maximum Social Advantage**.

The principle states that the revenue collected and spent by the state should be in such a manner which maximizes the welfare of the people. According to this principle,

Utility Gain = Utility Loss

If the above mentioned concept is followed, then this will lead to maximum welfare of the society.

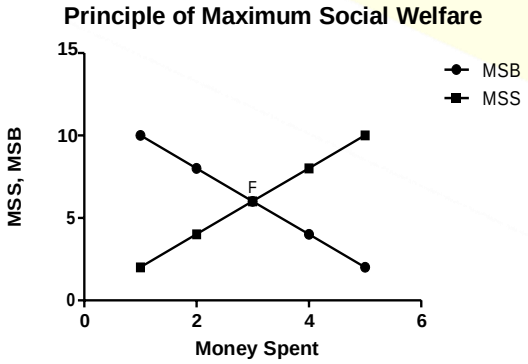
Dalton, to compute the level of maximum social welfare, introduced two concepts,

1. **Marginal Social Sacrifice (MSS)**: It is the per unit of taxation leading to marginal disutility amongst the tax payers. MSS is an upward sloping curve because with every marginal rise in taxation, the disutility increases more than before.

2. **Marginal Social Benefit (MSB)**: It is the per unit expenditure leading to creation of marginal utility amongst the beneficiaries. MSB is a downward sloping curve due to the applicability of diminishing marginal utility.

The state should choose the taxation and expenditure levels in such a way that the surplus of utility is maximised and the disutility is minimised.

Dalton further proved that maximum social welfare will be where MSS and MSB curves intersect.

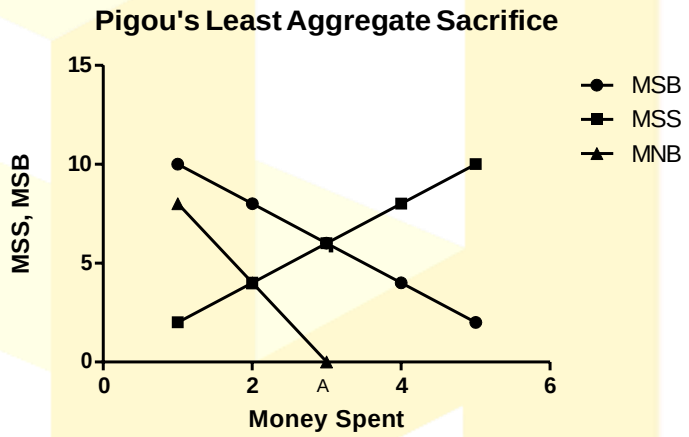


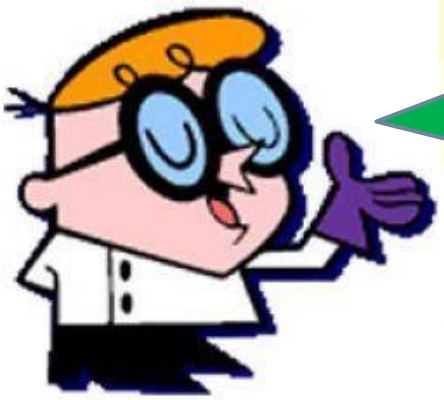
Point F is the optimum level of expenditure and taxation because at this point **MSS = MSB** and thus **Marginal disutility = Marginal Utility**.

Prof. Pigou called the same principle as the '**Principle of least aggregate sacrifice/Principle of Maximum aggregate welfare**'. According to him, the revenue and expenditure should be such that marginal sacrifice/marginal disutility of every individual in the community is the same. In other words, Marginal Utility of Money (MU_M) paid in terms of taxes should be the same for all the individuals (**$MU_M^A = MU_M^B$**).

To calculate the optimum level of taxation, Pigou gave the concept of **Marginal Net Benefit** (MNB), which is expressed as follows:

Marginal Net Benefit (MNB) = MSB- MSS





According to Pigou, Optimum level of taxation will be the point where MNB = zero. The points to the left of A implies that benefits > sacrifice; while points to the right of A implies, benefits < sacrifice. So therefore, A is the **optimum point of taxation and expenditure where benefits = sacrifice**

Must Remember

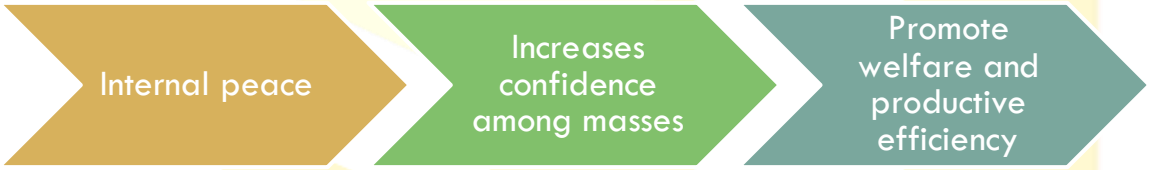
Fundamental Principles to achieve the objective of Maximum Social Advantage

1. Public expenditure should be continued till the point where benefit derived from the last rupee spent is equal to the sacrifice made by people in raising the last rupee of revenue.
2. The resources should be distributed in such a manner that the marginal return of satisfaction is the same from each of the resources.
3. The taxes should be charged in such a way that the marginal utility of money paid in taxation is equal for all the tax payers.

Objective Tests of Social Advantage

Given by Dalton

1. **Political Stability**: If taxes are imposed to protect the people from external threat, then it is productive. If taxes are imposed to snatch the right of others, then it is unproductive and hence a burden on the tax payers.



2. **Improvement in Production**: Maximum social advantage can only be realised when production increases (in terms of quantity and quality). This might be due to:
   - Increase in productivity
   - Improvement in organisation of production leading to minimum wastage
   - Improvement in composition or pattern of community.
3. **Improvement in Distribution**
   - Reduce inequality between rich and poor
   - Reduce fluctuations between different periods of time.
4. **Economic Stability**: Less fluctuations in the economy.
5. **Full employment**: Leads to increase in production and income inequality.
6. **Future considerations**: Interest of future generations is maintained.

Mrs. Hicks' Optima of Public Policy

"Production optimum is realised when it becomes impossible, by reallocating factors to increase the output of one product without diminishing that of another."

Maximum output would lead to satisfaction of wants.

Limitations of the Theory

1. Difficult to put into practice because utility is subjective in nature.
2. Utility is not measurable.

3. Ignores macro systems.
4. Limited scope. Expenditure is made not for utility but for political pressures.
5. Difficult to forecast results.
6. No restriction on maximum social advantage.
7. Highly unrealistic restrictions like no deficit, etc.

4. PUBLIC BUDGETS

A budget is simply a record of any physical activity undertaken by the government. It is a statement of revenue and expenditures incurred by the state. The budget has three components:

1. It includes the **statement of funds** which are required by the government during a period of time.
2. It also includes a detailed **statement of assets and liabilities** held by the government.
3. It also estimates the **income in the form of interest from loans** to other government.

4.1 Objectives of a Budget

R: RELOCATION OF RESOURCES

R: REDISTRIBUTIVE ACTIVITIES

S: STABILIZATION

M: MANAGING PUBLIC ENTERPRISES

1. It helps in **reallocation of resources** so that they can be used most productively.
2. The budgets help governments in **redistributive activities** like reducing inequalities, etc. through the mode of taxation and expenditure.
3. The budget helps in **stabilizing** the activities of the government by reducing the fluctuations in business activities.
4. The budget helps in **managing the public enterprises** and reduce the loss making units.

4.2 Kinds of Budgets

- ✓ **Multiple and Unified Budgets**: Under **Multiple budgets,** the government prepares the budget into two parts in way that these two parts can be individually assessed. On the other hand, **unified budget** is prepared in such a way that the entire budget can be studied together and the total impact can be assessed.
- ✓ **Conventional and Cash Budget**: In case of **conventional budget**, the transactions are recorded on accrual basis and the funds which do not belong to the government are excluded from it. On the other hand, the **cash budget** includes all types of funds which pass through the government, irrespective of whether they belong to the government.

✓ **Revenue and Capital Budget**: **Revenue budgets** include the items which are of recurring nature. On the other hand, **capital budget** includes items which bring a change in the assets of the economy.

Did You Know???

Before Independence, **James Wilson** presented the budget in **1860**. After Independence, 1st Indian to present it was **T.T. Krishnamachari**.

In India, the budget is presented on the last working day of February by the Finance Minister. Ministry of Finance formulates the budget.

A budget gives **three estimates**:

Estimates

Budget Estimates

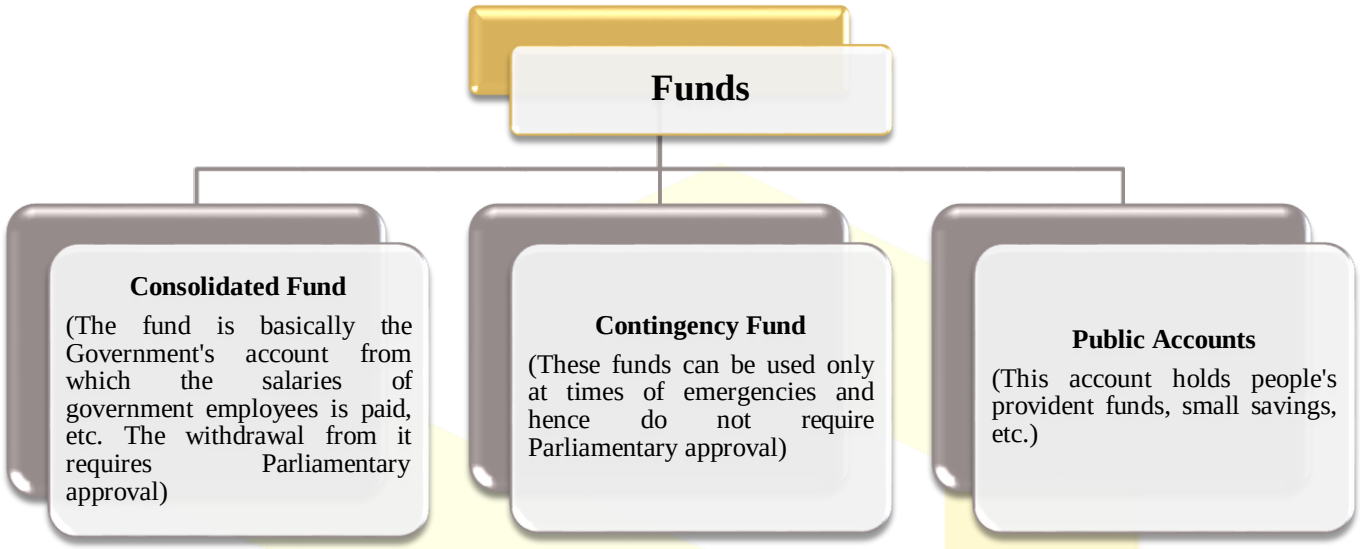
(These estimates need Parliamentary approval. The other Ministries give the information to the Finance Ministry and then the estimates of expenditure and revenue for the upcoming year are prepared accordingly.)

Revised Estimates

(These estimates do not need Parliamentary approval. They are prepared for the ongoing financial year when half year has passed.)

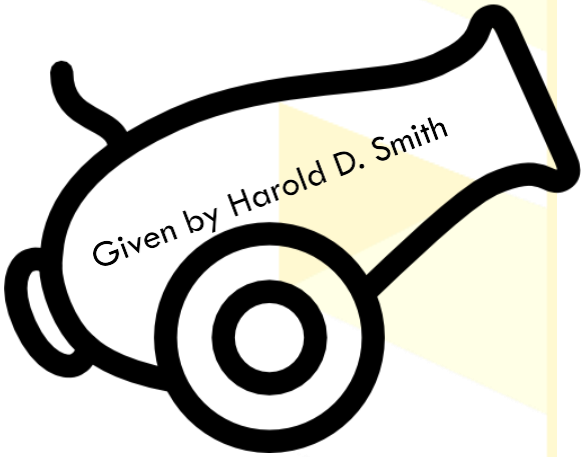
Actual Estimates

(These estimates are prepared when the financial year has ended and reflects the actual expenditure and revenue taken place)



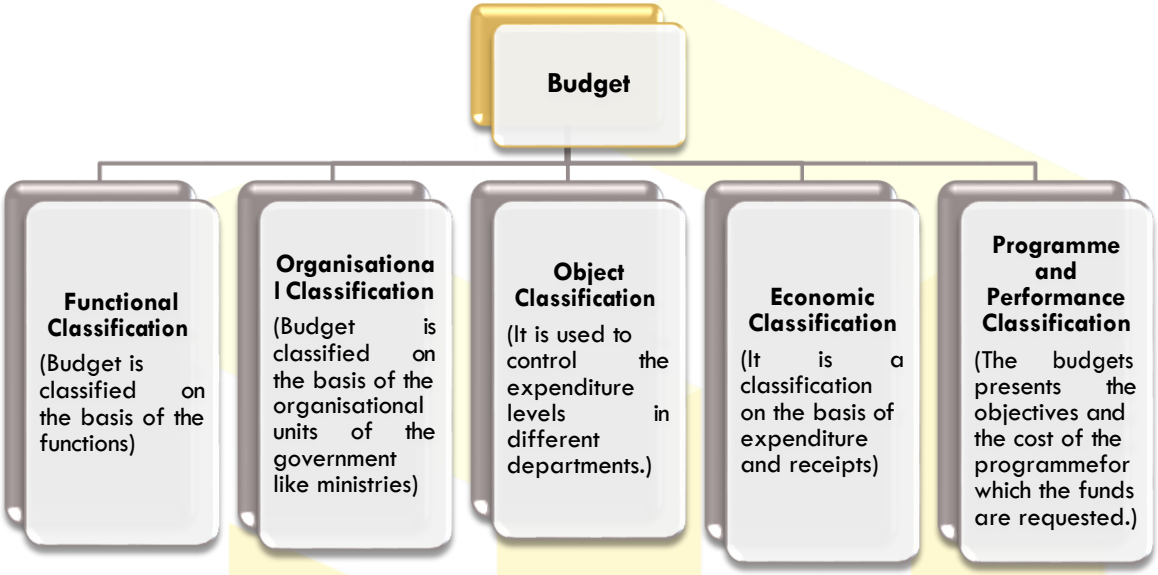
4.3 Canons of Budgeting

The Canons of Budgeting were given by **Harold D. Smith** and are as follows:



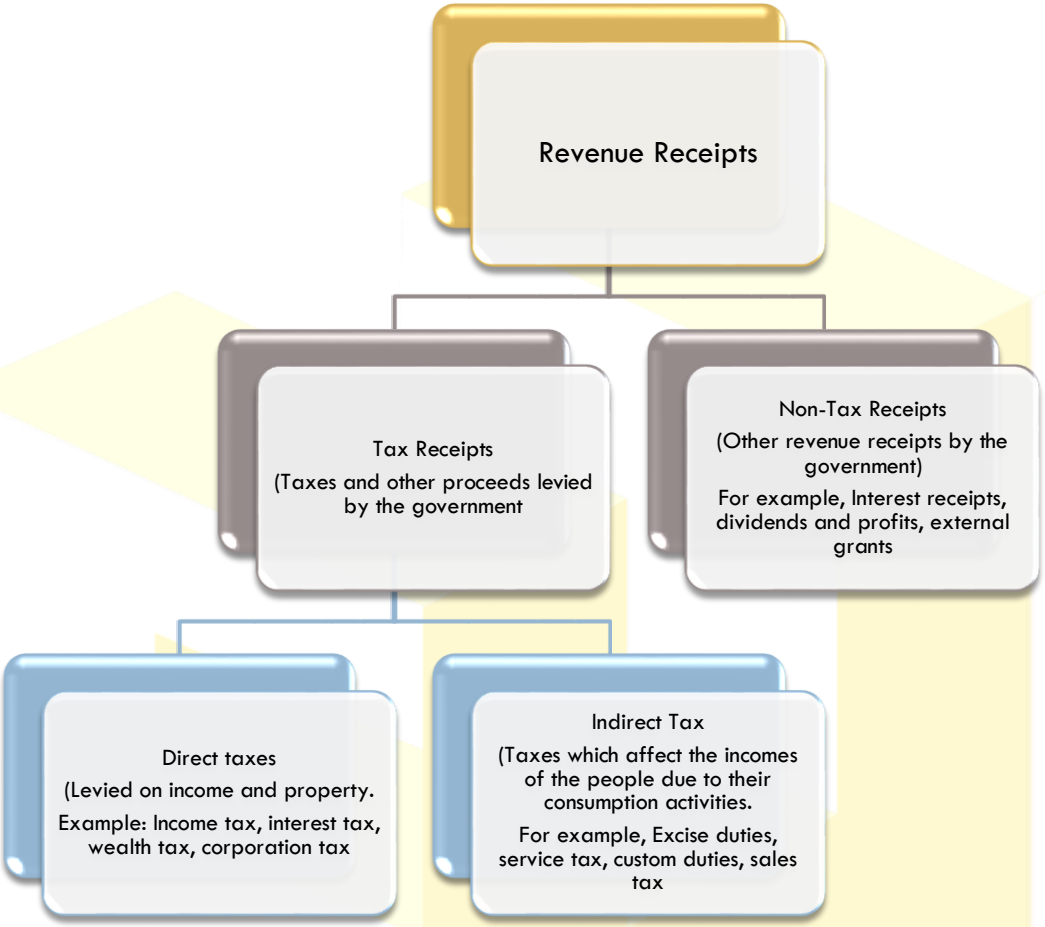
- **Executive programming**: The budgeting process should take place under an authority.
- **Executive responsibility**: The expectations from the budget should be realized.
- **Executive directions:** Budget should contain enough information for legislators and proper directions for the Executive.
- **Adequate tools**: There should be sufficient resources required to prepare the budget like staff, etc.
- **Operational data**: Ministries should give data on time.
- **Flexibility**: Budget should be flexible enough in accordance to the economic situation.
- **Two-way budget management/co-operation**: Co-operation among various departments is necessary to prepare an efficient budget.
- **Multiple procedures**: Different governments have the freedom to follow different procedures for preparing and executing the budget.

4.5 Budget can be classified as????



4.4 Types of Budget

1. **Revenue Budget**: This budget accounts for current financial transactions which are recurring in nature.
   Revenue Receipts: Includes Tax receipts, Non-tax receipts.
   Revenue Expenditure: Includes Developmental, Non-Developmental expenditure.



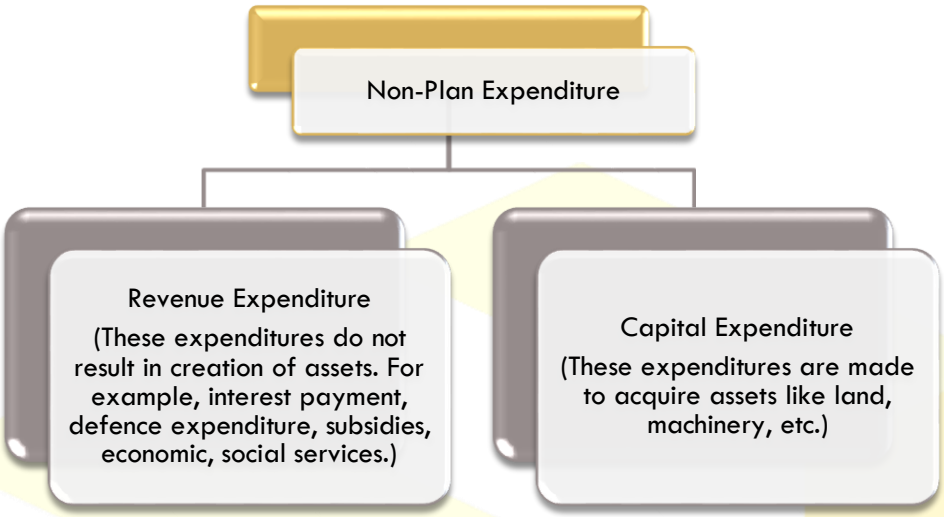
2. **Capital Budget**: The budget includes creation/addition of capital assets and even acquisition/disposition of capital assets. It further includes:

a. **Capital Receipts**: Includes market borrowing, loans and recoveries, external assistance, disinvestment.

b. **Capital Expenditure**: It includes developmental expenditures like capital expenditure, construction of roads, etc. and non-developmental expenditures like discharging debt, defence, advancing loans, etc.

3. **Planned Budget**: The budget which is made for a certain time period. In our country, the five-year plans are considered to be a Planned budget.

   Non-plan Budget: The budget which is prepared to take an immediate action, is called a non-plan budget.



4. **Executive Budget**: The budget which is prepared by executive and followed by the legislative is known as the Executive budget.
5. **Non-Executive budget**: The budget which is prepared and followed by the Legislator, is known as non-executive budget.

Economic Classification of Budget

The concept of economic classification of budget was **introduced in 1956 and first time presented in 1957**. This kind of a budget divides the expenditure on the modes of financing. It is **prepared by the Ministry of Finance**.

The expenditure is divided under the **following heads**:

1. Current account transactions in goods and services and transfers of government administration.
2. Transactions in goods and services and transfers in current account of Department of Commercial Undertakings (DCU).
3. Transactions in goods and services and transfers in capital account of government administration and DCU.
4. Change in financial assets for current account and capital account.
5. Change in financial liabilities for capital account for government and DCU.
6. Cash and Reconciliation Account: Leftovers in account of government administration and DCUs.

Functional Classification of Budget

The functional classification of budget is on the basis of direction in which expenditure is undertaken. Such kind of classification was **undertaken by NCAER in 1957**.

It includes **following heads**:

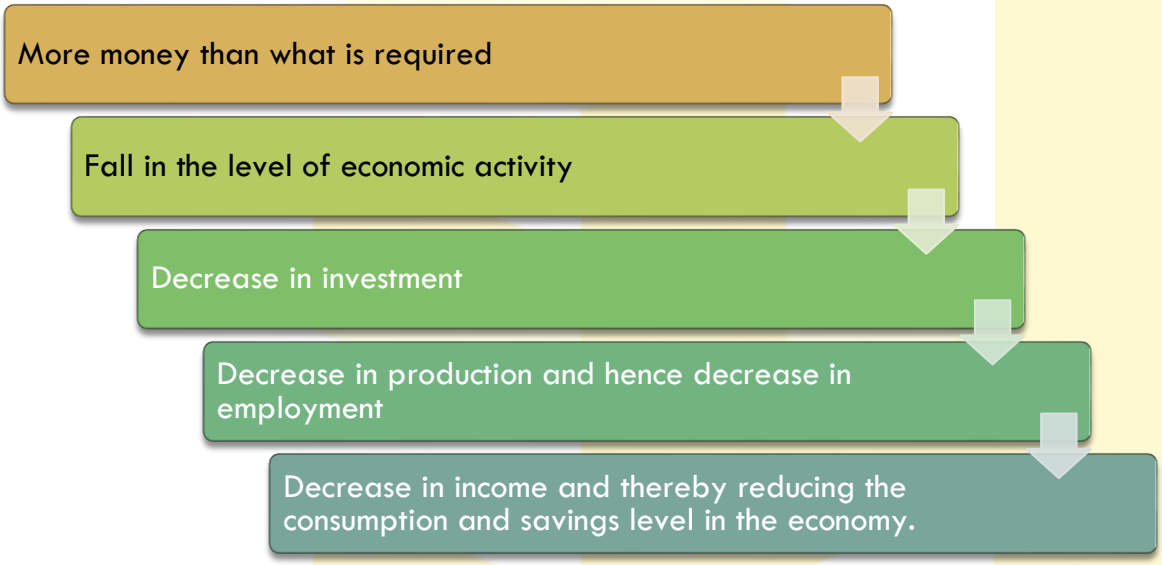
1. **General Services**: Interest payments, currency, minting

2. **Social Services**: Education, Health, etc.
3. **Economic Services**: Agriculture, Industry, Services sectors.
4. **Unallocable Services**: The remaining are included under this head.

Balanced, Surplus and Deficit Budgeting

Balanced Budget: If the estimated receipts are equal to the estimated expenditure, then it is considered to be a balanced budget. Such kind of a budget does not have any impact on the economic activities, that is, it has a **neutral effect**.

Surplus Budget: If estimated receipts are more than the estimated expenditure, then it is known as a surplus budget. The surplus budget means that the government or the central bank is printing more money than what is required. Therefore, it has a **contractionary effect on the economy**. The process can be understood in the following way:



Deficit Budget: If estimated receipts are less than the estimated expenditure, then the economy has a deficit budget. The deficit is then financed by printing more notes. Moreover, it means that the economy is pumping in more money than what is required. The process can be understood in the following manner:

More money is pumped in the economy

Increase in economic activity

Increase in investment, hence rise in employment

Rise in income levels leading to the rise in consumption and savings level.

Overall;

Revenue < Expenditure	**Deficit Budget**
Revenue = Expenditure	**Balanced Budget**
Revenue > Expenditure	**Surplus Budget**

Techniques of Budgeting

1. **Performance Budgeting**: This budget was **used prior to 1968**. Under this kind of budgeting, the resources were allocated on the basis of performance depending on:
   a. Final outcome of the budget.
   b. Strategy adopted while implementing the budget.
   c. Activities undertaken as a part of the budget.

2. **Programme Budgeting**: It is also known as **Programme Planning**. It means that out of the available strategies, the authorities choose the best and the most economical in terms of use of resources, cost, etc.

The major **difference between performance budgeting and programme budgeting** is that the latter is more comprehensive as compared to the former. Moreover, programme budgeting is forward looking while performance budgeting is backward looking, that is, it analyses the event which have already occurred.

3. **Incremental Budgeting**: It is also known as **Line Item Budgeting/ Incrementalism**. Under this, the budget is presented in financial terms. It doesn't highlight the purpose of expenditure which is a major **drawback** of this type of budget. Also under line item budgeting, last year's budget is revised to a little extent, that is, it is just an extension to the previous budget. The purposes of this budget are:
   a. Accountability
   b. Regularity
   c. Legality of resources

"As performance budget is one which presents the purpose and objectives for which funds are required, the cost of the programmes proposed for achieving those objectives and quantitative data measuring the accomplishment and work performed under each programme."

- US Bureau

The **advantage** is that it reduces the cost of decision making while the **disadvantage** is that there is no revaluation of programme takes place under Incremental budgeting.

4. **Zero Based Budgeting**: It was developed by **Peter A. Phyrr in 1969**. The budget, by its name, means starting from the scratch. Under Zero-Based budgeting, each department is required to justify its expenditures and budget requests from the scratch. The programmes are regularly evaluated and justification is given to continue the programme.

The **features of Zero-Based Budgeting** are as follows:

a. The programmes are evaluated at various levels of resource allocation and its performance is measured.
b. Objectives are to be formulated by each agency.
c. Each agency's activities are to be converted into decision packages which reveal their true performance.

Mr. Jimmy Carter, while he was the Governor of Georgia, first tried this kind of a budget in **1973**, with necessary modifications. **In India, it was applied in 1987**.

The **advantages** are as follows:

a. More efficiency and outdated programmes are eliminated.
b. Cost effectiveness
c. Resources can be more rationally utilised.
d. More executive participation at all levels.

5. **Sunset Legislation**: Under this, outdated/irrelevant programmes are eliminated and limits are prescribed on the implementation of the budget.
6. **Top-down budgeting**: It originated in **U.S. in 1981**. Under this, one authority sets limit for all the departments and then each department is responsible to undertake the activities to achieve their goals.

Concept of Deficits

1. **Revenue Deficit**: Revenue Expenditure – Revenue Receipts
   It is the amount by which expenditure on revenue account exceeds the receipt.
2. **Capital Deficit**: Capital Expenditure – Capital Receipts
   It is the amount by which expenditure on capital account exceeds the receipts.
3. **Budget Deficit**: Capital Deficit + Revenue Deficit
   It is financed through borrowings of 91 day ad-hoc T-Bills and drawing down of cash balances.
4. **Fiscal Deficit**: Budget Deficit + Sale of public assets + borrowings and liabilities of government
5. **Primary Deficit**: Fiscal Deficit – Net Interest payments
6. **Net Fiscal Deficit**: Fiscal Deficit – Loans and Advances
7. **Net Primary Deficit**: Net Fiscal Deficit – Net Interest payments
8. **Monetized deficit**: Increase in net RBI credit to the Government. It reflects the level of RBI's credit to centre's borrowing programme and is usually determined by increase in reserve or high powered money.
9. **Effective Revenue Deficit**: Revenue deficit – Grants for creation of Capital Assets
   It was introduced in Budget 2011-12

10. **Public Sector Borrowing Requirements (PSBR)**: Also known as Public Sector Net Cash Requirements. It is the net claim on all government entities. It is a comprehensive measure including all government entities/bodies that show the net claim on the use of resources by the public sector.
11. **Structural Deficit**: It is the PSBR adjusted for occasional measures for reducing deficits and increasing resources/increasing revenue.
12. **Operational Deficit**: It is the PSBR adjusted for inflationary/price changes.

PUBLIC EXPENDITURE

Public Expenditure refers to the expenses incurred by the public authorities for the social and economic welfare of the citizens.

Reasons for the Growth of Public Expenditure

1. To maintain big and strong defence forces.
2. Vast research and development in science and technology.
3. Economic self-sufficiency of the country.
4. Increase in population has increased the public expenditure.
5. Increase in the volume of public debt.

Difference between Public and Private Expenditure

Basis	Public Expenditure	Private Expenditure
Motivation	Social Welfare	Profit
Time period	Made keeping in mind the long-term benefits.	Made in relation to near future.
Benefits	May or may not be measurable	Measurable

Theories of Public Expenditure

1. **Wagner's Law of Increasing State Activities**: The Wagner's law came into writing in **1880**. His period of study was 1835-1917. According to his study, **as public expenditure increases, role of the public sector also increases**.
   Government play its role in following ways:
   a. Protect people from internal and external aggression
   b. Provides social services in respect of culture, education, health, etc.
   c. Participation in material production.

   Other factors which have the tendency to increase the public expenditure are:

   a. Increasing population which leads to increase in public expenditure.
   b. Increase in urbanisation.
   c. Rising debt

   Due to these governmental activities, its role becomes more important as compared to the private sector. Thus Income elasticity of government services is greater than 1, implying that the level of government services changes more than the level of output in the economy. In short, during the process of economic development, the government expenditure increases more than proportionally as compared to the per-capita community output.

Moreover, Government's role, both intensively and extensively, increases over a period of time.

The **demand for public expenditure depends** on:

a. Urbanisation and Industrialisation
b. Age composition
c. Level of private sector activities

On the other hand, the **supply of public expenditure depends** upon:

a. Scale of production

Overall, factors like:

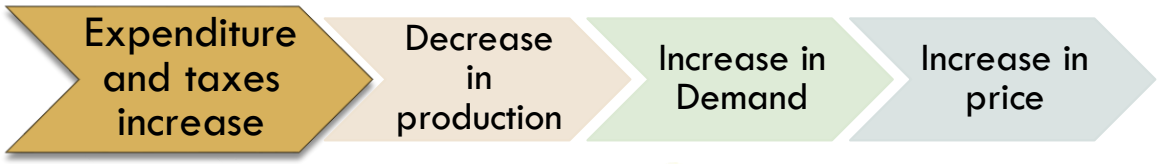
1. Continuous extension of social activity.
2. War and preparation of war
3. Growth of population and urbanisation
4. World depression
5. Rise in prices
6. Democratic institutions
7. Role of economic planning
   Lead to importance of public expenditure

Criticism of the theory

1. Lacks inter-disciplinary phenomenon.
2. Not comprehensive
3. Not acceptable to western countries
4. Ignores influence of war

2. **Peacock-Wiseman Hypothesis**: The theory originated in **1890s** in their work "Growth of Public Expenditure in U.K.". Peacock-Wiseman notes the behaviour of public expenditure. They said that the public expenditure does not increase in a smooth manner but in a **jerky, step-like fashion**. They talked about three effects:
   a. **Displacement effect**: According to this, any kind of social disturbance leads to rise in expenditure and taxation. It is simply the movement from previous level of expenditure and taxation to a new and higher level.
   b. **Inspection effect**: Government increases expenditure due to involvement in other activities, that is, government will find new areas to operate. Also, it is sometimes considered to be a situation of inadequate revenue as against the required public expenditure.
   c. **Concentration effect**: Tendency of Central government activities increases at a faster rate than the state government or local bodies.

3. **Colin-Clark Hypothesis**: The hypothesis tells the optimum level of public expenditure. According to this theory, if government expenditure is more than 25% of the total economic activity, then it leads to inflation.



So, the **critical limit of public expenditure is 25%.**

Pure Theories of Public Expenditure

1. **Pigou's Ability to Pay**: Goods and services provided should be charged a fees to cover the cost of production.
   Conditions when public expenditure can be larger:
   - Greater the aggregate income
   - New opportunities for expenditures by the government, and no private sector is available.
   - Greater the concentration of income with few rich.
2. **Voluntary Exchange Theory**: By **Lindahl in 1919.**
   - Price mechanism of public goods does not exist because they are jointly consumed.
   - If such goods are supplied; all members will consume it, irrespective of who pays for it and who not.
3. **Samuelson Theory**
   - Public goods are provided collectively and can't be provided by private entrepreneurs.
   - Applies market principle to determine the optimal provision of financing of public goods.
4. **Johansen's Theory**: Intends to apply fiscal theory to partial problems and specific issues.

Canons of Public Expenditure

The Canons of Public Expenditure was given by **Findlay Shirras** and are as follows:

1. **Canon of Benefit**: Public expenditure should be for the maximum number of people. The public expenditure should be made in such a manner that it satisfies the public interests in the best possible manner.
2. **Canon of Economy**: There should not be over-spending or waste of resources. In other words, the expenditure should not involve the resource use more than what is required. Also, there should be no corruption in the economy. The techniques like zero-based budgeting, programme budgeting and performance budgeting have been evolved to fulfil the requirements of this canon.
3. **Canon of Sanction**: The public expenditure can be done only upto a certain limit without sanction from the higher authorities. Beyond that, it should be compulsory to take the permission from the authorities.
4. **Canon of Surplus**: Spending should be done so that the surplus is maintained. Enough money should be there to repay loans or interests. The budget should be in balance or surplus but a strict no to the deficit budget.

Other Canons

(Suggested by other Economists)

1. **Canon of Elasticity:** Public expenditure should be flexible in terms of size and direction according to country's requirements.
2. **Canon of Productivity**: Encourage production in the country.
3. **Canon of Equitable Distribution**: Equalities in distribution of wealth and income are ensured.
4. **Canon of Neutrality**: Public Expenditure should not adversely affect economic setup like production, distribution, and exchange.
5. **Canon of Certainty**: Public authorities should clearly know the purpose and extent of public expenditure.
6. **Canon of Programme**: Public expenditure should be planned to specific programmes.
7. **Canon of Performance**: Performance is measured.

Classification of Expenditure

1. **Productive and Unproductive Expenditure**: **Productive expenditures** are those which are made to create or maintain the social overheads. On the other hand, the **unproductive expenditures** are those like on defence, administration, etc. which do not have any effect on the production capacity of the economy.
2. **Transfer and Non-transfer Expenditure**: **Transfer payments** are unilateral payments and does not involve receipt of goods and services in return. For example, old age pensions, maternity benefits, etc. **Non transfer expenditures** is a bilateral payment and involves exchange of goods and services.
3. **Revenue and Capital Expenditure**: **Revenue expenditure** does not lead to creation of assets and are recurring in nature. On the other hand, **capital expenditure** leads to the creation of assets in the economy.

Effects of Public Expenditure

The public expenditure has the following effects on the economy:

1. **Distribution effects**: The public expenditure reduces inequalities by providing public goods or services which are common to all, irrespective of their income levels. In other words, the government should follow a progressive expenditure system.
2. **Effect on production**: The public expenditure has a positive impact on the production levels because workers will be able to save more, hence demand more and thus increase the production activities in the economy.
3. **Growth effects**: When the public expenditure increases, the demand for goods increase and hence economic activities also increase.
4. **Stability**: Public expenditure level is changed according to the state of the economy and hence bringing about stability. At times of inflation, the expenditure decreases and during recessionary times, expenditure increases.

PUBLIC REVENUE

Public Revenue is the income received by the government through its sources. It includes taxation policies, fees and fines, interest from loans given to other economies, etc.

Sources of Public Revenue are:

1. **Taxes**: These are the compulsory payments which are collected to do something for the common interest of the people. There is no relation between tax payment and benefit received after paying the taxes. These include:
   a. Tax on Income and Expenditure
   b. Taxes on Property like wealth tax, gift tax, etc.
   c. Indirect Tax like entertainment tax, service tax, excise duty, custom duty, etc.

2. **Non-Tax Revenue:** This includes:
   a. Interest receipt on loans.
   b. Revenues from government activities like railways, etc.
   c. Receipts of currency notes, coinage and mint.

Characteristics of Taxes

1. Tax is a **compulsory payment** made by the people of the state to the government.
2. **No quid pro quo**, that is, returns from the payment of tax is not assured to the people.
3. Tax is considered to be the duty by the citizen of the state, thus, it becomes a **personal obligation.**
4. Taxes are collected for the **general welfare** of the state.

Kinds of Tax

1. **Direct Tax**: Direct Tax is directly imposed on the income levels. For example, Income tax, Corporation tax, Property tax, Wealth tax, Gift tax.
   Merits of Direct taxes are:
   a. It is **more progressive** in nature and focuses on equity.
   b. It is **more elastic** in nature.

   Demerits of Direct Taxes are:

   a. It is more **prone to evasion**.
   b. It is **inconvenient** for tax payers
   c. Low income group cannot be approached through direct taxes.

2. **Indirect Tax**: These are the taxes which affect the incomes of the people through their consumption activities. For example, Sales tax, Excise duty, Custom duty, VAT, Entertainment tax, Service tax.
   Merits of Indirect taxes are:

a. It is regarded to be more convenient because it is paid in smaller amounts.
b. There is less possibility of evasion.
c. Wider coverage

Demerits of Indirect taxes are:

a. It is more regressive in nature.
b. High administration cost
c. It discourages savings

Comparison between Direct Taxes and Indirect Taxes

Basis	**Direct taxes**	**Indirect taxes**
Allocative effects	Greater satisfaction and more utility.	Lesser satisfaction and less utility.
Administrative cost	More in direct taxes.	Less in indirect taxes.
Distributional effects	More progressive and reduces income inequalities.	More regressive and hence increases income inequalities.

3. **Ad-Valorem Taxes**: These are the taxes which are termed usually as the proportion of the price of the commodity. These are the taxes **imposed on the value** of the property/good.
4. **Specific tax**: If the tax is levied on the per unit of the commodity produced or sold, it is known as the specific tax. It is the tax **imposed on weight or size** of the commodity.
5. **Corporation tax**: It is the tax **imposed on the profits** of a company.
6. **Expenditure tax**: It is the tax **imposed on the expenditure** undertaken by the corporation.
7. **Death Duty**: It can either be in the form of estate duty or inheritance tax or succession duty. It is imposed on the property inherited after the death of the person.
8. **Gift tax**: It is a tax on gifts of a certain value.
9. **Wealth tax**: It is the tax on property/assets.
10. **Capital-gains tax**: It is imposed on the net gains realised on the sale of property at a higher price than what was paid for it.
11. **Custom duty**: It is the tax imposed on imports and exports of commodities.
12. **Excise duty**: It is the tax on production and sales.
13. **Sales Tax**: It is the tax on sales of a commodity.
14. **Service tax**: It is the tax on services availed by the consumer.
15. **Fringe Benefit tax**: It is the tax to be paid by the employers for benefits given to the employees collectively.

Canons of taxation

It was given by **Adam Smith**.

1. **Canon of Equality**: The canon of equality aims to provide economic justice to all. It means that the burden is equally shared, that is, rich should be charged with more amount of taxes and poor with less. As a result, it would progressively bring equality in the economy.
2. **Canon of Economy**: It means that the resources collected through the tax should be minimum.
3. **Canon of Certainty**: It specifies when/who will pay taxes. The contributor should be clear of all the information regarding the time of payment, amount to be paid, etc.
4. **Canon of Convenience**: It means that people should not face inconvenience while paying taxes. The time and mode of payment should be convenient for the tax payer.

Theories of Distribution of Tax Burden

1. **Physiocratic Theory**: It is the earliest theory. According to this, land is the only factor which will generate surplus. Tax should be imposed only on land. However, this theory had **flaws** which are:
   a. It is unjust to charge tax only to one factor.
   b. Single tax might not lead to enough revenue.

2. **Financial Theory**: According to this theory, taxes imposed should maximise revenue regardless of whether it is too burdensome on the poor. The theory being too regressive, was its major flaw.

3. **Cost of Service Theory**: Taxes are paid as per the cost of service provided by the Government, that is, more cost implies more tax. The **criticisms** of this theory are:
   a. It is difficult to measure the cost of service on every individual.
   b. Cost of service is arbitrary in nature, thus, it is difficult to analyse the apt amount of tax.
   c. Government will, as a result, never undertake activities which are costly in nature.

4. **Benefit Principle**: It is also known as '**Contractual Theory**' and is given by **Lindahl**. According to this theory, there is a contractual relationship between the government and the people. Government acts as a commercial enterprise and there is a quid-pro-quo setup that is, favour in return of a favour. Government acts as a supplier of public goods and services and the taxes should be charged in proportion of the benefits derived or received.
   Lindahl **assumed**:
   a. There are two tax payers.
   b. There is one social good.
   c. Democratic setup
   d. Distribution of income is constant.
   e. Production function is linearly homogenous.

f. Cost of production is constant.

According to this theory, both tax payers will jointly contribute towards the public revenue to cover the cost of goods provided.

Lindahl's theory provides solution to three problems which are:

a. The decision regarding the extent of state activity, its expenditure and taxation levels, which are discussed in the theory.
b. Allocation of public expenditure on various goods and services.
c. Deciding upon the tax burden to be shared by all tax payers in the economy.

5. **Ability to Pay Theory**: The theory was given by **Seligman** and other contributors were **Pigou, Edgeworth, Kaldor.** The focus of this theory was on equality, that is, taxes charged were according to the 'ability to pay' of the tax payer. Thus, for richer class, the marginal utility of money (MU_M) is less, thus they have a higher capacity to pay more.
   a. **Objective Faculty**: These are the factors which affect taxes and are as follows:
      - Income
      - Property
      - Consumption Expenditure
      - Size of the family
   b. **Subjective/Sacrifice Principle**: It is based on the psychological reaction which varies from person to person.
      - **Equal absolute sacrifice**: It is **most regressive**. According to this, the absolute income after paying tax should be the same for all.

        $$(\text{Income} - \text{Tax})_A = (\text{Income} - \text{Tax})_B$$
      - **Equal Proportional Sacrifice**: It is **less regressive** as compared to the Equal absolute sacrifice. According to this, the sacrifice should be proportional to their total income.
      - **Equal Marginal Sacrifice/ Least aggregate sacrifice**: It is the **most progressive** form of taxation. According to this, the marginal sacrifice for each tax payer should be the same.

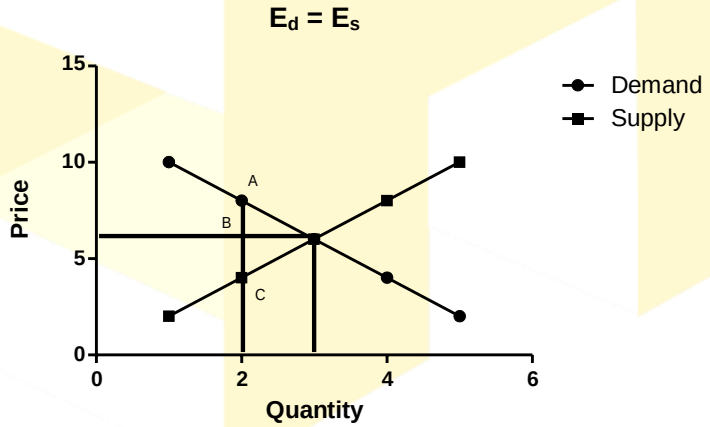
Important Concepts related to Taxation

1. **Impact of Tax**: It is the immediate/original/Primary burden of tax. The person who pays the tax in the first incidence, experiences an "Impact of Tax".
2. **Shifting of Tax**: It implies transferring the burden of tax from one person to another. It can be either forward or backward.
3. **Incidence of Tax**: It is the final resting point of tax. It is the person who faces the final burden of tax.
   There have been many concepts related to incidence of tax:

Associated Name	**Concept**	**Meaning**
Mrs. Ursula Hicks	Formal Incidence	Person who bears the burden
	Effective Incidence	Broader term, studies the overall impact of tax
Dalton	Direct Money Burden	Person who bears the burden
	Indirect Money Burden	Broader term, studies the overall impact of tax
Dalton	Direct Real Burden	Loss of utility
	Indirect Real Burden	The tax imposition which further reduces consumption

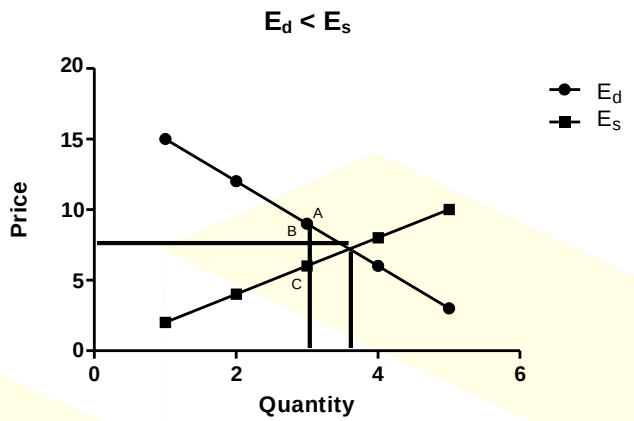
Theories of Shifting of Tax

1. **Physiocratic Theory**: According to this theory, one tax should be imposed on the use of land.
2. **Diffusion Theory**: This theory was given by **Canard, Mansfield**. According to this theory, land, labour and capital can generate surplus and thus taxes should be divided amongst them. This will diffuse the taxes in the society.
3. **Modern Theory**: The theory was given by **Marshall**. It is based on the application of relationship between marginal utility and price. Moreover, prices are a part of the cost of production.
   Case1: When Elasticity of Demand (E_d) = Elasticity of Supply (E_s)
   As a result, tax burden is equally distributed amongst the consumers and the suppliers.



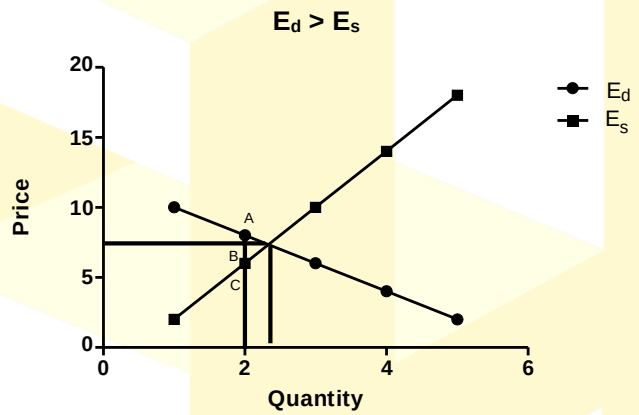
In the figure above, AB = BC, implying that the consumers and producers share taxes equally.

Case 2: $E_d < E_s$, this implies that tax burden is more on the buyer as compared to the seller.



In the diagram above, AB>BC. This implies that burden of tax is more on the buyer as compared to the seller.

Case 3: $E_s < E_d$. This implies that the burden of tax is more on the seller as compared to the buyer.



In the figure above, AB<BC implying that burden of tax is more on the seller.

Case 4: $E_d = \infty$ (perfectly elastic) and E_s is relatively inelastic. This implies that the burden of tax falls wholly on the seller.
Case 5: $E_d = 0$ (perfectly inelastic) and E_s is relatively elastic. This implies that the burden of tax falls wholly on the buyer.
Case 6: $E_s = \infty$ (perfectly elastic) and E_d is relatively inelastic, then burden of tax falls wholly on the buyer.
Case 7: $E_s = 0$ (perfectly inelastic) and E_d is relatively elastic, then burden of tax falls wholly on the seller.

To summarise, the burden can be calculated using the following formula:

$$\frac{\textbf{Burden on buyers}}{\textbf{Burden on seller}} = \frac{\textbf{Elasticity of demand}}{\textbf{Elasticity of supply}}$$

Modern Views on Taxation

The concept was given by **Musgrave**. He considered the distributional side, that is, incidence is the change in the distribution of income available for private use because of policies of taxation and expenditure. He mentioned **three effects**:

1. Available resources for public and private expenditure changes.
2. Output can be affected.
3. Change in the distribution of income.

Concepts Relating to Incidence of Taxation

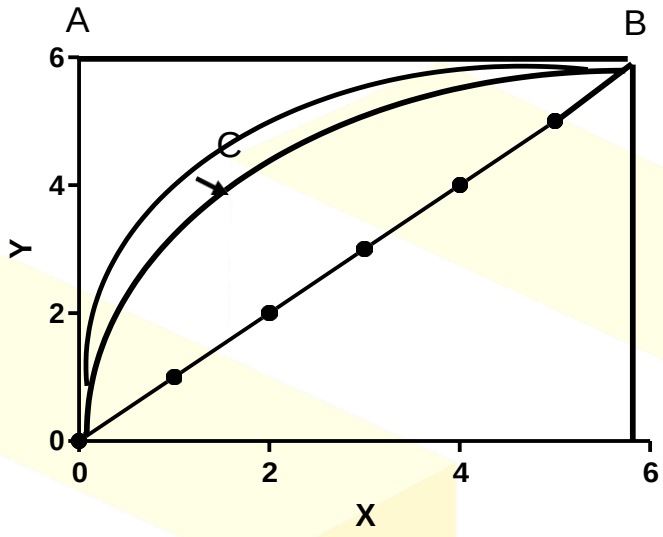
1. **Tax Incidence**: It is the change in tax policy (keeping public expenditure in real terms to be constant) which further leads to the change in distribution of income.
2. **Expenditure incidence**: It is the change in expenditure policy (keeping taxes constant), further measuring its resultant impact on the distribution of income.
3. **Balanced Budget Incidence**: It is the study of change in distribution of income due to changes in both taxation and expenditure policy.
4. **Specific Tax Incidence**: It is the direct incidence change in tax (keeping public expenditure constant) which leads to change in distribution of income.
5. **Differential Tax Incidence**: Such type of incidence is usually applied in the process of having a balanced budget. Differential tax incidence implies substituting one tax for another. Assuming money income to be the same.
6. **Specific Expenditure Incidence**: It is the change in expenditure (keeping taxes constant) which leads to the change in distribution of income. It has two effects:
   a. Price change
   b. Expenditure change
7. **Differential Expenditure Incidence**: It is applied in balanced budget operation. It observes the changes in different expenditure items.

Measure of Incidence

The concept was given by **Musgrave** through **Lorenz Curve**. The formula used is:

$$\frac{\textbf{Coefficient of equality after budgetary change}}{\textbf{Coefficient of equality before budgetary change}} = \mathbf{R}$$

Lorenz Curve



Tax Ratio

Tax Ratio depends upon:

1. Developing (low)/Developed (high) nations
2. Per capita income
3. Standard of living

$$\textbf{Tax Ratio} = \frac{\textbf{Revenue from taxes}}{\textbf{Total National Income}}$$

Tax Base is the legally defined object on which taxes are imposed.

Tax Buoyancy

Tax buoyancy reflects how income is increasing from taxation due to increase or expansion in tax base.

Tax income can be increased using the following measures:

1. Increase in tax rate
2. Widen tax coverage
3. Expansion of tax base

$$\textbf{Tax buoyancy} = \frac{\textbf{Percentage change in tax income/revenue}}{\textbf{Percentage increase in tax base}}$$

If **R>1**, the budgetary change in a positive way.

If **R=1**, no change

If **R<1**, Worse off

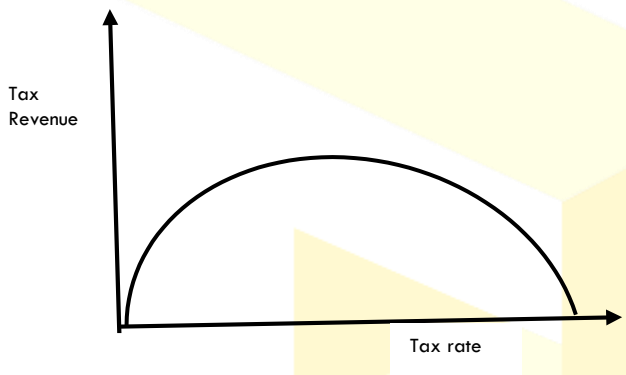
Elasticity of Taxation

It is the change in revenue due to change in income.

$$\textbf{Elasticity of Taxation} = \frac{\textit{Percent change in tax revenue}}{\textit{Percent change in income}}$$

Laffer Curve

Laffer curve is the curve depicting the **relationship between tax rates and tax revenues**.



Taxable Capacity

Taxable capacity is the amount of money that can be raised through taxation without causing burden. It is also known as the **degree of taxation or squeezability**.

Concepts of Taxable Capacity

1. **Absolute Taxable Capacity**: It is the amount which is actually raised from the people in the state.
2. **Relative Taxable Capacity**: It is the taxable capacity of one nation compared to the other. It is used for comparison purposes.

The concept of taxable capacity is important because of following reasons:

1. For comparison purposes
2. For mobilising resources
3. Acts as a guide to the government in terms of which taxes to impose.
4. Prevent government from imposing unnecessary taxes.

Determinants of Taxable capacity are:

1. **National Income**: Higher the national income, higher is the taxable capacity.
2. **Size and Growth rate of population**: More the growth rate of population, lesser will be the taxable capacity.

3. **Income distribution**: If there is unequal distribution, then more taxes can be raised.
4. **Pattern of taxation**: If single tax system is adopted in the economy, then there will be less taxable capacity. On the other hand, if the economy adopts multiple tax system, then the taxable capacity is more.
5. **Economic conditions**: At times of Boom, the taxable capacity is high and at times of depression, the taxable capacity is low.
6. **Stability of Income**: If the income is stable, more will be the taxable capacity and vice-versa.
7. **Psychology of the tax payers**: If tax payers feel that by paying taxes they will be benefitted then the taxable capacity is high.
8. **Nature of public expenditure**: More productive the public expenditure, more is the taxable capacity and vice-versa.
9. **Standard of living of people**: Higher the standard of living of people, more will be the taxable capacity.
10. **Political condition**: If the political condition of the economy is unstable, then the taxable capacity will be less and vice-versa.
11. **Administrative efficiency**: If the administration in the economy is efficient, then the taxable capacity is more and vice-versa.

Other Determinants

1. **Purpose of Taxation**: Taxes for general welfare are more productive as compared to the taxes for covering debt.
2. **Saving, Investment and Economic Growth:**

3. **Pattern of Propensity to Consume**: If large percent is spent on non-essential items, more will be the taxable capacity.
4. **Monetary and Fiscal Policy**: If policy is expansionary which may lead to increase in income, more will be the taxable capacity.

Measurement of Taxable Capacity

The taxable capacity can be measured by following methods:

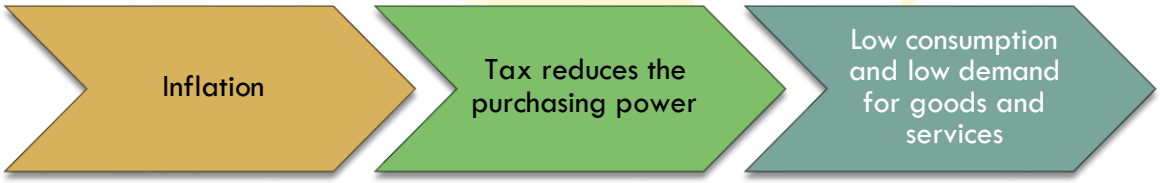
1. **Personal aggregate income method**: It is the sum total of personal income of individual. Higher the sum of personal income, more is the taxable capacity.
2. **Production method**: It is the net production of different sectors and judge the taxable capacity.

Effects of Taxation

1. **Effect of Taxation on Production**: **Dalton** discussed the effect of taxation in the following ways:
   a. **Effect on the ability to work, save and invest**: Taxation reduces the consumption and saving capacities of the individuals. Therefore, taxation alters the capacity to save and invest in a negative way.
   b. **Effect on the desire to work and save**: Taxation affects the desire to work and save in a negative way. However, it is not true for all taxes. For example, inheritance tax or tax on windfall gains do not have an effect on the desire to work; but taxes like sales tax, excise tax have a negative effect on the desire to work and save. Income tax reduces the incentive to work and save.
2. **Effect on Industries**: Big industry houses may not have a severe effect of taxation but the infant industries do suffer from high rates of taxes charged on them.
3. **Effect of Tax on Distribution**: It can be discussed in two ways:
   a. **Nature of tax**: By nature of tax we mean whether the taxes are progressive or regressive in nature.
      - **Effect of regressive taxes**: Regressive taxes increase the inequalities because poor are relatively charged with more taxes as compared to the rich.
      - **Effect of progressive taxes**: Progressive taxes decrease the inequalities because taxes charged are more on rich as compared to the poor.
      - **Effect of proportional taxes**: There won't be any change in the level of inequalities.

   b. **Kinds of Tax**:
      - **Indirect Taxes**: Effect of indirect taxes are more on the poor, hence increasing inequalities.
      - **Direct taxes**: Direct taxes are based on the principle of progression and hence reduce inequalities.
4. **Effect of taxation on Employment**:

5. **Effect of Taxation and Inflation on the economy**:



PUBLIC DEBT

Purpose of Public Debt

1. Public Debt is used to finance public expenditure when revenue is not enough.
2. Public Debt is also taken to create social overhead capital.
3. It can be beneficial in expanding the education and health services in an economy.
4. It is used to finance the development plans.

Classification of Debt

1. **Internal and External Debt**
   a. **Internal Debt**: It means raising money from within the country. The effect of internal debt simply leads to the redistribution of money within the economy. There is no extreme impact.
   b. **External Debt**: It is to be paid back in foreign currency hence it is more harmful for the economy. It is usually voluntary in nature.

2. **Productive and Unproductive Debt**
   a. **Productive Debt**: The debt is taken for financing the productive motives and therefore it is self-liquidating. According to Dalton, productive debts are those which are fully covered by assets of equal or greater value.
   b. **Unproductive debt**: The debt is unproductive in nature and are not necessarily self-liquidating. Unproductive debt doesn't lead to rise in growth rate in future. Therefore, it is more harmful for the economy.

3. **Short, Medium and Long term Debt**
   a. **Short term Debt**: It matures within 3 to 9 months. The rate of interest is low on such debt. In India, the most common example of short term debt is the treasury bills (91 days, 182 days, 364 days).
   b. **Medium term Debt**: Debt taken upto five years. They are usually taken from the market.
   c. **Long term Debt**: Debt taken for ten or more years. Rate of interest is very high on long term debt. These type of loans are usually taken to undertake developmental activities.

4. **Redeemable and Irredeemable Debt**
   a. **Redeemable Debt**: It is the debt which the government promises to pay off at some future pre-decided date. Under this, interest and principle amount both are paid.

b. **Irredeemable Debt**: It is also known as "**Perpetual Debt**". There is no pre-decided maturity date for irredeemable debt. Under this regular interest payments are made but doesn't guarantee about the principle amount.

5. **Voluntary and Compulsory Debt**
   a. **Voluntary Debt**: It is the money which is raised on voluntary basis. It may be obtained by taking market loans or issuing of bonds, etc.
   b. **Compulsory Debt**: It is synonymous to tax and the money is compulsorily collected from the people. The rate of interest on such loans is low.

6. **Funded and Unfunded Debt**
   a. **Funded Debt**: It is the debt taken for long duration (30 years or more). It is for more permanent lease of the government.
   b. **Unfunded Debt**: It is the debt taken for temporary or short term needs. The duration of unfunded debt is short, say upto 1 year.

Other important concepts

1. **Financial Burden of Debt**: It leads to the decrease in personal disposable income due to increase in taxes.
2. **Real Burden of Debt**: It refers to the impact of financial burden due to debt like production which is curtailed due to debt or decrease in consumption, etc.
3. **Debt trap**:
   a. **External Debt**: The effects of external debt is that it leads to decline in the value of currency. Moreover, there can be exchange rate crisis and there arises political dependence on the creditor country.
   b. **Internal Debt**: Money is raised from internal sources. First impact of internal debt would be on the fiscal debt. It leads to the increased burden on people of the country and also unjustified transfers (transferring resources from active to passive wealth holders) takes place.

Effects of Public Debt

1. **On consumption**: the consumption is curtailed and hence has harmful consequences like deterring growth of the economy, etc. It is because people buy securities from their personal disposable income which reduces the consumption.
2. **On Investment**: Public debt leaves less finance for appropriate amount of investment activity to take place. If the government borrows from the central bank of the economy, then the public debt would not have any effect on the investment levels in the economy. However, if debt is borrowed from individuals or investment houses, it reduces the investment.
3. **On distribution**: Inequalities increase due to public debt. It leads to unjustified transfers and government's liquidity increases. For example, if public debt is taken for importing luxuries in the economy (which poor cannot afford); it will only lead to rise in inequalities.

4. **Effect on Private Sector**: If the government uses the public debt to purchase goods from the private sector, it will lead to rise in demand and hence boost the economy.

Whether burden of debt will transfer on to future generation?

1. **Unproductive debt**: If public debt is unproductive in nature, it will not lead to the rise in incomes in future, hence increasing the burden on future generations.
2. **Long-term debt**: The maturity date of a long term debt is 30 years after taking up of the loan. This implies that it is the future generations who have to repay the loans.

Public Debt Management

Public Debt Management means managing the debt and repayment of loans in such a way that such debt should not affect the economic situation of the country in an adverse manner.

Its **principles** are:

1. Cost of debt servicing should be minimum.
2. Bonds/securities should be on attractive terms.
3. Public debt servicing should be in sync with monetary and fiscal policy.
4. The debt should be repaid as soon as possible.
5. Period of maturity should be wisely chosen.

Solutions to manage public debt in India

1. **Reduction in primary deficit**: The reduction in primary debt should be done in two steps:
   a. Slow down the growth rate of debt ratio.
   b. Revenue generation should be increased so that the public debt should only be taken for productive purposes.

2. **Reduction in Growth of Current Expenditure**: **R.J. Chelliah** suggested the following changes in expenditure policy:
   a. Reduction in expenditure on the government's staff.
   b. Reduction in subsidies.
   c. Liquidation of public debt
   d. Reduction in subsidy to public enterprises.
   e. Reduction in government civilian employment.

FISCAL FEDERALISM

Fiscal Federalism implies the division of public sector functions and finances among different layers or tiers of the government and no layer is completely sovereign.

One way of fiscal federalism is that all matters of regional nature should be given to the regional/state government.

Fiscal federalism leads to better fiscal discipline and efficiency and avoids double taxation.

Principles of Federal Finance

Given by **B.P. Adarkar**

1. **Independence and Responsibility**: There should be full freedom of financial operations to both the federal and state governments.
2. **Adequacy and Elasticity**: Resources provided should be adequate for both the Centre and States.
3. **Administrative Economy and Efficiency**: Administration cost should be minimum.
4. **Integration and Co-ordination**: No layer can operate in complete isolation. So there should be some degree of integration and co-ordination.
5. **Accountability**: Each layer should be accountable to higher authority.

Forms of Inter-Governmental transfers

1. **Supplementary levies**: Principle levy by the Central authority and over and above that the state also levies a supplementary tax.
2. **Grants-in-aid**: Grants given from the centre to the states should be able to fill the gap between revenue and expenditure of the states to reduce inter-state disparities and to bring about balanced development.

Lists

1. **Union List**: Powers of Union government/ tax levied by the Centre.
2. **State Lists**: Powers of the state government/tax levied by the state.
3. **Concurrent Lists**: Powers with both Centre and states, that is, taxes which are levied by both centre and states. For example, Education is a part of the concurrent list.

There are **12 items of taxation under the Union Lists**, however revenue from these items do not go to the Union alone. Taxes under the Union list are divided into four categories:

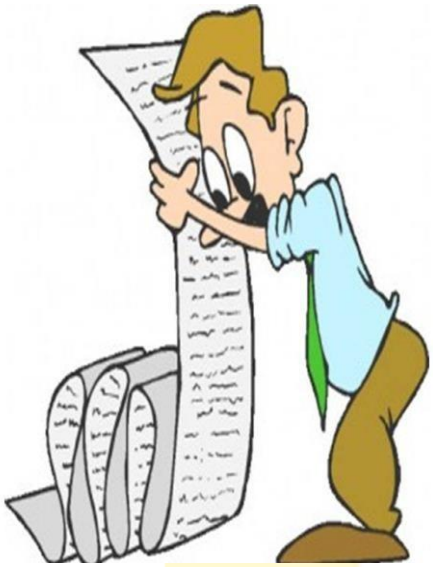
1. **Taxes levied and collected by the Union and the proceeds of which are retained by the Union.**
    - Custom Duty
    - Corporation Tax
    - Tax on Capital value of assets except agricultural land

2. **Taxes levied and collected by the Union and the proceeds of which are shared with the states in a prescribed manner.**
    - Taxes on Income other than agricultural income.
    - Duties on tobacco and other goods manufactured in India except liquor and narcotics.
    - Excise duties
3. **Taxes levied and collected by Union, the proceeds of which go wholly to states**
    - Terminal Tax, Taxes on railway freight
    - Succession and Estate duty one property except agricultural land.
    - Taxes on transactions and stock exchanges and futures market.
    - Taxes on the sale and purchase of newspapers and advertisements therein.
4. **Taxes levied by Union but collected and appropriated by States**
    - Stamp duty
    - Excise duty on medical and toilet preparation (all items containing alcohol).

List I of the Seventh Schedule of the Constitution is the Union List which contains following items.

1. Income tax, other than agricultural income.
2. Custom duties.
3. Excise duties except on liquor, alcohol, opium, narcotics.
4. Corporation tax
5. Taxes on Capital value of assets exclusive of agricultural land of individuals and companies.
6. Terminal taxes on goods and passengers carried by railway, sea, air.
7. Estate duty on property except agricultural land.
8. Succession duty on property other than agricultural land.
9. Taxes other than stamp duties or transactions in stock and futures market.
10. Rates of stamp duty on financial documents.
11. Taxes on sale and purchase of newspapers and advertisements therein.
12. Taxes on sale and purchase of trade in the course of inter-state trade.

List II of the Seventh Schedule gives State Tax



1. Land Revenue
2. Taxes on agricultural income
3. Succession and Estate duty duties with respect to agricultural land
4. Taxes on entry of goods into a local area.
5. Taxes on land and buildings
6. Taxes on mineral rights
7. Excise duties on
   a. Alcoholic, liquor goods for human consumption
   b. Opium, narcotics
8. Tax on consumption and sale of electricity
9. Tax on sale and purchase of goods other than newspapers
10. Tax on motor vehicles, animals and boats
11. Toll taxes
12. Taxes on luxuries including betting, etc.
13. Capitation fee
14. Tax on advertisement other than those in newspapers
15. Stamp duties except those on financial documents.
16. Taxes on goods and passengers carried by board or inland water ways.
17. Taxes on professions , trades, callings and employment.

Problems in fiscal federalism can be due to following reasons:

1. **Horizontal Imbalance**: When equals are not treated equally, it leads to horizontal imbalance.
2. **Vertical Imbalance**: When non-equals are treated equally, it leads to vertical imbalance.

Problems in Fiscal Federalism are as follows:

1. Over dependency of states on centre.
2. State's taxes are not as buoyant and elastic as compared to the centre's taxes.
3. Discrimination in giving grants-in-aid.
4. Centre can borrow unlimited amount from RBI unlike the states.
5. Appointment of Finance Commission members is biased towards the centre.

DEFICIT FINANCING

Filling the gap (deliberately created) between public revenue and expenditure.

Helps economic development in three types of situations:

1. Economy with full employment.
2. Economy with unemployed labour
3. Economy with surplus labour but not surplus capital

Objectives:

1. Meeting financial needs at times of war.
2. Mobilisation of surplus, idle and unutilised resources.
3. Financing plans for economic development.
4. Instrument for economic policy for removing conditions of depression and increasing output and employment.

Effects of Deficit Financing

Positive:

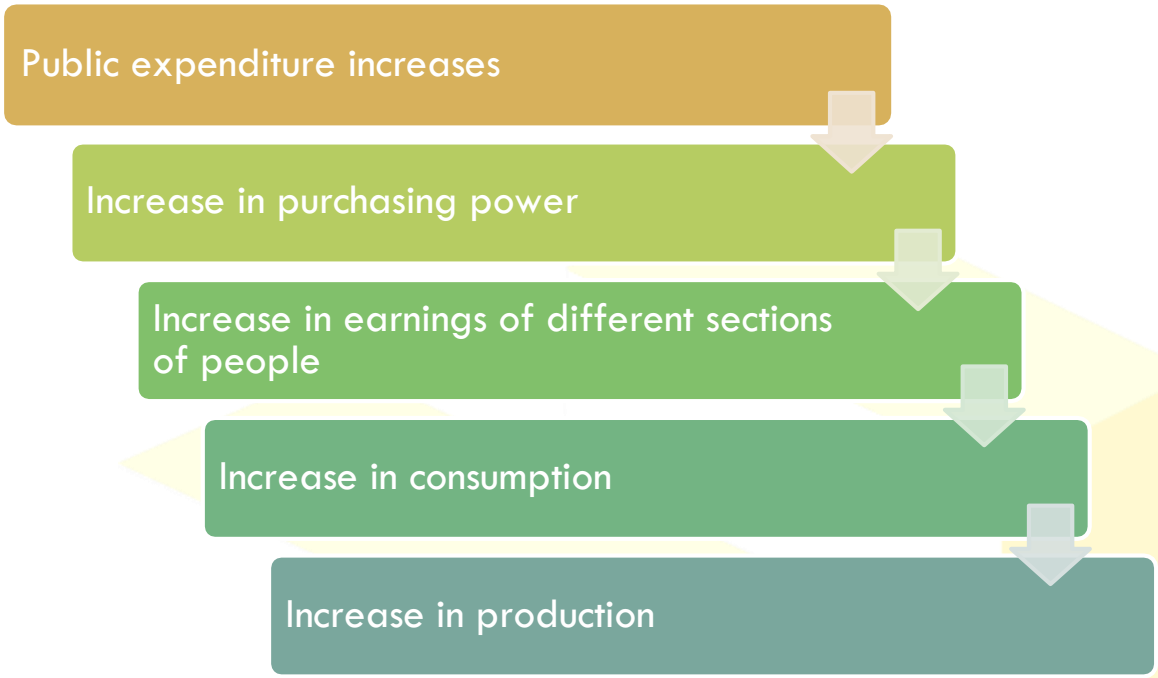
1. Finance war expenditure.
2. Increasing employment by increasing aggregate demand and production.
3. Finance development plans.

Negative:

1. Increase in supply of money and inflation.
2. Increase in inflation leading to fall in real income and hence increasing inequalities.

PUMP PRIMING

- Tool of fiscal policy.
- One-shot hike in public expenditure.
- Taken when economic activity in private sectors is slow.
- In this;



LEVERAGE COEFFICIENT

$$\textbf{Leverage Coefficient} = \frac{1}{1 - (\text{MPC} + \text{MPI})}$$

Or

$$\textbf{everage Coefficient} = \frac{1}{1 - \textbf{Marginal Propensity to spend}}$$

FISCAL POLICY

Fiscal policy in any economy focuses on the following **aspects**:

T axes

E xpenditure

B orrowings

M anagement of Public Debt

Various **Views about Fiscal Policy**

1. **Classicals**

- They believed in the principles of **Fiscal Neutrality** or **Sound Finance** or **Balanced Budget**.
- Never advocated Fiscal policy.
- They believed that the government is at its best when it's activities are minimum, both in terms of taxation (relative income distribution is not affected) and expenditure (spend least possible amount).
- According to them, balanced budget is a good indicator because they were against taxation and expenditure.
- They were of the view that borrowings should be restricted and they were more in favour of productive expenditure.
- The major **drawback** of the Classical view was that the balanced budget cannot have neutral effects. It can either have contractionary or expansionary effects. For example:

A.K. Hansen's View:

- Reduction of government spending to a certain limit.
- Taxes should leave the product and factor prices undisturbed.

P.A. Samuelson's View:

- Balanced budget at low level of expenditure.
- Public debt is evil and should be avoided.
- Nation's budget should be administered like private budget.
- Tax systems should not cause distribution changes.
  Taxes should be on current consumption so that savings and investments are encouraged.

2. **Keynes' View on Fiscal Policy**
   Fiscal Policy should include:
   - Progressive taxation because of redistribution effects.
   - Increased public spending on purchase of goods and services, subsidies.
   - Deficit financing

3. **Compensatory Fiscal Policy**
    - This kind of a policy was more associated to Great Depression of 1930s.
    - According to this theory, fiscal policy will compensate for the changes in economic conditions, that is, inflation/deflation.

4. **Concept of Functional Finance/ Concept of Modern Fiscal Policy**

- The concept was given by **A.P. Lerner, Keynes, Myrdal.**
- According to this view, the government has an important and a positive role towards the economy.
- The focus is on taxes without considering their revenue aspect, that is, to increase or decrease the purchasing power with people.
- Government activities include; buying and selling, borrowing and lending, taking and giving money. In case of Inflation, the government has a surplus budget and in case of deflation, the government has a deficit budget. According to them, the budget need not be balanced. Also, deficit financing is acceptable.

5. **Automatic Changes/Built in Stabilizers**

According to this theory, when income changes, the built in stabilizers like tax revenue, automatically changes. Such changes are endogenous in nature.

6. **Discretionary changes/Policy**

It refers to External or Exogenous changes. Government deliberately makes changes in the policy to stabilize the situation.

7. **Formula Flexibility**

It is a mixture of built in stabilizers and discretionary changes.

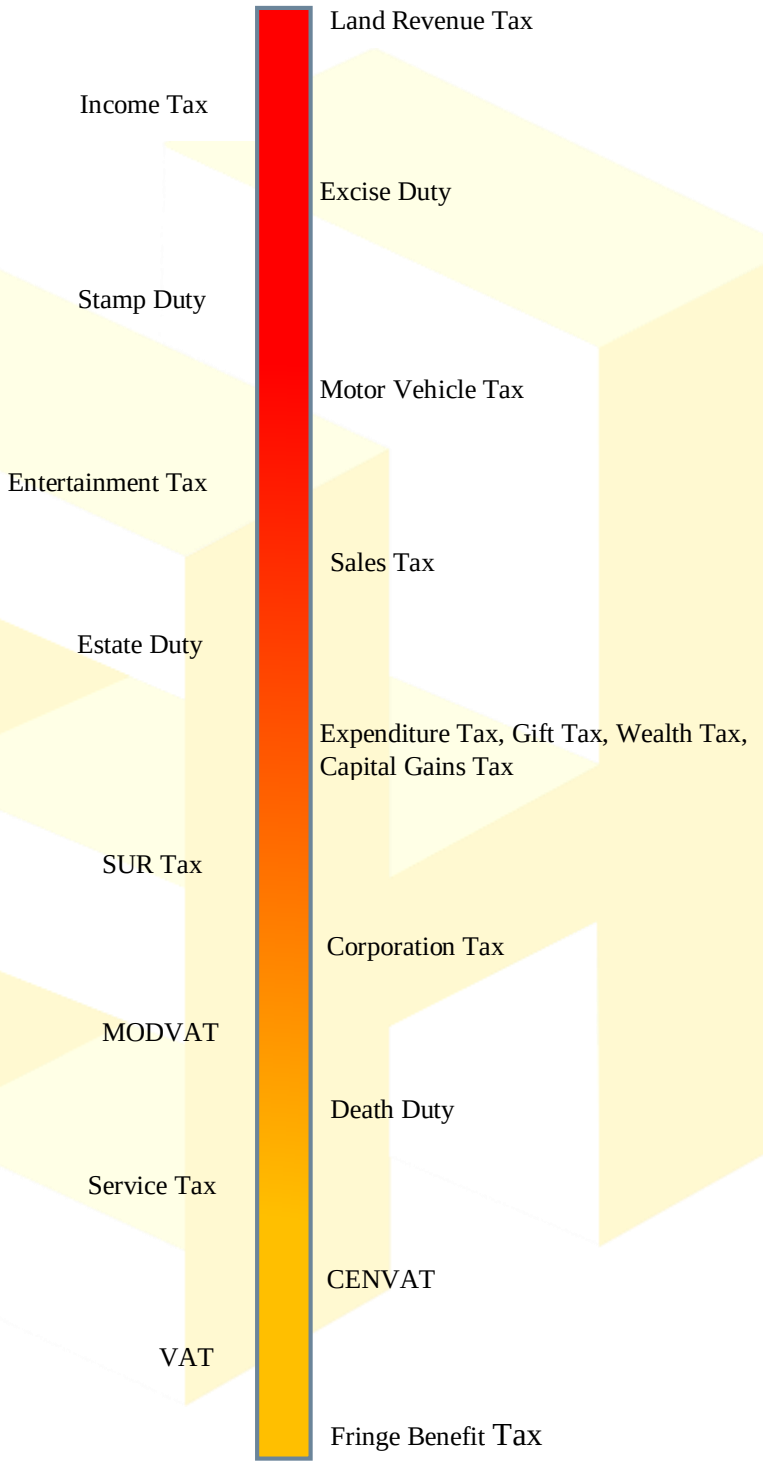
PUBLIC FINANCE (INDIAN ECONOMY)

Tax Reform Committees

Name of the Committee	Year	Features
Taxation Enquiry Commission	1925	Focussed on Land Revenue, Liquor taxation, Custom duty, Income tax, Salt tax
Taxation Enquiry Commission/ John Mathai Commission	1953-54	Most prominent Submitted its report in 1954 Recommended: A progressive tax structure, introduction of agriculture income tax. It was against wealth tax, Capital gains tax and gift tax.
Indian Tax Reform Committee/ Kaldor's Tax Reforms	1956	Report was published by Dept. of Economic affairs, under the Ministry of Finance in 1956. The focus was on Direct Taxation. The report argued in favour of Wealth tax, Capital Gains tax, Gift tax, personal expenditure tax (which was abolished in 1962). Focus was also on widening tax base and reducing tax evasion.
The Committee for Rationalisation and Simplification of Direct Taxation in India/ Bhoothalingam's Committee	1968	The report was submitted in 1968. Main purpose was to investigate direct taxes and it advocated the abolition of SUR tax on the profit of the corporation.
Direct Taxation Enquiry Committee/ Wanchoo Committee on Direct Taxes	1970	Report was submitted in 1971. Focus areas were: Black money unearthing, preventing tax evasion, minimising the risk of tax arrears, examining exemptions allowed under tax laws, improving tax administration, taxation on agricultural income to be brought in line with other incomes, not only on equity grounds, but also because of the scope it generated for tax evasion.
The K.N. Raj Committee on Taxation of Agricultural wealth and income	1972	Report submitted in October, 1972. Focus was on Partial Integration of Agricultural and non-agricultural income. It proposed agricultural holdings tax. Argued that it was inequitable that those deriving income from wealth and agriculture should make less than a fair contribution, relative to those deriving their income from non-agricultural sources.

Indirect Taxation Enquiry Committee/ L.K. Jha Committee	1977	Examine the working of Indirect taxes, especially the Union Excise duty. First part of the report was submitted in 1977 and final report was submitted in 1978. Provisions under this report were: 1. To deal with the problem of cascading in excise duty. The committee recommended an extension of the existing procedures for the relief of input taxation. Eventually there was a movement to a VAT at the manufacturing level (MANVAT. 2. Favour of an integrated indirect taxation system and rationalised structure of import duties. 3. Long term goal of the committee was a Central VAT upto the manufacturing stage with a final point sales tax by the states. 4. Favour of lower taxes for inputs and machinery. 5. There should be a countervailing duty equivalent to excise duties.
Choksi Committee Report	1977	Report submitted: October, 1978. The focus of the committee was to look into the working of direct taxes and simplify and rationalise the tax structure. Main aim was to consolidate four taxes namely, 1. Income tax, Wealth tax, Gift tax, SUR tax.
Chelliah Committee	1991	First part of the report was submitted in 1992 and second part in 1993. Most of the recommendations of this report were included in the budget of 1993. Focus of the committee were on: 1. Direct taxes 2. Emphasis on compliance and administration 3. Wider base for taxation, 4. Recommended moving towards VAT on a broad base to eventually replace excise.
Rekhi Committee	1993	The committee was for Indirect taxes
Simplification & Rationalisation of Direct and Indirect Taxes/ Vijay Kelkar Committee Report	2002	Presented that 3-tier income tax structure to be replaced by 2-tier, that is, Upto 1 lakh: No tax 1-4 lakh: 20% Above 4 lakh: 30% It also recommended to abolish Capital-Gains tax and also that income tax on agriculture to be left to the states.

CHRONOLOGICAL ORDERING OF TAXES



FINANCE COMMISSION IN INDIA

Members: President of the Finance Commission + four members

Article: 280

Main Purpose: Decides the share of taxes between Centre and States

Functions:

1. Distribution of Income tax and other taxes.
2. Percent of net proceeds of taxes which may be divided between the Union and States.
3. Distribution of Grants-in-aid among states, Grants-in-aid for tribal areas.
4. Special grants for any particular state.

S. No	Period of Operation	Chairman	Proposed
1	1952-57	K.C. Neogi	1. 55% of income tax to be shared with the states. 2. 40% of excise duty on tobacco, including cigarettes, matches, vegetable items to be shared with the states. 3. Grants-in-aid were decided on the basis of budgetary needs of the states, special obligation grants-in-aid for seven states to cover their deficits.
2	1957-62	K. Santhanam	1. 60% income tax to be shared with the states. 2. Range of excise duty items increased and started including other items like sugar, tea, coffee, etc. Proceeds to states decreased from 40% to 25%. 3. 1% of the net proceeds to be assigned to the UTs and 1% of the estate duty was also retained for UTs. 4. Grants-in-aid increased.
3.	1962-66	A.K. Chanda	1. Income tax proceeds increased from 60 to 65%.

			2. Number of excisable goods increased from 8 to 35. Share of states increased to 20%. 3. Net proceeds for UTs in income tax increased from 1 to 2.5%. Estate duty remained the same. 4. Fund allocated to all states except Maharashtra. (Rupees 550 crores).
4.	1966-69	P.V. Rajamannar	1. Income tax proceeds increased to 75%. 2. Excise duties remained the same at 20%, however number of items increased.
5.	1969-74	Tyagi	1 Income tax proceeds remained the same at 75%. 2 UTs share remained the same at 2.5% and estate duty increased to 3%.
6	1974-79	B. Reddy	1. Income tax share increased to 80%. 2. UTs share decreased to 1.79%. 3. Excise duty share remained the same. 4. Estate duty to UTs decreased to 2.5%. 5. Grants-in-aid given to 14 states to cover their non-plan deficits.
7	1979-84	J.N. Shellet	1. Income tax share increased to 85%. 2. Excise duty share increased to 40%. 3. UTs share in income tax increased to 2.19%. 4. Grants-in-aid were made for 8 states. 5. Money allocated for specific purposes. 6. Upgradation of administration in following non-developing services: a. Judicial administration b. Tribal/district administration c. Police administration

			d. Jail administration e. Treasury administration
8	1984-89	Chawan	1 Income tax share remained the same at 85%. 2 Income tax share for UTs decreased to 1.79%. 3 Excise duty share was 45%.
9	1989-1995	Salve	1 Income tax share remained the same at 85%. 2 Income tax share for UTs decreased to 1.49%. 3 Excise duty share was 45% excluding electricity. 4 Special grants were made to Punjab, Bhopal Gas tragedy and slum improvement in Mumbai and Kolkata.
10	1995-2000	K.C. Pant	1. Income tax share reduced to 77.5%. 2. Excise duty share increased to 47.5%.
11	2000-05	A.M. Khusro	1. Share of income tax increased to 80%. 2. Excise duty share increased to 52%.
12	2005-10	C. Rangarajan	1. Provide debt relief to states. 2. Share in central taxes to be 30%.
13	2010-15	Kelkar	1 Roadmap of GST. 2 32% of the Central taxes for the states. 3 Fiscal consolidation: Centre was supposed to decrease the level of fiscal deficit to 3% of GDP by 2013 and zero revenue deficit by the end. Centre & States combined debt should be 68% of GDP by 2014-15
14	2015-20	Y.V. Reddy Other members: 1. Prof. Abhijit Sen 2. Ms Sushma Nath 3. Govinda Rao	

		4. Dr. Sudipto Mundle Highlights: ✓ Share of states in the central divisible pool increased 42% from 32%. ✓ Weights given to the states for the distribution of states' share in divisible pool among the states: Population (1971): 17.5 Population (2011) : 10 Fiscal Capacity/Income distance: 50 Area: 15 Forest cover: 7.5 Fiscal Discipline: 0

HIGHLIGHTS OF THE 14TH FINANCE COMMISSION'S RECOMMENDATIONS

- **Devolution to states:** States' share in net proceeds from tax collections be 42% — a huge jump from 32% recommend by the 13th Finance Commission, and the largest change ever in the percentage of devolution
- **Big jump in tax share:** Compared with 2014-15, the total devolution to states in 2015-16 will increase by over 45%
- **Resource transfer:** Tax devolution be the primary route resource transfer to states
- **NITI connect:** The govt has accepted the recommendations in view of the spirit of the National Institution for Transforming India (NITI)
- **Grants:** Should be distributed to states for local bodies on the basis of the 2011 population data; the grants be divided into two broad categories on the basis of rural and urban population — constituting gram panchayats, and constituting municipal bodies
- **Types of grants:** A basic grant and a performance grant — the ratio of basic to performance grant be 90:10, with respect to panchayats; and 80:20 in the case of municipalities
- **Total grants**: Rs 2,87,436 crore for a five-year period from April 1, 2015, to March 31, 2020; of this, Rs 2,00,292.20 crore to be given to panchayats and Rs 87,143.80 crore to municipalities
- **Grant transfers:** For 2015-16, transfers will be to the tune of Rs 29,988 crore
- **Disaster relief:** The percentage share of states to continue as before and follow the current mechanism — to the tune of Rs 55,097 crore. After implementation of GST, disaster relief will be given according to the recommendations of the Finance Commission

- **Post-devolution revenue deficit grants:** A total of Rs 1,94,821 crore on account of expenditure requirements of states, tax devolution and revenue mobilisation capacity of the states. These will be given to 11 states
- **Delinking of schemes:** Eight centrally sponsored schemes (CSSes) will be delinked from support from the Centre; warious CSSes will now see a change in sharing pattern, with states sharing a higher fiscal responsibility
- **Cooperative federalism:** There are recommendations on cooperative federalism, GST, fiscal consolidation road map, pricing of public utilities and PSUs, too

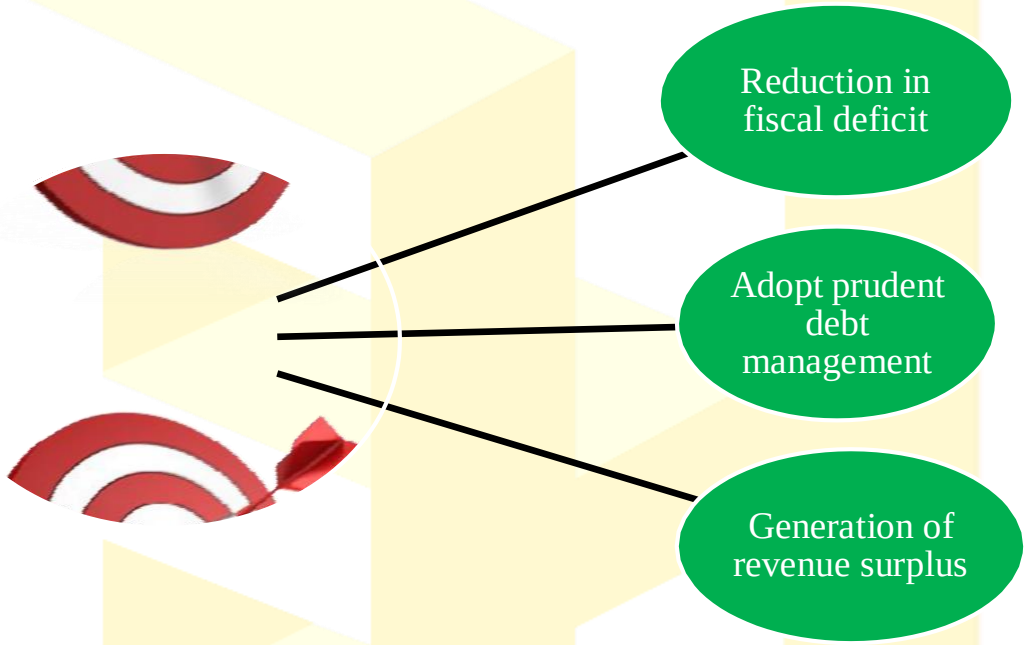
Source: Business Standard, dated February 24, 2015.

REFORMS IN DEBT MANAGEMENT OF STATES

1. The sale of both central government securities and loans to the state government are to be according to the old pattern and securities.
2. The foreign institutional investors can now invest in the public debt but only in the form of dated government securities.
3. Creation of Consolidated Sinking Fund (CSF) which would help break the vicious cycle of increase in the repayment and burden of public debt.
4. Measures were taken to widen the debt market in India like price auction of 91 days treasury bills, sale of capital index bonds, etc.
5. The government decided to disinvest in public sector units, especially the sick units.
6. The government should be strictly monitoring the use of funds to avoid any kind of wastage.

FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT (FRBM)

FRBM Bill was introduced in December, 2000 to set numerical targets for various fiscal indicators.
Revised Bill was introduced in April 2003 and became an Act in August, 2003.



Features of FRBM Act are as follows:

1. **Revenue Deficit**: The government should take measures to reduce the revenue deficit of the economy to the extent of 0.5 percent in each financial year, starting from 2004-05. Revenue deficit should be zero within five years which would end on March 31, 2009.
2. **Fiscal Deficit**: The government should take strict measures to reduce the fiscal deficit to the extent of 3.3 percent at the end of each financial year, the process to begin from 2004-05.
3. **Exceptional Grounds**: The act made a provision that the revenue and fiscal deficit could increase the targeted rate only on account of national security or national calamity faced by the country.
4. **Public Debt**: The central government should take care that their total liabilities, which should not be more than 9 percent of the GDP, and the liabilities should progressively reduce by atleast one percentage point of GDP in each financial year, starting from 2004-05.

5. **Borrowings from RBI**: Central government should not borrow from RBI on a regular basis. They may do that to cover their temporary cash requirements.
6. **Fiscal Transparency**: Measures should be undertaken to ensure greater transparency in the economy. The central government should ensure transparency in terms of preparation of annual budget and also at the time of presenting it, significant changes should be disclosed.
7. **Limit on Guarantees**: The guarantees given by the government should be restricted to 0.5 percent of GDP in every subsequent financial year, followed from 2004-05.
8. **Medium Term Fiscal Policy Statement**: A medium term fiscal policy statement should be presented in both the houses of the parliament.
9. **Compliance of Rules**: It states that the finance minister should review in every quarter the trends in receipts and expenditure related to budget. If there are unexpected deviations in the figures, the finance minister should state remedial measures which the government could follow in future.

A Task force for making the medium term framework was set up to achieve FRBM target. It was headed by **Dr. Vijay Kelkar**. The **measures** suggested were as follows:

- ✓ Widening the tax base by removing the exemptions.
- ✓ Income tax exemption upto Rupees 1,00,000/-
- ✓ Reduction in corporate tax to 30 percent.
- ✓ Reduction in depreciation rates to 15 percent from 25 percent earlier.
- ✓ All India Goods and Services Tax (GST) introduced.
- ✓ Two tier tax structure formed, that is for incomes between Rupees 1 lakh and 4 lakh, tax charged should be 20 percent and for incomes more than 4 lakh, 30 percent tax to be charged.
- ✓ 3-tier custom duty rates set up that is, 5,8 and 10 percent.
- ✓ Empowering the Panchayats and local bodies.

Criticisms of FRBM Act

- The targets regarding gross fiscal deficit were too stringent. According to Dr. Raja Chelliah, the gross fiscal deficit should be between 4 and 5 percent of GDP to boost investment and thus economic growth.
- The activities enhancing equality in the economy were completely ignored.
- The Act was only confined to the central governments, the state governments were ignored.
- The development needs of India were ignored.
- The social sector of the economy was neglected.
  - The subsidies pose as the biggest hindrance in reducing revenue deficit.

TAX REFORMS

Tax Reforms in the Economy were suggested by **Kelkar Committee**.

Indirect taxes	Direct taxes
Regarding the custom duties, there should be only three duties, namely, basic customs duty, anti-dumping/safeguard duty and additional duty of customs	A 3-tier tax structure to be formed
Zero percent duty on life-saving drugs and equipment	Full exemption on dividends received from Indian companies
Raw material, inputs and intermediate goods were charged 10 percent	Full exemption on long term capital gains listed on equity
Duty on motor vehicles was reduced to 50 percent from 60 percent.	Standard deduction to be reduced to zero.
The duty on crude oil and petroleum products were 8 percent and 15 percent respectively by 2003-04 which was to be reduced to 5% and 10% respectively by 2004-05	Interest subsidy of 2% upto the loans of amount Rupees 5,00,000/-
Agriculture products were charged a duty of upto 150%	Corporate tax rate reduced to 30% for domestic firms and 35% for foreign companies upto three years.
5% duty cutes should be in stages	Minimum Alternate tax was eliminated under the section 115JB of the Income tax Act.
By 2006-07, 5 percent duty for basic raw materials like coal, xylems, ores and concentrates. 8 percent duty to be charged on intermediate goods	
Consumer durables were charged 20 percent	

FINANCIAL ECONOMICS

Part 2 – (b)

Notes by Economics Harbour

Financial economics is the branch of economics characterized by a "concentration on monetary activities", in which "money of one type or another is likely to appear on both sides of a trade"

- Stanford.edu. Retrieved 2009-08-06

Financial economics

NOTESBYECONOMICSHARBOUR

MONEY SUPPLY

By the term money supply we mean the total currency in circulation in the economy.

Definition of Money Supply is as under:

M_1 = Currency with the public + Demand deposits with the banks + Other Deposits (with the RBI)

M_2 = M_1 + Savings deposits with the Post office savings bank

M_3 = M_1 + Time deposits with the banks

M_4 = M_3 + All deposits with the post office savings bank (excluding National Savings Certificates)

MONEY MARKET

Features of Money Market:

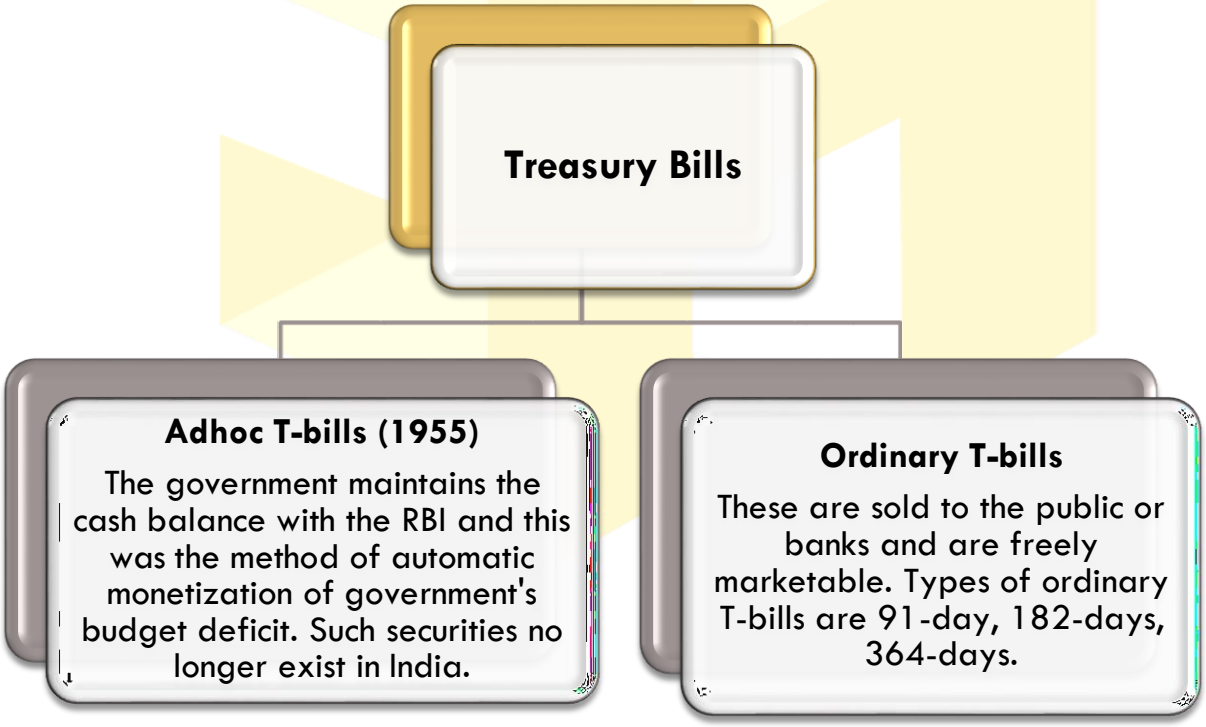
1. Money market deals with short term funds.
2. Money market comprises of a well organised banking system.
3. There is perfect mobility of funds.

Functions of Money Market:

1. **Maintains a balance** between the demand and supply of money for short term monetary transactions.
2. **Promotes economic growth** by making the funds available easily for various sectors like agriculture, industry, etc.
3. **Helps in implementing the monetary policy** by way of changing CRR and SLR, etc.
4. **Helps in capital formation** due to increased investment possible with the help of money market.

Instruments of Money Market

1. **Treasury Bills**: It is a short term instrument, issued by the RBI on behalf of the government to meet the short term liquidity shortfalls. Assured return on such securities is low due to low risk involved. Treasury bills are of following types:



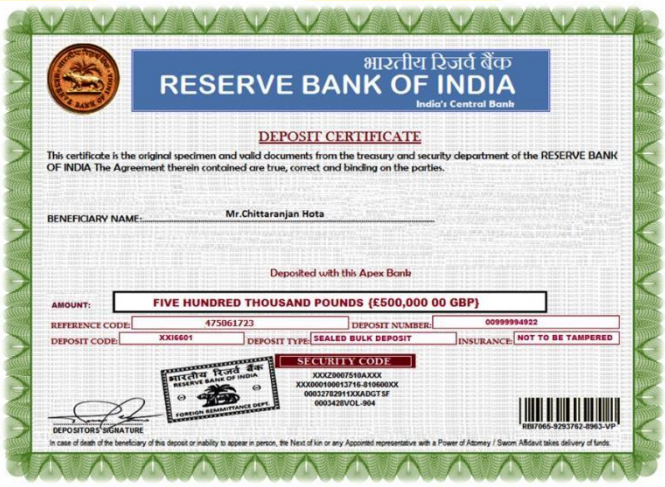
2. **Repurchase Agreements**: It is a transaction in which two parties agree to sell and repurchase the securities under a contract and mutually decide a future date and price when the transaction would take place.
   Two important terms:
   a. **Repo**: From seller's point of view. It is the sale of securities by a seller, promising to buy the same at some future date. In this case, the buyer of the securities acts as a lender.
   b. **Reverse Repo**: From buyer's point of view.

> An agreement is termed as Repo or Reverse Repo, depending on which party initiated the agreement.
>
> Repurchase agreements are used to change the liquidity in the economy.

3. **Commercial Papers**: Commercial Papers are the short term, unsecured promissory notes issued by the corporations and the financial institutions at some discounted value. These are the instruments used by a company to enhance its liquidity with a period of maturity ranging between one and 270 days. These securities yield higher returns as compared to the T-bills. Overall, commercial papers act as a low cost alternative to the bank loans.
   A point to note here is that corporations with high quality credit rating can issue the commercial papers.

4. **Bills of Exchange**: These securities are also known as "Bankers' acceptance". It contains an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of instrument. These securities are also guaranteed by the banks. Mostly, the bankers' acceptance have a maturity period of 90 days, but it can range from 30 to 180 days as well.

5. **Certificate of Deposits:** Certificate of Deposits are the short term instruments entitling the bearer to receive interest at some future date. The maturity period ranges from three months to five years and it restricts the bearer to withdraw funds before the maturity date. This instruments yields higher interest rate because it assumes greater level of risk involved.


भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
India's Central Bank

DEPOSIT CERTIFICATE

This certificate is the original specimen and valid documents from the treasury and security department of the RESERVE BANK OF INDIA The Agreement therein contained are true, correct and binding on the parties.

BENEFICIARY NAME: Mr.Chittaranjan Hota

Deposited with this Apex Bank

AMOUNT: FIVE HUNDRED THOUSAND POUNDS (£500,000 00 GBP)

REFERENCE CODE: 475061723 DEPOSIT NUMBER: 00999994922

DEPOSIT CODE: XXI6601 DEPOSIT TYPE: SEALED BULK DEPOSIT INSURANCE: NOT TO BE TAMPERED

SECURITY CODE

XXXZ00075I0AXXX
XXX00010001371G-010600XX
0003278291 1XXADGT SF
0003428VOL-904

DEPOSITORS' SIGNATURE

RBI7965-9293782-8963-VP

In case of death of the beneficiary of this deposit or inability to appear in person, the Next of kin or any Appointed representative with a Power of Attorney / Sworn Affidavit takes delivery of funds.

6. **Call money market**: This is an inter-bank transactory market. It is a very volatile and liquid market. Call money market is the most

sensitive part of the organised money market. It is the market for short term funds with a maturity period ranging from one day to 14 days.

Types of Money Market

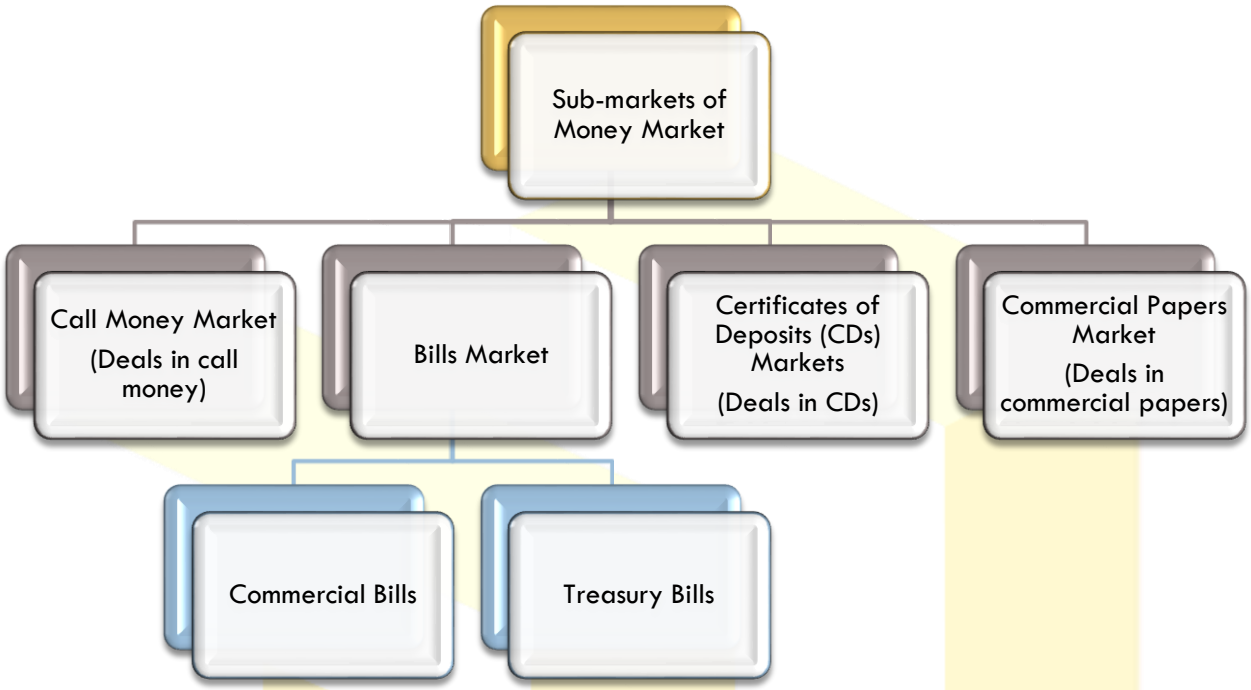
Organized Money Market includes:

1. Reserve Bank of India
2. Scheduled Commercial Banks
3. Lenders
4. Development Banks
5. Investment institutions
6. Regional Rural Banks
7. Foreign banks
8. State Finance Corporations
9. Discount and Finance House of India

Unorganized Money Market includes:

1. Indigenous Bankers
2. Chit funds and Nidhis

Sub markets of Money Market



Reforms in the Indian Money Market

1. Money Market Mutual Funds:

Year of Establishment	**April, 1992**
Objective	Allowed to sell units to corporations and individuals.
Established by	IDBI, UTI

2. Discount and Finance House of India

Year of Establishment	**April, 1988**
Objective	Impart liquidity in the money market.
Established by	RBI, Public Sector Banks and Finance institutions.

3. Clearing Corporation of India Limited

Year of Establishment	**April, 2001**
Objective	Clears all transactions in government securities.

CAPITAL MARKET

Capital market is a market for long term funds, regulated by SEBI.

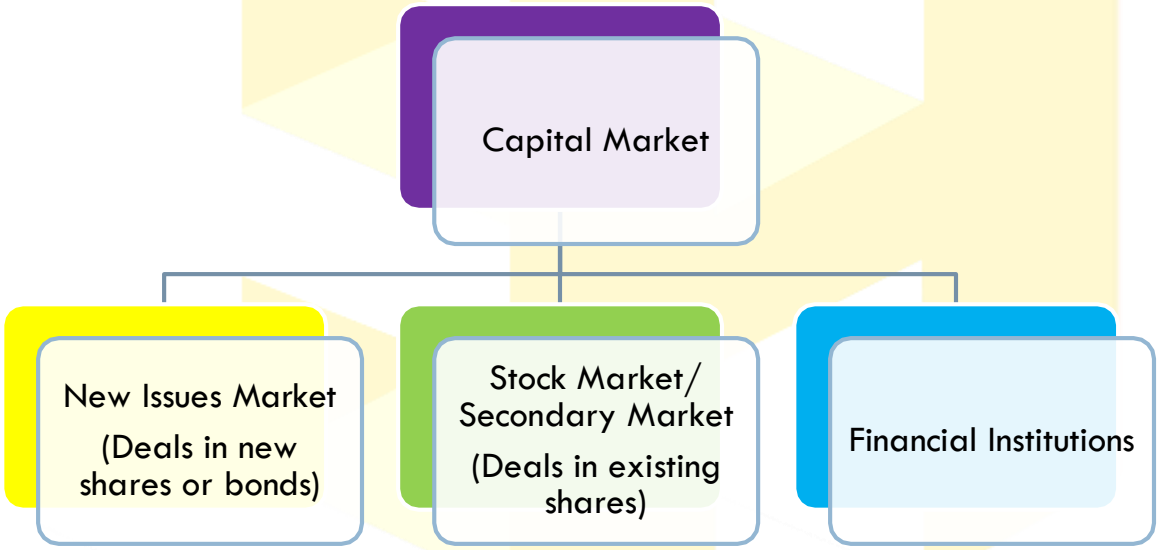
Instruments of Capital Market

1. **Equity/Ordinary shares and Preference Shares**: These are the ownership securities which have certain advantages in favour of the issuing companies and investors; depending on their attitude towards risk.

2. **Bonds and Debentures**: These are the long term credit instruments of the country. A bond is a secured instrument with a fixed income security.

3. **Gilt-Edged Securities:** These are the government securities, be it central or state issue. These securities are backed by the RBI. The features of gilt-edged securities are:
   a. Contains a promise by the President of India.
   b. Maturity period 3-20 years.
   c. Held by banks, foreign investors, etc.

Components of Capital Market



Most active financial institutions in capital market are:

1. Industrial Finance Corporation in India (1948)
2. Industrial Credit and Investment Corporation of India (1956)
3. State Financial Corporations
4. Industrial Development Bank of India (1964)
5. National Industrial Development Corporations

6. Unit Trust of India (1963)
7. Life Insurance Corporation of India (1956)
8. Nationalised Commercial Banks (1969 & 1980)
9. Mechant Banking institutions
10. Credit Guarantee Corporation of India

Important Finance Institutions are:

1. **Industrial Development Bank of India**:

Year of Establishment	**1964**
Objective	Provide credit and other facilities to protect the industrial state of our economy.
Current Status	10th largest development bank in the world in terms of number of ATMs, branches, etc.
Other Points	It helped in building the following institutions: a. National Stock Exchange of India (NSE) b. National Securites Depository Services Limited (NSDL) c. Stock Holding Corporation of India Ltd. (SHCIL) d. Export-Import Bank (EXIM) e. Small Industries Development Bank of India (SIDBI)

2. **Small Industries Development Bank of India (SIDBI):**

Year of Establishment	**April 2, 1990**
Objective	Main objective was to help micro, small and medium enterprises in India to grow with easy availability of finance.
Functions	• Provides financial support to the National Small Industries Corporation for the purpose of their purchase, leasing activities. • Refinances existing loans and advances of the small-scale units.

3. Unit Trust of India

Year of Establishment	**1963**
Objective	The main and primary objective of UTI was to encourage the poor and middle income groups to pool their savings. Also UTI aimed to enable these families to share the benefits from industrial development of our economy.
Functions	• Deals in securities like promissory notes, bills of exchange, etc. • Grants loans and advances. • Deal in foreign exchange in terms of buying and selling. • Invest in schemes introduced by Central Government or RBI.

4. Industrial Finance Corporation of India Limited

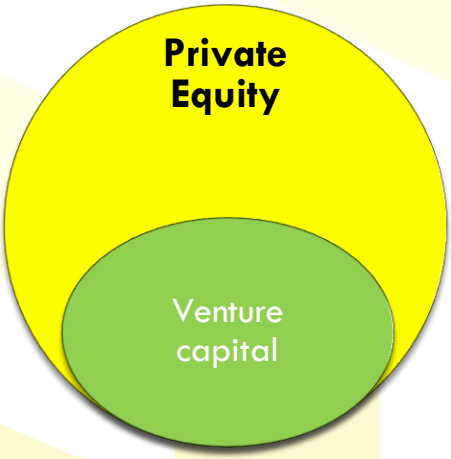
Year of Establishment	**July 1, 1948**
Objective	The main objective is to provide medium and long term financial assistance to large industries, especially when they do not suit the conditions of finance from the commercial banks.
Functions	• Set up new industrial undertakings • Guarantees foreign currency loans • Performs activities related to subscription and underwriting of shares and debentures. • Helps in modernising the existing concerns by way of finance. Also assists in activities related to expansion and diversification.

5. Industrial Investment Bank of India

Year of Establishment	**March, 1997**
Objective	Provide term loan assistance for project finance, equity subscription, asset credit, etc.

Financial Intermediaries In Capital Market

1. **Mechant Banks**: It facilitates and finances production and trade of commodities. Mechant banks do not perform regular banking activities.
2. **Mutual Funds**: Mutual funds pool in the resources from many investors and invest in stocks, bonds or any other instrument.
3. **Venture Capital**: Provides capital to the enterprise or new ventures with huge growth potentials, exposing themselves to high risks. Point to note here is that venture capital is a subset of private equity.



Derivative Market

Derivatives are a kind of financial instruments, the values of which is based on the index of other securities. In other words, value of a derivative is derived from certain underlined indices.

Parts of Derivative Market

1. **Forward Contract**: Buy or sell an asset at a certain future time for a certain price. One of the parties assumes a long position who agrees to buy the underlying asset and the other party assumes a short position and agrees to sell the asset at the same time and agreed price.

2. **Future Contract**: It is different from forward contract in the way that an exact delivery data is not usually specified and the holder of the short position has the right to choose the time during the delivery period when it will make the delivery.

3. **Options Market**:

a. **Call option**: It gives the holder the right to buy the underlying asset at a particular time and for a particular price.
b. **Put option**: It gives the holder the right to sell the underlying asset at a certain date for a certain price.

Intermediaries in Capital Market

1. **Depository/Depositors**: They hold the certificates in the material form. There are specialist financial organization holding securities in either certified or uncertified form so that ownership can be transferred through a book entry rather than transfer of physical certificates.
2. **Clearing Houses**: Clearing house is an agency or corporation of a future exchange responsible for settling trading accounts. They act as a third party to all futures and options contract. It is a part of capital market and functions in derivative market.

3. **Brokers**: These are the people through whom the investors transact.

4. FIIs

5. **Merchant Bankers**: It is an institution that engages in underwriting and business loans catering primarily to the needs of large enterprises and high net worth individuals.

6. **Primary dealers**: They buy securities directly from the Central bank and resell them to others, thus acting as market makers of government securities.

7. **Underwriters**: They will accept some of the risk on a given venture and will distribute the securities, but if they do not find enough investors, they will then have to purchase the remaining securities.

8. **Bankers to the Bank**: They carry out all the activities ensuring that the funds are collected and transferred.

9. **Debenture Trustee:** They are the trustees of a deed created while issuing debentures.

10. **Venture Capital/Capitalist**: They invest in new businesses organisations formed to provide venture or risk capital to new industries with potential of higher profits.

CREDIT RATING AGENCIES

Credit Rating Agencies are also known as Ratings Service. It is a company that assigns credit ratings, that is, rating of a debtor's ability to pay back the debt by making timely interest payments and of the likelihood of default.

Credit Rating Agency provides ratings of:

1. Credit worthiness
2. Debt instruments

In some cases the services of underlying debt can also be rated but not of individual consumers.

Indian Credit Rating Agencies:

1. **Credit Rating Information Services of India Limited (CRISIL): Established in 1988**
2. **Investment information and Credit Rating Agency (ICRA): Established in 1991.**
3. **Credit Analysis and Research Limited (CARE): Established in 1993**

STOCK EXCHANGES IN INDIA

1. **Over The Counter Exchange of India (OTCEI):**
    - This was incorporated in **1990** and became fully operational in **1992**
    - No physical location
    - Promoted jointly by a number of financial institutions like ICICI, IDBI, etc.
    - There are restrictions on listing of securities.
    - Price fixation is regulated.
    - It is a market for only spot deals.
    - It has a decentralised style of working.

2. **National Stock Exchange (NSE):**
    - Established in **1992**.
    - Number of listed companies are 1665.
    - Index for this stock is NIFTY.
    - Headquarters: Delhi
    - All operations are carried out from Mumbai.
    - Fully automated screen based trading system.
    - There are two segments in NSE: Firstly, Capital market segment, Secondly, Wholesale Debt Market Segment.
    - There are no trading flows.

3. **Bombay Stock Exchange (BSE)**
    - Established in 1875.
    - Number of listed companies are 5191.
    - Index: SENSEX
    - Largest Stock Exchange in India.

4. **MCX-SX (Multi-Commodity Exchange)**
    - Established on February 3, 2013.
    - Number of listed companies are 1116.
    - Index: SX-40

SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

SEBI was formed on **April 12, 1988** and was given statutory status in **January 30, 1992**. It performs regulatory and development functions in the capital market.

Functions of SEBI

1. To protect the interest of the investors.
2. To promote the development of and to regulate the securities market.
3. To prevent insider trading and any kind of unfair practices.
4. Investor's education and training of intermediaries.
5. Conducts research and publish information.
6. Registration of brokers and sub-brokers, etc.
7. Given the power to levy, cease or other charges, in case of any legal activities.

REGIONAL RURAL BANKS (RRBS)

Year of Establishment	**October 2, 1975**
Objective	Provide credit to the weaker sections staying in rural areas, especially the small and marginal farmer, agricultural labourers, artisans and small entrepreneurs.
Capital Structure	Jointly owned by the Government of India, Government of the concerned state and public sector bank in the ratio 50:15:35.

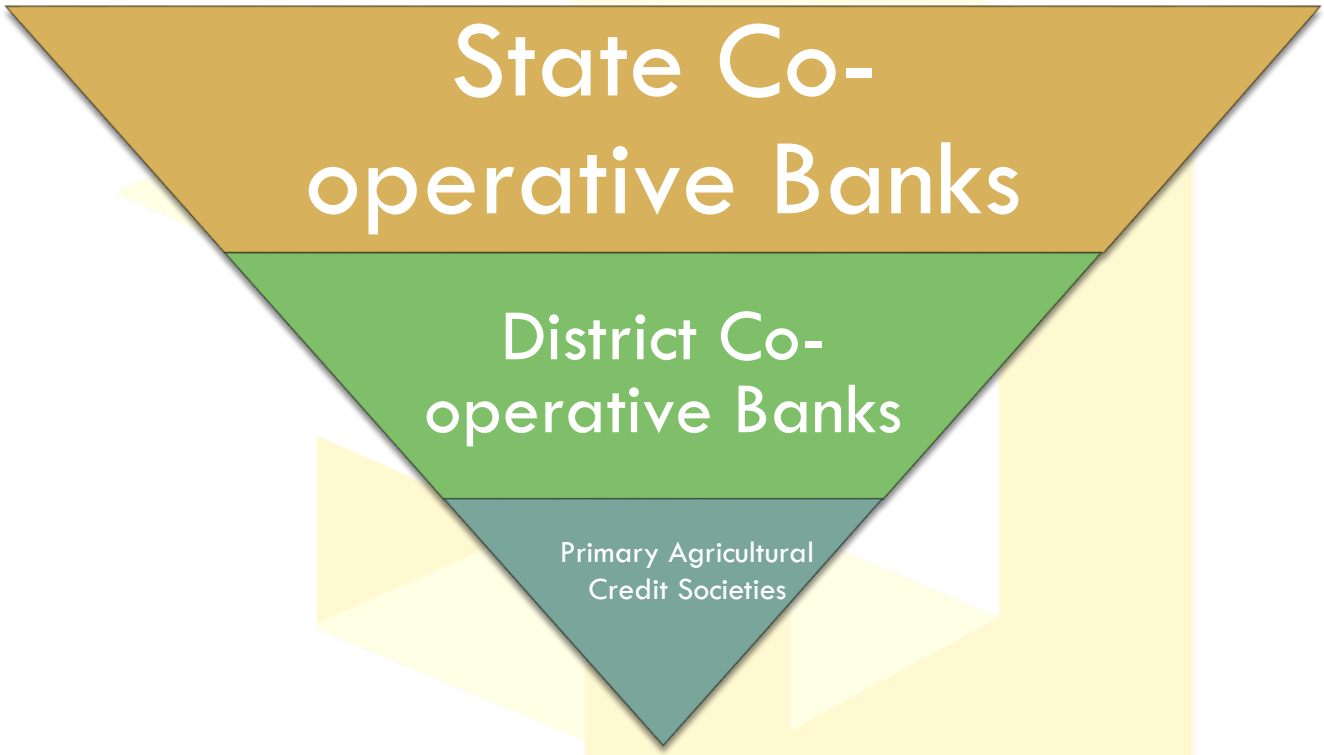
Reforms in RRBs

Committee	**Year**	**Objective**
Kelkar Committee **Under the chairmanship of Dr. K.C. Chakrabarty**	September, 2009 Report submitted on April, 30, 2010	Study the Capital-to-Risk Weighted Assets Ratio (CRAR) of RRBs. Suggest a roadmap for achieving a CRAR of 9 percent by March 2012.
G. Sriniwasan Committee	September, 2011	Technological upgradation of RRBs and move towards CBS.

CO-OPERATIVE BANKS

Co-operative banks are defined as the institution which is established on the co-operative principles of co-operation, self-help and mutual help and is engaged in the normal banking activities.

Structure of Co-operative Banks



Main objective	Provide credit facilities to the rural sector. Concentrates mainly on the credit requirements of the trade and industry.
Interest rate	High on savings/ deposits and low on credit; exact opposite in case of commercial banks.

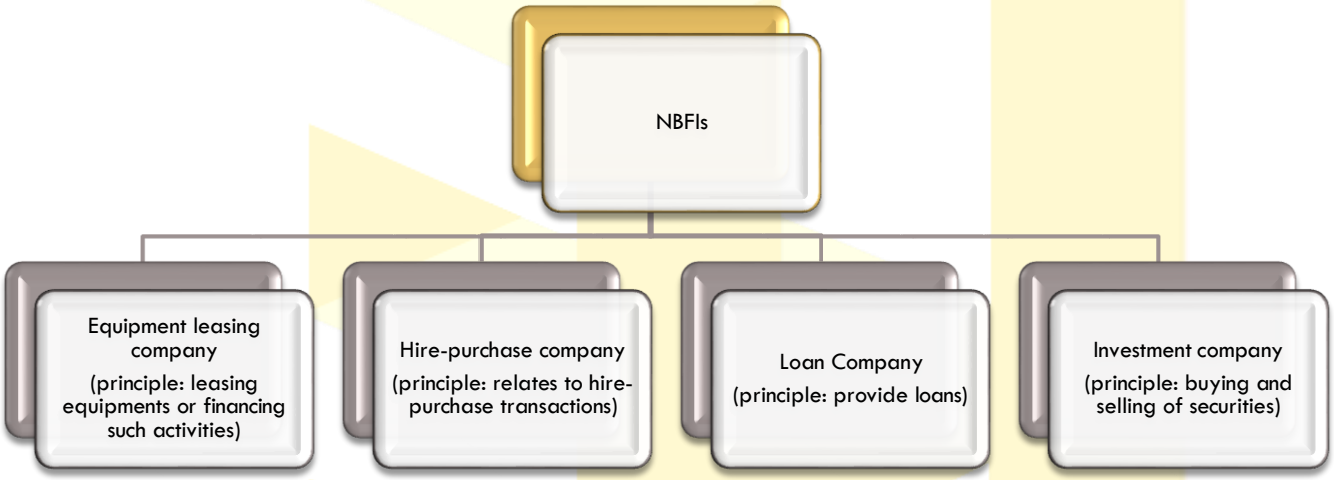
NON-BANKING FINANCIAL INSTITUTIONS (NBFIS)

Concept of Non-Banking Financial Institution was given by Gurley and Shaw. These are the institutions which provide banking services without meeting the legal definition of a bank, that is, one that does not hold a banking licence.

A Non-Banking Financial Institution/Company is the one which follows the following **guidelines**:

1. It is a company.
2. Principle business is receiving deposits, under any scheme or arrangement or in any other manner, or lending in any manner.
3. Approved by the Central Government and notification in the Official Gazette.

Types of NBFIs



Regulations relating to acceptance of deposits by the NBFIs are:

1. Allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 months.
2. Cannot accept deposits repayable on demand.
3. Cannot offer interest rates higher than the ceiling rate as prescribed by the RBI.
4. Cannot offer gifts/incentives to the depositors.
5. Should have minimum investment grade credit rating.
6. Deposits are not insured.
7. Repayment of deposits by NBFIs are not guaranteed by RBI.

BANKING SECTOR REFORMS

Banking Sector Reforms were brought in our economy by Narsimham Committee. It came in two phases: 1991 and 1998. The main aim of the reforms was to improve the banking sector and change the bank rates.

Main provisions in Banking Sector Reforms are:

1. Main aim of the reforms was to reduce SLR and CRR. SLR was reduced from 35% to 25%. On the other hand, CRR was reduced from 15% to 3 to 5%.
2. Phasing out direct credit programme. The programme compelled the banks to earmark the financial resources for the poor sections of the society at a concessional rate of interest.
3. Dual control of the banking system by Ministry of Finance and RBI to be abolished.
4. De-regulations of interest rates. Interest rates should be rather determined by the markets.
5. Liberal view for allowing foreign banks to the country.
6. Should have a 4-tier banking system.

7. Banks to be given more autonomy.
8. Primary targets for credit to be redefined.
9. Computerisation of the banking system.
10. Banks should be authorised to appoint banking official at their own discretion.
11. Granting resources to Development Financial Institutions at concessional rates to be abolished in the next three years.
12. Structural reorganisation of banks.
13. Asset reconstruction fund was formed to take care of Non-Performing Assets.

NATIONALIZATION OF BANKS

THE TIMES OF INDIA

14 TOP BANKS ARE NATIONALISED

Ordinance follows unanimous Cabinet decision

'Syndicate' in disarray as Morarji goes

A vital step, says Indira

On July 19, 1969, 14 banks were nationalized which had a deposit base of over Rupees 50 crores. Second set of nationalization took place in **April 1980**, where 6 more banks were nationalized. In 1993, New Bank of India merged with Punjab National Bank, reducing the number of nationalized banks from 20 to 19 at present.

Objectives behind nationalization of banks

1. Social welfare: The needy were deprived of the funds from the financial institutions. As a result, there was a need to direct the funds to the required sectors of the economy.
2. Controlling private monopolies who benefitted before nationalization due to easy availability of finance to them.
3. Expansion of banking sector of the economy.
4. Reducing the regional imbalances in the economy.
5. Lending finance to the priority sectors of the economy like agriculture and allied activities, etc.
6. Developing banking habits among the population.

RESERVE BANK OF INDIA

RBI is the Central banking institution of India and controls the monetary policy of India. RBI was established on **April 1, 1935** on the recommendations of the **Hilton-Young Commission**. It was nationalized in **1949**.

Functions of RBI

1. It is the Issuer of the currency
2. RBI acts as a banker to the central and the state government.
3. It manages the government securities.
4. RBI also acts as a banker to the other banks.
5. It is the controller of Money supply and Credit.
6. Publisher of Monetary data and other related data as well.

Very Important

Governors of RBI

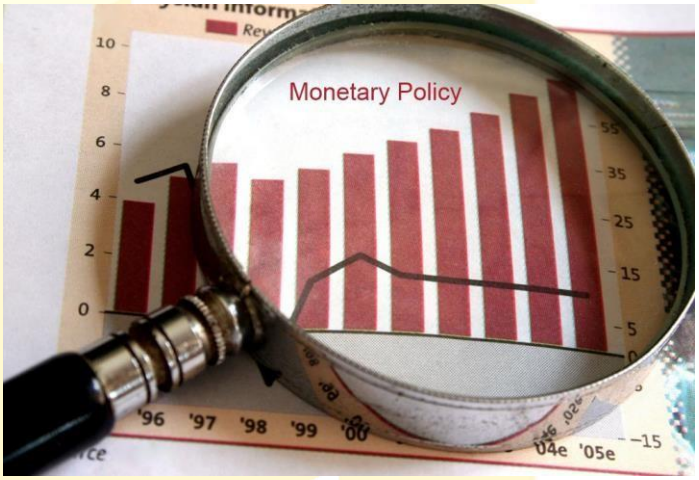
Governor	Tenure
Sir Osborne Smith	April 1, 1935 – June 30, 1937
Sir James Braid Taylor	July 1, 1937 – February 17, 1943
Sir C.D. Deshmukh	August 11, 1943 – June 30, 1949
Benegal Rama Rau	July 1, 1949 – January 14, 1957
K.G. Ambegaonkar	January 14, 1957 – February 28, 1957
H.V.R Iyengar	March 1, 1957 – February 28, 1962
P.C. Bhattacharya	March 1, 1962 – June 30, 1967
L.K. Jha	July 1, 1967 – May 3, 1970

B.N. Adarkar	May 4, 1970 – June 15, 1970
S. Jagannathan	June 16, 1970 – May 19, 1975
N.C. Sen Gupta	May 19, 1975 – August 19, 1975
K.R. Puri	August 20, 1975 – May 2, 1977
M. Narasimham	May 2, 1977 – November 30, 1977
Dr. I.G. Patel	December 1, 1977 – September 15, 1982
Dr. Manmohan Singh	September 16, 1982 – January 14, 1985
A. Ghosh	January 15, 1985 – February 4, 1985
R.N. Malhotra	February 4, 1985 – December 22, 1990
S. Venkitaramanan	December 22, 1990 – December 21, 1992
C. Rangarajan	December 22, 1992 – November 21, 1997
Bimal Rajan	November 22, 1997 – September 6, 2003
Y.V. Reddy	September 6, 2003 – September 5, 2008
D. Subbarao	September 5, 2008 – September 4, 2013
Dr. Raghuram Rajan	September 4, 2013 till present

MONETARY POLICY

"A policy employing the central banks control of the supply of money as an instrument for achieving the objectives of general economic policy is a monetary policy"

Prof. Harry Johnson



Objectives of Monetary Policy

1. Rapid Economic Growth
2. Price Stability
3. Exchange Rate Stability
4. Balance of payments equilibrium
5. Achieving full employment
6. Make the money neutral in its effects
7. Lead to equal income distribution

Instruments of the Monetary Policy

1. **Quantitative Instruments:**

   a. **Bank Rate Policy**: Bank rate refers to the rate at which the central bank rediscounts the bills or provides advance to commercial banks against approved securities.

   b. **Open Market Operations**: It refers to purchase and sale of short term and long term securities by the RBI in the open market.

c. **Reserve Ratios**:

- **Cash Reserve Ratio (CRR)**: Minimum percent of commercial banks' deposits to be kept with the RBI.
- **Statutory Liquidity Ratio (SLR)**: Percentage of reserves to be kept in the form of gold or foreign securities.

Increase in these ratios would lead to decline in the money supply in the economy.

2. **Qualitative Instruments or Selective tools**:

a. **Fixing Margin Requirement**: It refers to the proportion of the loan amount which is not financed by the bank.
b. **Consumer Credit Regulations**: The down payment, instalment amount, loan duration, etc. are fixed in advance.
c. **Credit Rationing**: Central bank fixes the credit amount to be granted.
d. **Moral Suasion**: It is the pressure imposed on the commercial banks by the RBI to follow a certain set of regulations.

BANK'S PORTFOLIO MANAGEMENT

Portfolio Management → Managing bank's asset & liabilities

↓

Optimum combination of income or profit, liquidity & safety

Objective :-

1. Liquidity

2. Safety

3. Profitability

Conflict between the objectives

↑ Liquidity → ↓ Profit

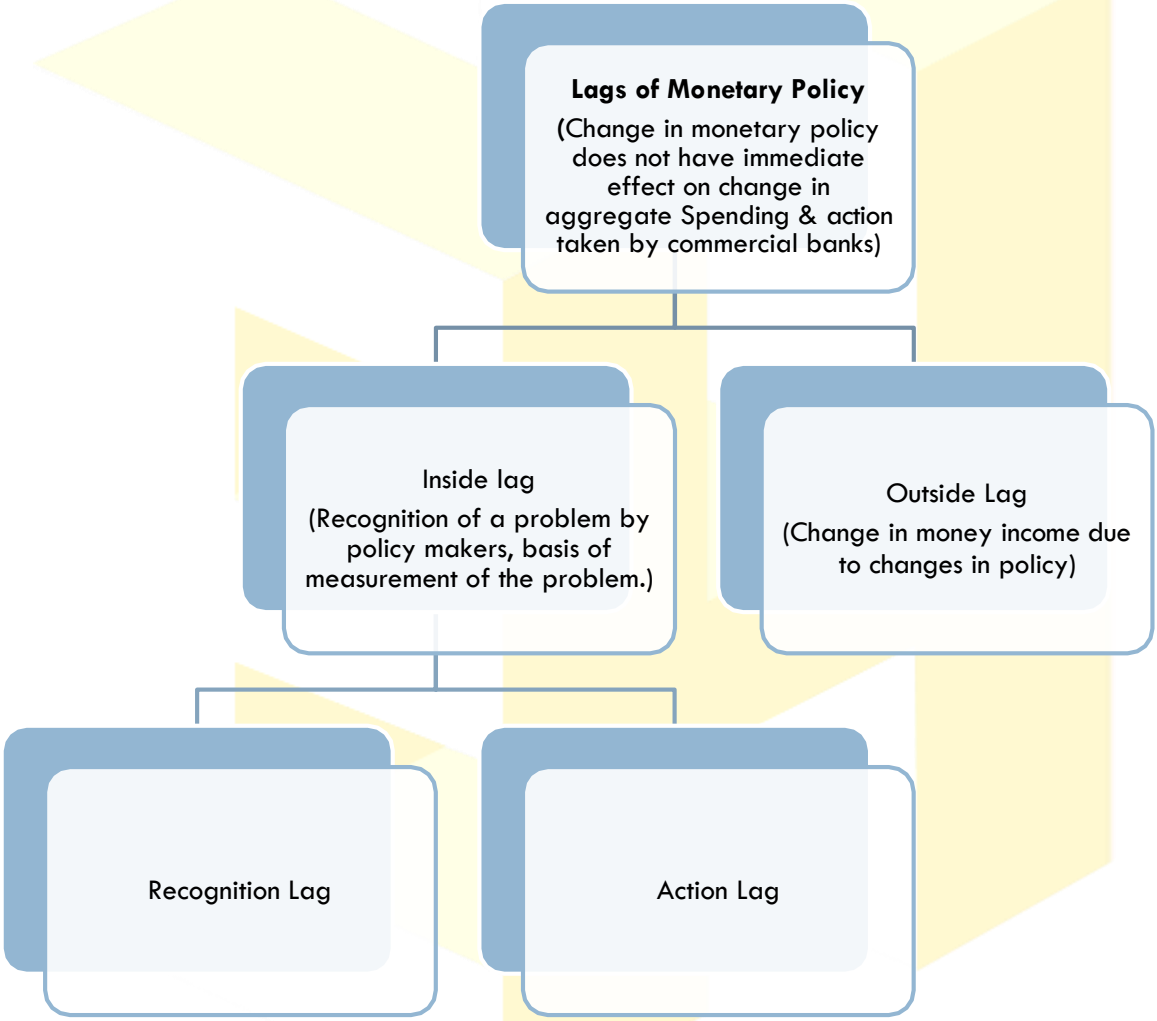
↑ Profitability → ↑ Risk → ↓ Safety

Theories of portfolio Management

1. **Commercial Loan (Real Bill) Theory**
   Bank should advance only short-term loans which are self-liquidating. As a result, they are more productive in nature.
2. **Moulton's shift ability Theory**
   Applicable to short-term market instruments like T-bills. Asset should be perfectly shift able/immediately transferable without any capital loss.

3. **Prochnow's Anticipated Income Theory**
   Loan given = f (Liquidation, Expected/Anticipated income of the borrower)
   This is because bank gets paid in installments.
4. **Liabilities Management theory**
   No need for granting self-liquidity loans/keeping liquid assets. Why?
   Because:- at times of need; banks can borrow the reserve money or Issue shares, etc

LAGS OF MONETARY POLICY



Recognition lag:- Time taken to recognize that the economy has changed due to existing policy.

Action lag :- Caused by

1. Time taken to work out details for change.
2. Disagreement among policy makers

3. Political pressure
4. Delayed due to desirable change in monetary policy

Now you can sleep!!!!

AGRICULTURAL ECONOMICS

Part- 2- (c)

Notes by Economics Harbour

Agricultural economics

NOTESBYECONOMICSHARBOUR

SCHULTZ THEORY OF TRANSFORMING TRADITIONAL AGRICULTURE

The theory was given by **Schultz in 1964** in his work, "**Transforming Traditional Agriculture**".

In this theory, traditional agriculture is defined in economic terms and has the following **features**:

1. Art of cultivation becomes static.
2. Farmers use the same factors of production as their forefathers.
3. No new factors of production are being introduced.
4. No change in the pattern of returns to the various factors of production.
5. Agriculture production moves towards an equilibrium point.
6. No incentive to invest beyond a point.

Poor but efficient hypothesis

An efficient allocation of resources does not mean more income. Thus, income in the traditional agriculture will not only be generally stagnant but also generally low as compared to dynamic agriculture.

Allocative efficiency/Perfect allocation of factors or resources

We take the following **assumptions**:

1. Traditional agriculture
2. No disturbance in equilibrium
3. Prices of factors and returns to them can change, though not repeatedly.
4. No political upheavals in the society.
5. Relative prices of agricultural products are not changing.
6. No advancement in knowledge.
7. Perfect knowledge about the rate of return to various factors.
8. No significant indivisibilities.

The doctrine of Zero Value of Labor in Agriculture

There are three **conditions**:

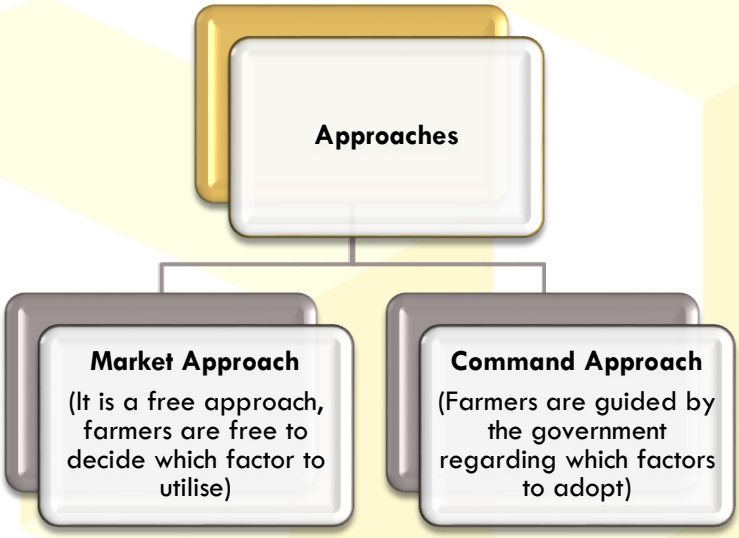
1. When marginal productivity of labor (MP_L) is low but comparable with that of labour engaged in other sectors, then it is a **backward economy**.

2. When MP_L in agriculture is lower than the labour engaged in the other sectors, then this was the case for **developed economies**.
3. Marginal productivity of a part of labour engaged in agriculture is zero. According to Schultz, this condition is not possible.

Transforming the Traditional Agriculture

Schultz suggested the following ways to transform the traditional agriculture:

1. **Supply of factors**: It states how new factors are introduced in the economy. It involves two approaches:



According to Schultz, market approach is better.

Moreover, in case of supply of factors, he considered the following:

a. Research & Development
b. Distribution of new inputs
c. Development of new extension of services

2. **Demand for factors**: Under this, we consider the factors which are important to create demand:
   a. Supply price of input
   b. Prospective yield

   Government should subsidize the production and distribution of new inputs.

3. **Acquired Skills in Agriculture Transformation**: Schultz suggested three ways in which the skills can be imparted:
   a. Trial & error
   b. On-the-job training
   c. Schooling

LAND REFORMS

Land reforms are basically concerned with the following aspects of agriculture:

- Agriculture economic institution
- Land ownership and tenancy
- Land rent
- Taxation of agricultural land
- Redistribution of property in land for the benefit of small farmers and agricultural workers.

Tenurial System

The tenure system talks about who owns the land, whether government or private individual. It states the conditions on which he holds the land, how much land is being held and who will pay the land revenue/rent.

Tenurial Arrangement

Tenurial Arrangement is the arrangement under which cultivation of land is undertaken. It will also involve the regulation of conditions concerning the ownership of land. It states the following:

1. Ceiling of land holdings and redistribution of land.
2. Tenancy reforms.

Land Reforms in India

Land reforms in India took place in 1949, with the following **objectives**:

1. Abolition of intermediaries
2. Ceiling on land holding to redistribute surplus land to the landless.
3. Consolidation of the land holdings: The objective was designed to fulfil two conditions: Firstly, Reduce the disparities in agriculture income and ownership, secondly, to increase rural employment.
4. Eliminating land lordism.
5. Tenancy reforms
6. Enhancing the productivity of land
7. To ensure distributive justice

Arguments in favour of land reforms are:

1. Equity: It would encourage equalities in our economy.
2. Problem of imperfect property rights was to be eliminated with the help of these land reforms.

3. Owner cultivated plots tend to be more productive than those under share cropping tenancy.

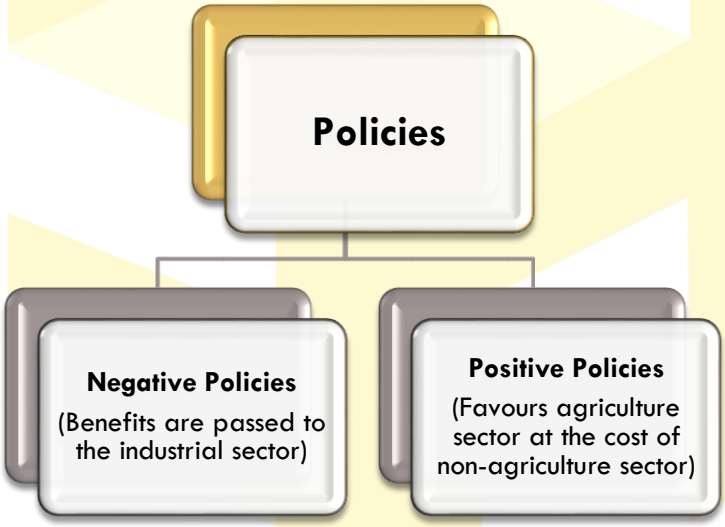
AGRICULTURE PRICE POLICY IN INDIA

Objectives of Agriculture Price Policy in India are:

1. **Providing incentives** for increasing production or marketable surplus or bringing about the change in agriculture output mix.
2. **Stability of prices** of agriculture goods.
3. Determine the **minimum price of a crop for farmers** in case of a glut or to fix a **maximum price for consumers** in case of scarcity or shortages.
4. **Provision of food grains** at prices below the market prices to the weaker sections of the society.
5. Maintaining the **stability of income of farming sector**.
6. Increase earnings of foreign exchange.
7. It would encourage investments in agriculture to help increase production of agriculture sector.
8. Ensure regular flow of raw material.

Agriculture Price Policy in India

Generally there are two kinds of policies:



Before 1965:

Our main objective, then, was to protect the consumer's interest but no incentives were provided to the farmers in the form of remunerative prices of the agricultural crops.

However, **after 1965, we adopted a positive price policy**.

The economy decided upon **three principles** on which price would be set:

1. **Cost of production principle**: In this approach, the cost of recommended farm input and their average yield are taken into account to estimate the cost per unit of output and price.
2. **Ruling Price Principle**: Price is linked to the moving average of the market prices in the recent past.
3. **Parity price principle**: It is the price that the purchaser of a unit of an article has to pay or must pay as for the other goods he must purchase of other goods with the same unit in a given base year.

Institutions established under Agriculture Price Policy:

1. Agriculture Price Commission (1965), renamed as Commission for Agricultural Cost and Prices in 1985.
2. Food Corporation of India (FCI) established in 1985.

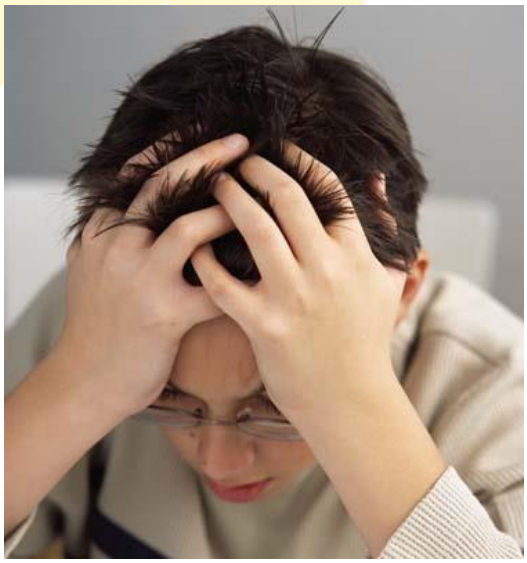
The price policy will also include the pricing policies regarding the inputs used in agriculture, consumer protection against high prices and Ancillary policies like policies of Research & Development of agriculture, etc. Ancillary policies are the additional measures that can be adopted to enhance the technology of production and agricultural marketing. Example of such kind of a policy is the domestic research effort to generate new crop varieties.

Effects of Agricultural Price Policy

1. The policy helped in **increasing the production**.
2. It aimed to **change the cropping pattern** which would help increase efficiency and productivity of the land.
3. It would be of great advantage to the farmers by **increasing income**, etc.
4. It would also **benefit the consumers**, by regulating the price of the food products at the time of scarcity.
5. The **prices would be stable** with the help of constant check by the government.

Problems of Agriculture Price Policy

1. It had a **limited coverage**.
2. **Less remunerative prices** against those which were promised by the government.
3. The policy **failed to achieve price stability**.
4. **Ineffective Public Distribution System** posed to be a huge hindrance to the agriculture price policy.
5. **Less number of regulated markets**.



LIST OF COMMITTEES FORMED FOR THE DEVELOPMENT OF AGRICULTURAL SECTOR

Committee	Year	Objective
Food Grains Policy Committee	1947	• Progressive price decontrol of agricultural goods. • Suggested measures to increase the domestic production and reduce dependence upon imports.
Food Grains Procurement Committee	1950	• Continuation and extension of rationing of food grains
Food Grains Enquiry Committee	1957	• Building of buffer stock. • Licensing of wholesale traders in agricultural crops. • Fixing of minimum and maximum prices of agricultural crops.
Jha Committee (Also known as Foodgrains Prices Committee)	1964	• Under this committee the partial price control of agricultural commodities was given up. • Prices should give and incentive to adopt new technology. • Prices should encourage optimum utilisation of land. • Prices should ensure the balance between demand and supply. • Impact of prices on imports and exports and other sectors to be kept in view. • As many crops as possible to be covered under the price policy. • Reduce the cost of production of various crops through the supply of subsidised inputs.

Agricultural Prices Commission	1965	Set up on recommendations of Jha Committee. It was renamed as commission for agriculture costs and prices in 1980. Functions: • It advises the government on the pricing policy of agricultural goods. • Measures for implementing the price policy with regard to various goods. • To study the method and cost of marketing of various goods. • Collection of information regarding price policy and other relevant data. • Recommendations to the government on any problem relating to agriculture prices and production.
National Commission on Farmers	2004	Formed under the Chairmanship of Dr. M.S. Swaminathan. Main aim was to enhance productivity, profitability and sustainability of the farming systems. Suggested measures to retain educated youth in farming.

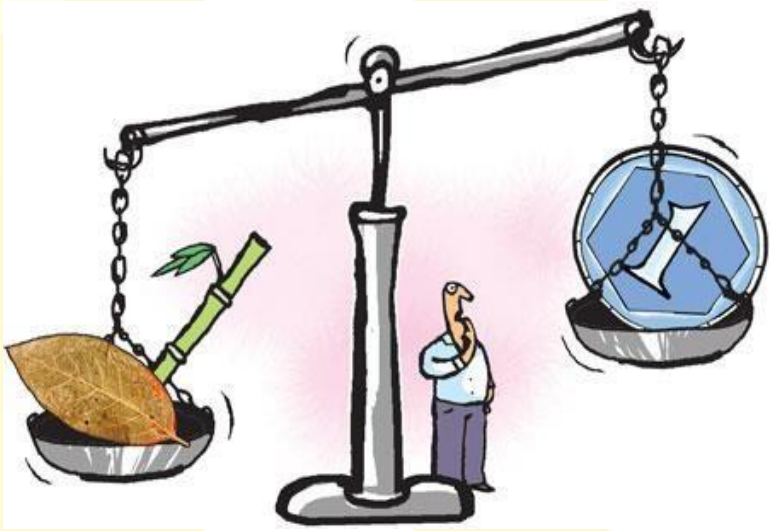
MINIMUM SUPPORT PRICE IN INDIA

The **factors which are considered by CACP for fixing the minimum support price are**:

1. Cost of production
2. Risk factor
3. Change in input prices
4. Current market prices of the crop
5. Demand and supply of the crop
6. Effect of price fixed on industrial cost structure.
7. Effect on cost of living on general price level.
8. International market situation
9. Approaches used to fix price

a. Inter-crop price parity
b. Input-output price parity
c. Parity between prices received and prices paid

Minimum Support Price and Procurement Price



Minimum Support Price (MSP) is meant to assure the procedures that in case the price falls below MSP, the government will purchase all the unsold amount at that minimum price.

Procurement Price is the price that the government fixes in case it has to purchase the good for certain purposes and the government will deliberately enter the market and purchase a part of the crop even by putting a limit on the purchase made by non-government agencies at the announced price. Procurement price is generally higher than the estimated MSP but below the expected market prices and is usually used to create the buffer stock.

PUBLIC DISTRIBUTION SYSTEM (PDS)

PDS system was introduced keeping one basic objective in mind and that is ensuring food security to the people of our country.

It was initially started in 1939 and then was withdrawn in 1940s, later it was reintroduced and withdrawn again in 1950s. **It was officially introduced in 1966.**

Objectives:

1. Food security
2. Provide essential consumer goods at cheap and subsidised prices
3. To prevent price rise
4. Maintaining the minimum nutritional standards for the population.
5. Remunerative prices for the farmers.

Organisations formed under PDS

1. Food Corporation of India (FCI)
2. Central Warehousing Corporation (CWC)

Commodities covered under PDS

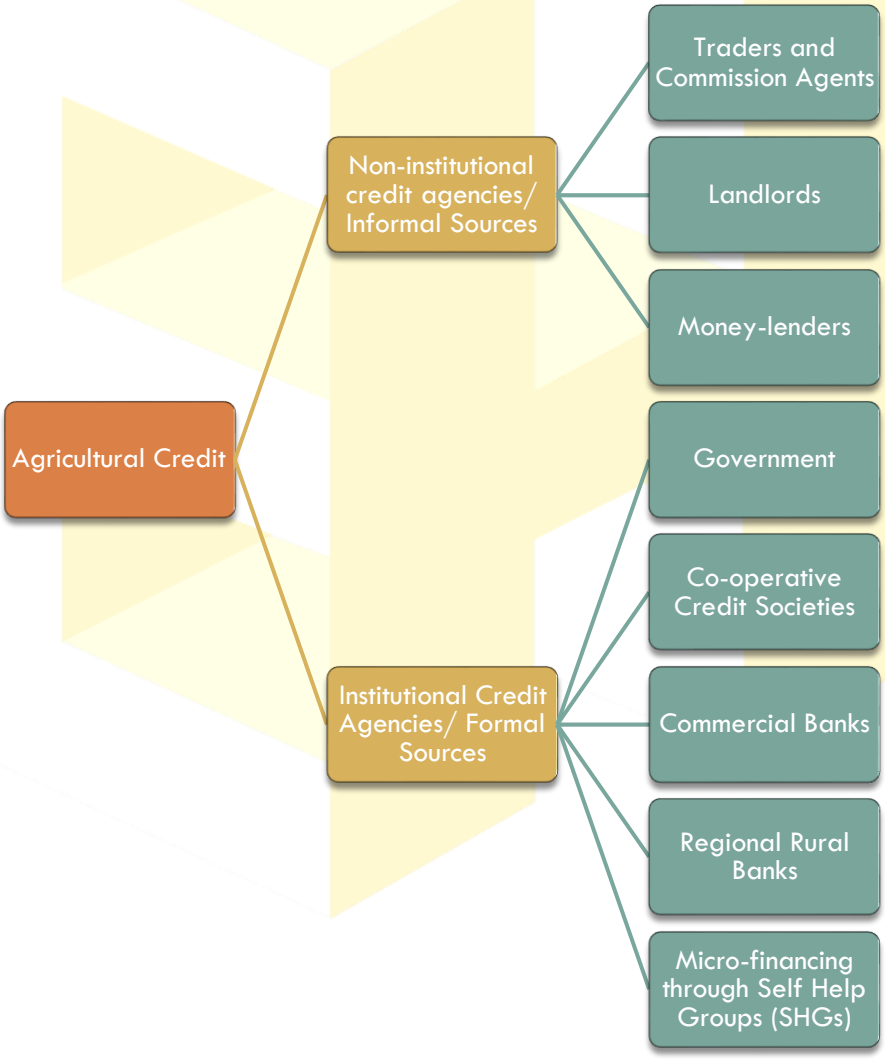
1. Wheat
2. Rice
3. Sugar
4. Imported edible oil
5. Kerosene
6. Soft Coke

Eleven more items were later added to the system like iodized salt, pulses, spices, etc.

Modifications in PDS

Modification in PDS	Year	Objective
Revamped PDS	1992	It was especially designed for the population living in the difficult areas of the country.
Targetted PDS	1997	The main objective was to identify the poor for the delivery of food grains and the distribution in a transparent manner.

Sources of Agricultural Credit



GOVERNMENT INITIATIVES IN FAVOUR OF RURAL SECTOR

1. 14 banks were **nationalized in 1969**. While 7 more banks were nationalized in 1981.
2. **Lead Bank Policy** introduced in 1969 on the recommendation of Gadgil Study Group.
3. **Regional Rural Banks** were established in 1975 to provide credit to weaker sections of the society.
4. **National Bank for Agriculture and Rural Development (NABARD)** was set up in 1981 with the objective to provide credit to promote agricultural activities, small-scale industries, cottage and village industries and other rural activities.
5. **Kisan Credit Card Scheme** was started by Government of India, RBI and NABARD in 1998-99. The features of the scheme are:

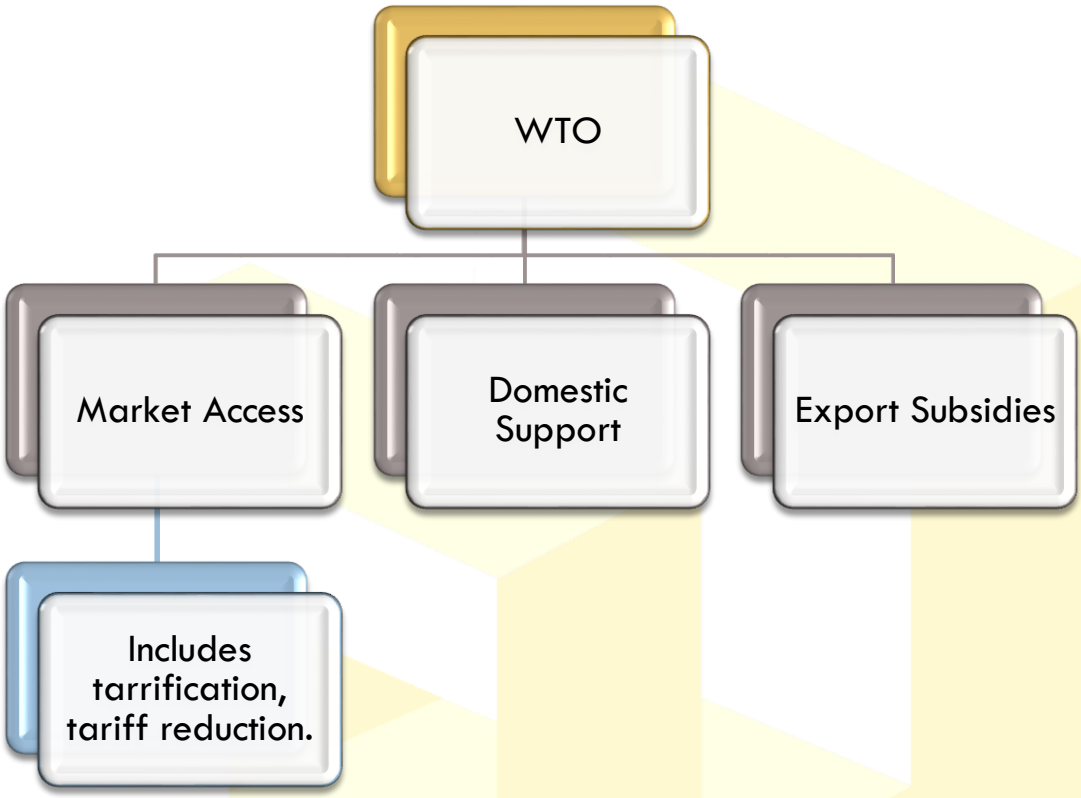
a. Farmers are eligible for production of credit of Rupees 5,000/- or more.
b. Farmers are provided with a Kisan Card, passbooks.
c. Farmers can go in for any number of withdrawals and repayments within the limit.

6. **Rural Infrastructure Development Fund (RIDF):** Set up by NABARD in 1999-2000.

NABARD

INDIA AND WTO

The WTO agreement on agriculture focusses on three areas:



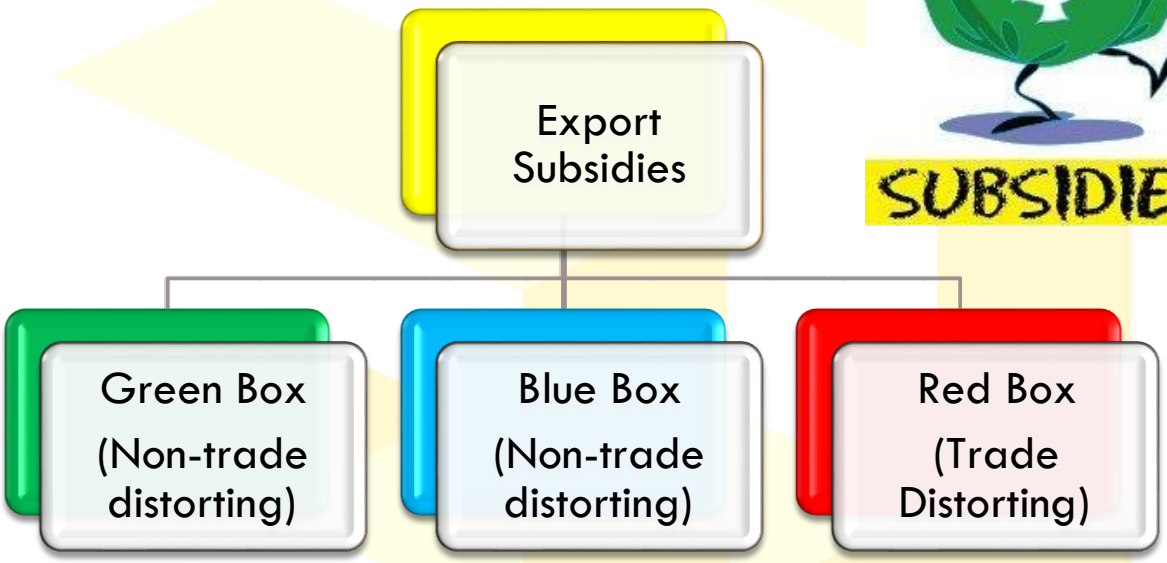
Impact of WTO on Indian Agriculture

The functioning of WTO involves:

1. Multi-fibre agreement (MFA)
2. Agreement on Agriculture (AoA)
3. Trade Related Investment Measures (TRIMs)
4. Trade Related Intellectual Property Rights (TRIPs)
5. General Agreement on Trade and Services (GATS)

Under AoA, the members were required to transform the non-tariff barriers like quota into equivalent tariff measures. The tariffs on agricultural products are to be reduced by 36 percent on an average in case of developed countries and 24 percent in case of developing countries.

Export Subsidies given under WTO:



GREEN REVOLUTION IN INDIA

Green Revolution in India was introduced in **1966**. **M.S. Swaminathan** is known as the father of Green Revolution in India.

Main Features of Green Revolution are:

1. Expansion of farming areas: No doubt, the expansion process of farm areas started right since 1948. However, the process was made fast track after the introduction of green revolution in India.
2. Double-cropping: Instead of cropping one crop per year, two crops were to be sown. This was considered to be one of the main features of green revolution.
3. Seeds with superior genetics: Introduction of HYV seeds, especially for wheat and rice were introduced. The most noteworthy seed was K68 for wheat.

Limitations of Green Revolution

1. Green Revolution was unable to make India self-sufficient in terms of food, etc.
2. Green Revolution failed to extend its advantages to other crops except wheat and rice. Moreover, agriculturally rich states like Punjab and Haryana were benefitted the most from green revolution.

Second Green Revolution in India

Second Green Revolution, also known as **Evergreen Revolution or Sustainable Agriculture, was introduced in 2004** with an initial fund of Rupees 50,000 crores. It is also known as the "**Rainbow Revolution**".

It includes the following practices:

1. Replacing chemical fertilisers with bio-fertilisers.
2. Bio-pesticides were to be used instead of chemical pesticides.
3. Conservation of water, balanced cropping pattern and proper crop combinations were the major objectives.

Second Green Revolution was adopted in Eleventh Plan with following strategies:

1. Doubling the rate of growth of irrigated areas.
2. Improving water management, watershed development and rain water harvesting.
3. Focus on soil quality.
4. Promoting animal husbandry and fishery.
5. Providing easy access to credit at affordable rates.
6. Focus on land reforms issues.

CO-OPERATIVE FARMING

The term "Co-operative Farming" means bringing together the land resources of the farmers in such a way that they become organized and united. The farmers would then collectively grow on every bit of the land to make it most productive and could be better for the fertility of the land.

Features of Co-operative Farming

1. Voluntary process of joining the farming society.
2. The farmers may or may not retain their rights to land.
3. The pooling of resources would vary with each member.
4. The whole farm would be considered to be one single unit and a management would be elected by all the members.

ORGANIC FARMING

Organic farming is that form of agricultural technique which relies on processes like crop rotation, green manure, compost and biological pest control which helps in maintaining the soil productivity and also control pests on the farm.

To encourage organic farming in the world, an international organisation was set up by **"International Federation of Organic Agriculture Movements" in 1972.**

On the national level, a step towards organic farming was taken in the form of implementation of **National Standards for Organic Production (NSOP) in 2000** and establishment of National Institute of Organic Farming.

Problems and Constraints in initiating Organic Farming:

1. Lack of Awareness amongst the Indian farmers regarding bio-fertilisers and the concept of organic farming.
2. Problems of output marketing: it was noticed that the organic wheat produced received lower prices than those of the conventional wheat.
3. Shortage of Bio-mass
4. Inadequate infrastructure
5. High Input costs
6. Lack of financial support from the formal institutions of finance.
7. Low Yields

NATIONAL AGRICULTURAL POLICY, 2000

Main Features of National Agriculture Policy are:

1. Use of natural resources in a technically sound economically viable, environmentally non-degrading and socially acceptable manner.
2. Promotion of use of bio-technologies.
3. Use of bio-mass, organic and inorganic fertilizers.
4. Development of rain fed and irrigated horticulture, floriculture, plantation crops, etc.
5. Priority to the development of animal husbandry poultry, dairying and aqua-culture.
6. Promote sustainable aqua-culture practices.
7. Priority to be given to regionalization of agricultural research based on identified agro-climatic zones.

8. Increased and easy flow of credit to the farmers.
9. Provision of capital subsidy for construction or modernization and expansion of cold storages.
10. Market Information Network launched with the aim to provide latest information to the farmers on price movements.

NATIONAL POLICY FOR FARMERS, 2007

Following are the provisions under National Policy for Farmers:

1. Focus was on the economic well-being of the farmer, by the mode of enhancing the productivity and increasing production.
2. The policy was expanded to all categories of persons engaged in the farming sector.
3. Every person, particularly the poor should have an access to a productive asset.
4. Maximizing the yield was given high priority.
5. Maximize the benefits of monsoons in drought prone areas, flood prone areas and arid areas.
6. Use of new and advanced technologies which could help increase productivity and production levels.
7. Establish a coordinated agricultural bio-security programme.
8. Use of good quality inputs like seeds, etc. to be encourage. Also, every farm family would be provided with Soil Health passbook.
9. Establishment of credit counselling centers.
10. Establishment of farm schools to teach new farming techniques.

INDUSTRIAL ECONOMICS

Part – 2- (d)

Notes by Economics Harbour

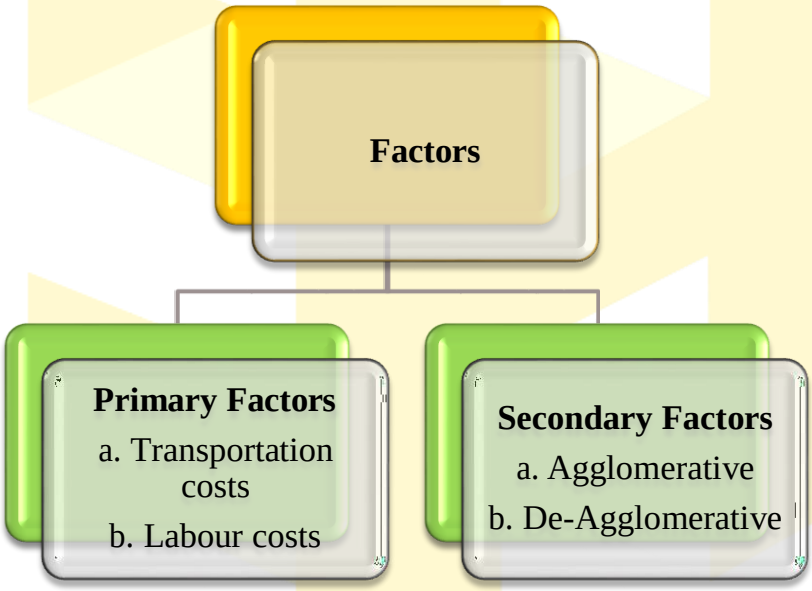
Industrial economics is a distinctive branch of economics which deals with the economic problems of firms and industries, and their relationship with society

Industrial Economics

NOTESBYECONOMICSHARBOUR

THEORIES OF INDUSTRIAL LOCATION

1. **Weber's Theory of Industrial Location**
   - The theory is also known as Pure theory of Industrial Location/Least cost theory.
   - Alfred Weber gave his theory in **1909** and is purely deductive in its approach.
   - He considered both transportation and labour cost.
   - According to this theory, the industry will be located where these costs are minimum.
   - **Assumptions of the theory**:
     a. Assumes fixed labour centres and unlimited supply of labour.
     b. Fixed points of consumption.
   - He considered two factors:



   - He even considered raw materials which can be either localized or distributive. Therefore, transportation cost is a function of weight of raw material to be transported and the distance to be travelled.

- The **factors which affect transportation costs** are:
  a. Type of transportation system and the extent to which it is used,
  b. The infrastructure of the region like kinds of roads, environment, etc.
  c. The nature of goods in terms of their quality, etc.

- The **location of production** depends upon following factors: a. the type of material deposits present in the location, b. nature of transformation into the products.
- **Agglomerative Cost:** If production takes place at one place and its effect is the reduction in the cost of production, then it is agglomerative in nature. It has the advantage of cheapening of production or marketing that results from the fact that production is carried on at one place. It will be encouraged when coefficient/ index of manufacturing is high.
- **De-Agglomeration** is the cheapening of production that results from decentralization of production, that is, production takes place at more than one place.
- Weber also gave the concept of "**Split location**", in which production process can be divided into different parts, depending upon the nature of raw materials, industry and market. For example, the first part of the production can take place near the point where raw materials are present, while the later divisions in the production process can take place where final consumption has to take place.

Criticisms of the theory

a. **Sargant Florence** criticized the theory on the basis of vague generalizations which cannot provide enough and authentic solutions for the theory of locations. Thus, Weber's theory is considered to be unrealistic.
b. **Predohl** criticized the theory for being selective rather than being deductive in its approach. Moreover, he said that the distinction between primary and secondary factors in itself is unrealistic and illogical.
c. Unrealistic assumptions.

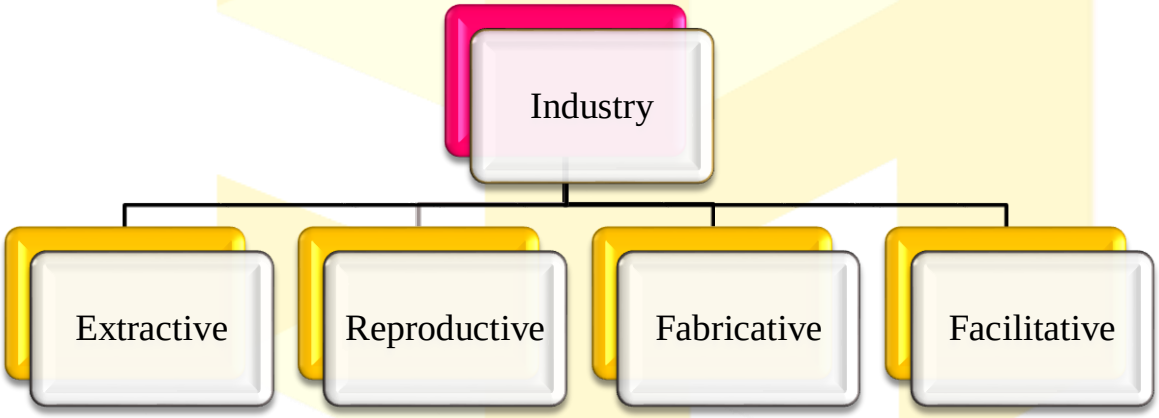
2. **Market Area Theory**
   The theory was given by **Tord Palander**. It is simply an extension of Weber's theory. It focuses on the idea that given the location of materials and prices, where the production should take place. Also, given the place of production, how does price effects the extent of area in which a producer can sell his good.

3. **Central Place Theory**
   The theory was given by **Losch**. He ignored all the cost differences. According to this theory, the industry will be located where revenues are maximum because of uniform resource endowment, ignoring all the cost differences. So the industry will be located at a particular side where the revenue is maximum.

4. **Geographical Theories of Industrial Location**

a. **Central Place Theory**: The theory was given by **Walter Christaller**. According to him, the towns with lowest level of specialisation would be equally spaced and surrounded by hexagons spaced hinterlands.

b. **Renner's Theory**: He classified industries into four types:



Manufacturing industry will be located at a point which provides optimum access to the raw materials like labour, power management, etc.

c. **Rowstron's Theory:** According to him, the factors which can restrict the location of an industry are:

- Economic: the most profitable location for the industry.

- Physical: the availability of appropriate market.
- Technical: Where there is easy availability of technical know-how.

INDUSTRIAL FINANCE INSTITUTIONS IN INDIA

1. **Industrial Development Bank of India**:

Year of Establishment	**1964**
Objective	Provide credit and other facilities to protect the industrial state of our economy.
Current Status	10th largest development bank in the world in terms of number of ATMs, branches, etc.
Other Points	It helped in building the following institutions: a. National Stock Exchange of India (NSE) b. National Securites Depository Services Limited (NSDL) c. Stock Holding Corporation of India Ltd. (SHCIL) d. Export-Import Bank (EXIM) e. Small Industries Development Bank of India (SIDBI)

2. **Small Industries Development Bank of India (SIDBI):**

Year of Establishment	**April 2, 1990**
Objective	Main objective was to help micro, small and medium enterprises in India to grow with easy availability of finance.
Functions	• Provides financial support to the National Small Industries Corporation for the purpose of their purchase, leasing activities. • Refinances existing loans and advances of the small-scale units.

2. Unit Trust of India

Year of Establishment	**1963**
Objective	The main and primary objective of UTI was to encourage the poor and middle income groups to pool their savings. Also UTI aimed to enable these families to share the benefits from industrial development of our economy.
Functions	• Deals in securities like promissory notes, bills of exchange, etc. • Grants loans and advances. • Deal in foreign exchange in terms of buying and selling. • Invest in schemes introduced by Central Government or RBI.

3. Industrial Finance Corporation of India Limited

Year of Establishment	**July 1, 1948**
Objective	The main objective is to provide medium and long term financial assistance to large industries, especially when they do not suit the conditions of finance from the commercial banks.
Functions	• Set up new industrial undertakings • Guarantees foreign currency loans • Performs activities related to subscription and underwriting of shares and debentures. • Helps in modernising the existing concerns by way of finance. Also assists in activities related to expansion and diversification.

INDUSTRIAL POLICIES IN THE ECONOMY

Following are the policies which were formulated for the development of Industrial sector of our economy before the New Industrial Policy of 1991.

1. **Industrial Policy Resolution (1948):**
   - ✓ Reflected socialist ideas
   - ✓ Considered Indian economy to be a mixed economy, consisting of both private and public sectors.
   - ✓ It imposed restriction on the foreign capital.
   - ✓ The industries were divided into four categories:

Category 1

- Industries in direct control of Central government:
- Manufacturing of arms and ammunitions.
- Atomic energy
- Railways

Category 2

- Coal
- Iron and Steel
- Aircraft manufacturing
- Ship building
- manufacturing telephones, telegraphs and wireless apparatus excluding radio
- Mineral oils
- New industries could be taken uo by the states

Category 3

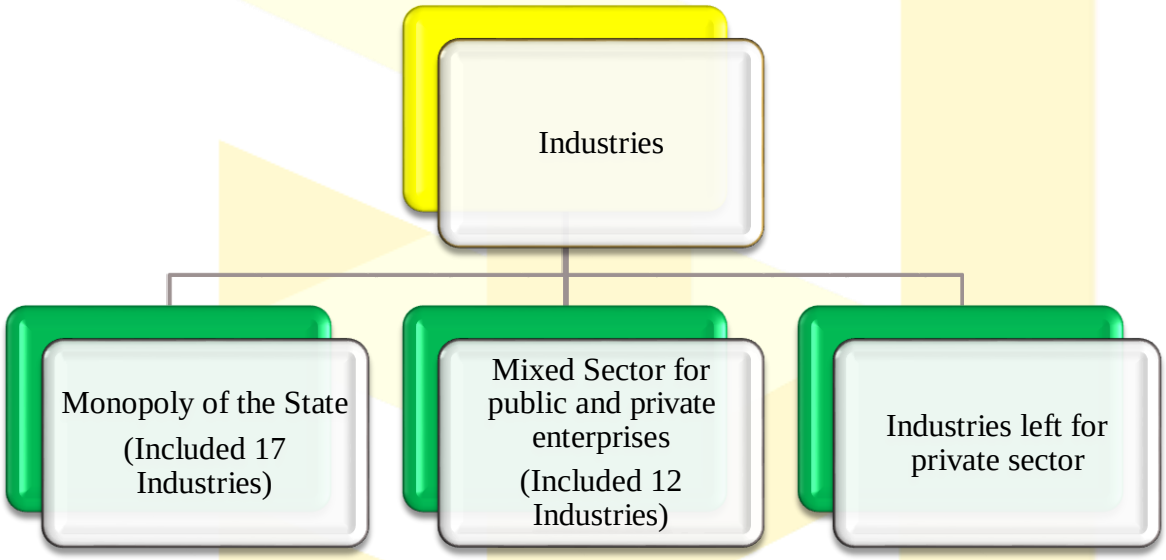
- Salt
- Automobiles
- tractors
- Prime movers
- Electric engineering
- Heavy machinery
- Machine tools
- Heavy chemicals
- Fertilizers
- Electrochemical industries
- Non-ferrous metals
- Rubber
- Power and industrial alcohol
- cotton and woolen textiles
- Cement, sugar, paper and news print, air and sea transport, minerals and industries related to defence.

Remainder of the above list was included in **fourth category**.

2. **Industrial Policy Resolution (1956):**
   Main objectives of the policy were:
   - ✓ Accelerate the growth rate of development of industries in India.
   - ✓ Develop Heavy Industries.
   - ✓ Expand the public sector.
   - ✓ Reduce the income and wealth disparities.
   - ✓ Establish a large co-operative sector.
   - ✓ Prevent monopolies.

   The policy focused on the development of heavy industries in the country.

   The policy classified the industries as follows:



3. **Monopolies and Restrictive Practices Act (1970):**
   - ✓ Aimed to reduce the private economic power.
   - ✓ Restrict business practices which are against the public interest.
   - ✓ Offset monopoly effects.
   - ✓ Strengthened in 1984

4. **Industrial Policy Statement (1973):**
   - ✓ Made licensing stringent.
   - ✓ Helped in establishing Secretariat of Industrial Approval (SAI).
   - ✓ Also introduced the concept of Joint Sector in India.

5. **Industrial Policy Statement (1977):**

- ✓ Emphasized on small-scale and cottage industries.
- ✓ Established District Industries Centres (DICs).

NEW INDUSTRIAL POLICY (1991)

The New Industrial Policy was announced on **July 24, 1991**. It had the following objectives:

1. **De-reserving disinvestment from the public sector industries**: The public sector industries were undergoing huge amounts of losses. As a result, the government de-reserved the industries for public sector to the extent of 8 industries. At present, there are only 3 industries namely, Atomic Energy, Railways and Specified Minerals, which are reserved for public sector. Rest are open to the private sector.
2. **De-licensing**: The economy abolished the stringent licensing measures on all the industries except: Hazardous chemicals, alcohol, cigarettes, industrial explosives, defence products and drugs and pharmaceuticals.
3. **Liberalization of Foreign Investments**: Gates were open for foreign enterprises and individuals to invest in the industrial sector of the economy.
4. **Liberalization of Foreign Technology**: The enterprises were free to use foreign technologies and hire technicians of foreign nationals to help improve the productivity of the industrial units.
5. **Removal of Mandatory Conversion Clause**: The clause by the banks and other financial institutions, to convert loans into equities was abolished.
6. **Abolition of Phased manufacturing programme** in electronic and engineering industries.
7. **Liberalization of Industrial Location**: The government abolished the concept of obtaining approval for setting up of industries in a particular location. However, the polluting industries were required to be located outside the periphery of cities with population more than one million to the extent of 25 kms.

POPULATION STUDIES

Part 2- e

Notes by Economics Harbour

Population is not the study of population but it is meant for the population awareness and population consciousness of the bad effects of population growth and its remedial measures

POPULATION STUDIES

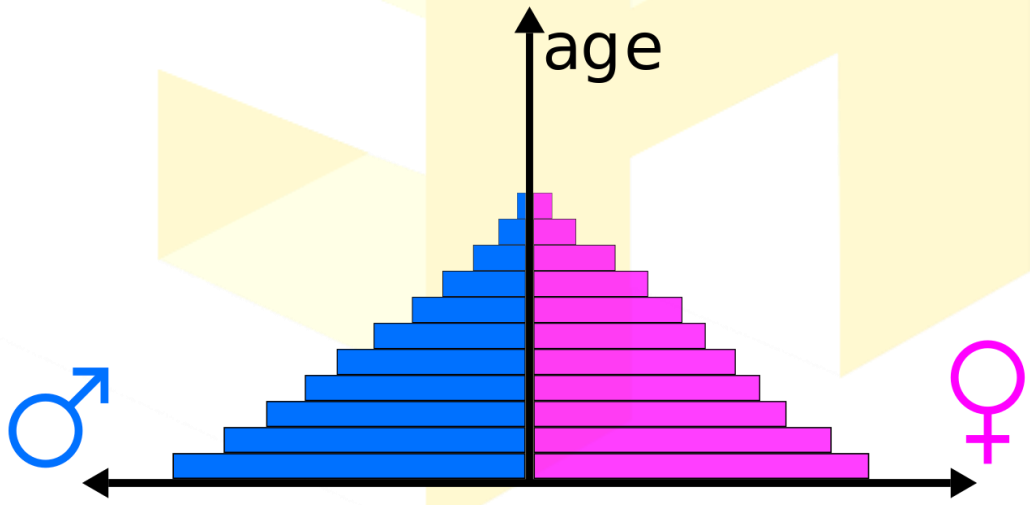
NOTESBYECONOMICSHARBOUR

TERMS YOU SHOULD KNOW

1. **Population Pyramid**: Also known as **age pyramid**. It shows the distribution of various age groups in a population which forms the shape of a pyramid when the population is growing. Population pyramid tells about:
   a. Age and sex distribution
   b. Extent of development
   c. Natural increase in population
   d. Birth rate and death rate
   e. Helps in finding the extent of economic dependence being supported in a particular population.

   Types of pyramid:

   a. **Stable pyramid**: There is no change in the mortality or fertility rates.
   b. **Expansive pyramid**: High birth rate and death rate and the pyramid is wider at the base.
   c. **Constructive pyramid**: Low birth rate and death rate and pyramid is narrow at the base.



2. **Age distribution**: The proportion of individuals in a particular age clan.

3. **Age specific fertility rate**: It measures the annual number of births to women of a specified age or age group per 1000 women. The formula is

$$\frac{\text{No. of live births of a particular age and time}}{\text{No. of years lived by women in that period of time}}$$

4. **Age specific mortality rate**: Mortality rate which is limited to a particular age group.

$$\frac{\text{No. of deaths in an age group}}{\text{No. of people in that age group}}$$

5. **Total Fertility rate**: It means the average number of children that would be born alive to a woman or a group of women during her life time, if she was to pass through a child bearing years confirming to the age specific fertility rate of a given year.

6. **Life Expectancy**: The average number of additional years a person expects to live, if we assume that the current mortality trends persists. It is also known as **life expectancy at birth**.

7. **Maternal Mortality Ratio**: It is the statistic revealing the number of women who die during pregnancy or child birth per 1,00,000 live births.

8. **Crude Birth rate**: Number of live births per 1000 population in a given year.

9. **Crude Death rate**: Number of deaths per 1000 population in a given year.

10. **Natural growth of population**: It is the difference between birth rate and death rate and does not include the effects of migration.

Rate of Natural Increase = Crude Birth Rate – Crude Death Rate

11. **Age dependency ratio**: It is the ratio of persons in the ages defined as dependent (under 15 years and over 64 years) divided by economically productive population.

12. **Balancing equation**: Demographic formula which is used to estimate total population change between two points in time or to estimate any unknown component of population change provided that the other components are known. It consists of birth rate, death rate, immigration rate, emigration rate.

13. **Carrying capacity**: It is the maximum sustainable size of a resident population in a given eco system.

14. **Closed population**: It is a population with no migratory flows, either in or out, so that changes in population size occur only through births and deaths.

15. **Cohort**: It is the group of people that are sharing a common temporal demographic experience observed through time.

16. **De-population**: It implies the decline in population.

17. **Doubling time**: The number of years required for a population of an area to double its present size, given the current rate of population growth. Under this, we consider no change in fertility rates/age specific fertility rates.

18. **Emigration**: It is the process of leaving one country to take up a permanent or semi-permanent residence in another. It measures the number of people leaving an area of origin per 1000 population in that area of origin in a given year.

19. **Immigration**: It is the process of entering one country from another to take up a permanent or semi-permanent residents. It measures the number of immigrants arriving at the destination per 1000 population at that destination in a given year.

20. **Gross Reproduction Rate**: It is the average number of daughters that would be born alive to a woman or group of women during her life time if she passed her child bearing years confirming to the age specific fertility rate.

21. **Net Reproduction Rate**: It is the average number of daughters that would be born alive to a woman or group of women during her life time if she passed her child bearing years confirming to the age specific fertility rate. However, in this case we also take into account that some women will die before completing their child bearing years.

22. **Infant Mortality Rate**: Number of deaths of infants under age 1 per 1000 live births in a given year.

23. **Replacement level fertility**: The level of fertility at which a couple has only enough children to replace themselves. In simple words, it implies two children per couple. It is the average number of births per woman which will lead to zero population growth. If a country's average fertility is less than the replacement level, it implies that the population will decline.

24. **Population Momentum**: Beyond the time that replacement level fertility has been achieved because of relatively high level of concentration in child bearing years.

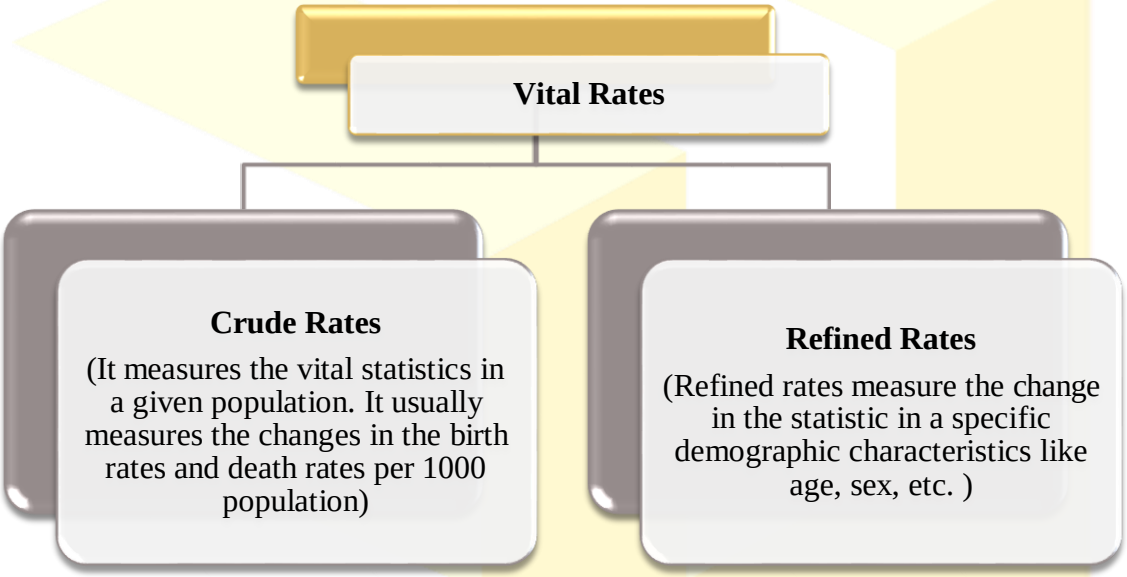
25. **Demographic Momentum**: It is the continued growth in absolute numbers due to the age structure consisting of young population, even though there is a reduction in the population growth rate.

26. **Demographic Transition**: Demographic transition is a shift from high birth and death rates to low birth and death rates.

27. **Demography**: The study of sizes, compositions, densities, growth rate of human population is known as demography. Demography also includes the causes and consequences of the change in the above mentioned factors.

28. **Census**: The collection of the information related to demography, its social and economic information at a particular time, is known as census.

29. **Vital Rates**: Vital rates reflects the frequency with which the statistics of a population change per 1000 individuals.



30. **Life Table**: A life table is also known as **mortality table or actuarial table**. It shows that for each age what is the probability that a person of that age will die before his or her next birthday.

31. **Stable Population**: It implies that the fertility and mortality rate is constant. It shows that age distribution will not vary and the population will grow at a constant rate.

32. **Stationary Population:** It is the kind of stable population in which the birth rate is equal to the death rate.

MALTHUSIAN THEORY OF POPULATION

The theory was mentioned in the Malthus' work namely, "An essay on the principles of population" in 1798.

He compared the growth of population with growth rate of food. He said that the population increases in geometric progression while food supply increases in arithmetic progression. As a result, the growth rate of population would become greater than growth rate of food supply leading to starvation. Mathus' theory contributed majorly towards the agriculture sector.

He suggested **two kinds of check on population growth**:

1. **Preventive checks** which are **voluntary** in nature. For example, controlling the birth rate, use of different methods to control both are some of the preventive checks.

2. **Positive checks** like diseases, famines, wars. These are **not voluntary** in nature.

Criticism

- Malthus considered only food supply and population growth in his theory. These two factors are not sufficient to prove an idea.
- He ignored important factors like change in technology, which makes his theory unrealistic in this era of development

STAGES OF DEMOGRAPHIC TRANSITION

★ *The theory was given by **C.P. Blacker in 1947**.*

The theory is based on the interpretation of demographic history by Warren Thompson in 1929. He stated the movement from a high birth rate and death rate to a low birth rate and death rate in the following five stages:

Stage 1: Pre Industrial Stage

- Under this, the economy experiences both high birth rate and death rate due to natural events like drought and disease. The concepts like family planning and using contraception didn't exist at that time.

Stage 2: Phase of Industrial Revolution

- The stage is marked by population explosion. New techniques in health and improved food supply decreases the death rate considerably but high birth rate continues to prevail. As a result, the population becomes greater than the food supply and hence the food insecurity.

Stage 3: Post Industrial Revolution

- The stage is marked by Demographic dividend (majority of the population is young). Between the decline in youth dependency and rise in old age dependency, there is a demographic window of opportunity which is known as demographic dividend. In this stage, the birth rate falls due to increased use of birth control techniques like contraception, etc. Moreover, there is increased investment in education and a reduction in the subsistence agriculture

Stage 4: Decline in Birth rate and death rate

- Under this stage, the birth rate will fall and they might fall lower than the death rate and thereby leading to a shrinking population. The birth rates may fall below the replacement level like in the case of Japan, Italy; which leads to fall in population levels. Moreover, it also creates an economic burden on the working population, due to large composition of aged population in the total population levels.

Stage 5: Shrinking population

- The original theory of "Stages of Demographic Transition" consists of only four stages. The fifth stage was added by some theorists and included the concept of sub-replacement fertility in it. The stage features that there is higher death rate as compared to birth rate. This implies, that the total population is shrinking. Most European countries have started facing this stage like Germany.

Summarizing the model

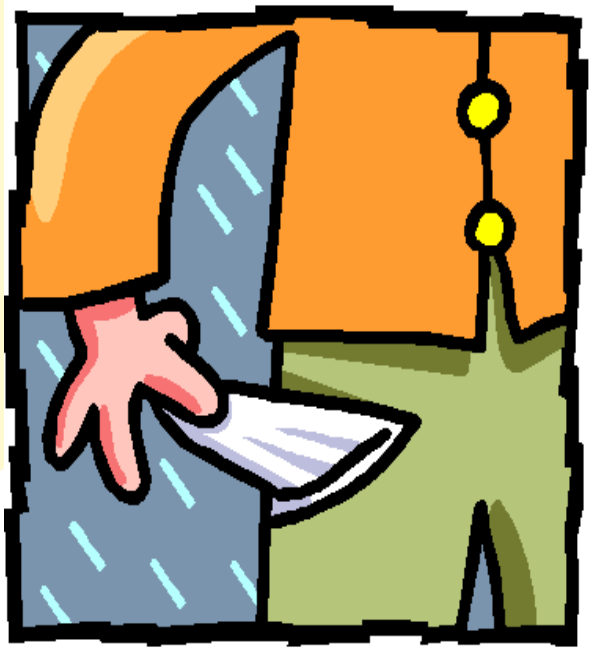
Stage	1 High Stationary	2 Early Expanding	3 Late Expanding	4 Low Stationary	5 Declining
Examples	Some remote areas	India, Kenya, Egypt	Brazil	UK, USA, France, Japan	Germany
Birth Rate	High	High	Declining	Low	Very Low
Death Rate	High	Declines steeply	Declines but at a slower rate as compared to 2	Low	Low
Natural Increase	Stable or Slow Increase	Increases rapidly	Increases but at a slower rate	Stable	Decreases but slowly
Reasons for change in birth rate	1. Death at a young age. 2. Religious encouragement. 3. Not aware of family planning techniques. 4. Children helpful in farming.		Improved medical facilities and food supply.	1. Late marriages. 2. Education 3. Improved health 4. Use of family planning techniques. 5. Improved status of women.	
Reasons for change in death rate	Natural events like diseases, famine, poor health	1. Improved medical facilities. 2. Improved health standards.		1. Improved medical facilities. 2. Improved quality of food supply.	

POVERTY IN INDIA

Various committees formed are as follows:

Committee	Year	Measure/Objective
Dandakar Committee	1971	A person is considered to be poor if his daily consumption is less than 2250 calories a day for both rural and urban areas.
Alagh Committee	1979	A person is considered to be poor if he consumes: 2400 calories a day (Rural) 2100 calories a day (Urban)
Lakhadawala Committee	1993	The committee provided state specific poverty estimates. It used Consumer price index for Industrial workers as a measure of poverty.
Tendulkar Committee	2009	The families were considered to be BPL on the basis of their consumption expenditure. The committee adopted the cost of living index as a measure for poverty.
Rangarajan Committee	2012	The committee reviewed the process and methodology for the measurement of poverty. They had to submit their report by mid-2014.

- **Planning Commission uses Monthly Per Capita Expenditure (MPCE)** as a measure of poverty in India. In 2011-12, the line of divide between BPL and APL was Rupees **816 per month in rural areas and Rupees 1000 per month in urban areas**.
- According to the latest estimates of **July, 2013**, **the poverty line is Rupees 27 per day in rural areas and Rupees 30 per day in urban areas**.
- International Food Policy Research Institute developed a new index namely **Global Hunger Index (GHI)** which measured the level of malnourishment. The **determinants** of GHI are:
  1. Proportion of Under-nourished in total population
  2. Child under-weight (upto the age of 5 years)
  3. Child Mortality rate



GHI < 5	Low Hunger
5 < GHI < 9.9	Moderate Hunger
10.0 < GHI < 19.9	Serious Hunger
20.0 < GHI < 29.9	Alarming Hunger
30 < GHI	Extremely Alarming Hunger

It scales from zero to 100, with zero considered to be the best and 100 to be the worst.

India moved to 63rd rank from 65th in 2013 and the score was 21.3. Latest estimates reveal that India moved up to 55th rank in 2014 with the score 17.8.

- **Human Poverty Index**: It was introduced as a part of Human Development Report bu UNDP in **1997**. It was prepared in two forms:
  1. **HPI 1**: The determinants were Longevity, Knowledge and decent standard of living.
  2. **HPI 2**: It was especially for Industrial nations. The index includes another determinant, that is, social exclusion.

- **Multi-Dimensional Poverty Index:** It **replaced HPI index in 2010**. It was developed by **Oxford Poverty and Human Development Initiative (OPHI).** The indicators are as follows:
  1. **Education (1/6th of each indicator)**
     a. Years of schooling
     b. Child enrolment.

  2. **Health (1/6th of each indicator)**
     a. Child Mortality
     b. Nutrition

  3. **Standard of living (1/18th of each indicator)**
     a. Electricity
     b. Drinking Water
     c. Sanitation
     d. Flooring
     e. Cooking Fuel
     f. Assets

  Under the index, 104 countries are covered. **India's multi-dimensional index value was 0.283 in 2005-06 and 53.7 percent of the population** was living under multi-dimensional poverty.

Population Policy, 2000

Basic Objective:

1. Fertility rate to be brought down to maternal fertility rate.
2. Stabilise the population growth by 2045.

ENVIRONMENT ECONOMICS

Part 2-(f)

Notes by Economics Harbour

Environmental economics is a distinct branch of economics that acknowledges the value of both the environment and economic activity and makes choices based on those values

Environment Economics

NOTESBYECONOMICSHARBOUR

MAJOR CONFERENCES ON ENVIRONMENT

Event	Year	Objective
Stockholm Conference	1972	Conference on human environment for creating formal international awareness regarding the need for maintaining the quality of the environment.
Our Common Future	1987	Concept of sustainable development introduced in Brundtland Report.
Global Environment Fund	1992	
Convention on Biological Diversity	1992	
Living Planet Index Report	2002	Indicator of the state of the world's natural eco-systems.

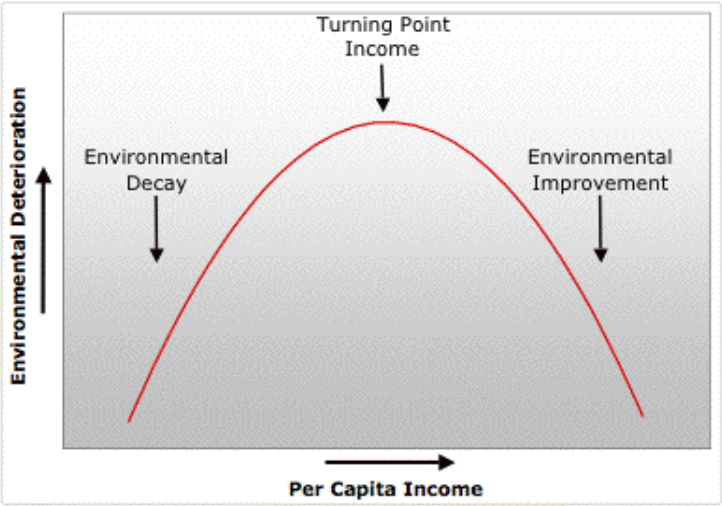
ENVIRONMENTAL LAWS IN INDIA

Act	Year	Basic Objectives
Wildlife Protection Act	1972	• Wildlife includes bees, butterflies, animals, fish and moths, crustacean and aquatic or land vegetation. In other words, everything that forms a part of the habitat is included in the term Wildlife. • The basic objective of this act was the measures to protect the wildlife in the form of forming national parks or sanctuaries, etc.
Water (Prevention & Control) Act	1974	• The basic objective was to prevent and control the level of water pollution. • Besides this, it had the responsibility of maintenance and restoration of the water quality.

Air (Prevention and Control of Pollution) Act	1981	• The basic objective is to prevent, control and abate the levels of air pollution, caused by various establishments. • The decision to formulate the act was taken at United Nations Conference on Human Environment held in Stockholm, June 1972.
		•
Environment (Protection) Act	1986	• Provides a framework for the protection and improvement of environment. • Under this act, new/expanding projects need to obtain environmental clearances which are addressed under "Environmental Impact Assessment Notification, 1994". • SJVNL takes up Environmental Impact Assessment for all projects as a mandatory standard management procedure. • SJVNL also reviews projects taking into consideration the air quality standards and noise levels, as decided by the national laws.
Ozone Depleting Substances (Regulation and Control) Rules	2000	• The rules put a restriction on manufacturing, export-import commodities. • The organisations, according to the rules, should aim at becoming the CFC free organisation in near future.
Wildlife Protection (Amendment) Act	2002	• According to this act, "no alteration of boundaries/national park/ sanctuary shall me made by the State Government except on recommendation of the National Board for Wildlife (NBWL)". • State Governments have to take the permission from the Supreme Court before submitting the proposal for any kind of diversion in the forest land in National Park Sanctuaries.
The Biological Diversity Act	2002	• Enacted by Ministry of Environment and Forests under the United Nations Convention on Biological Diversity at Rio de Janeiro in June, 1992. • The basic objective under the act was "to provide for the conversation of biological diversity, sustainable use of its components, and fair and equitable sharing of the benefits arising out of the sued of biological resources, knowledge and for matters connected therewith or incidental thereto." • Under this act, the areas which are rich in biodiversity are made biosphere reserve for conservation purposes. • The provisions under this act are applicable to National Parks and Sanctuaries as well.
Hazardous Wastes (Management and Handling) Amendment Rules	2003	• The basic objective is the proper handling and disposal of used mineral oils considered to be hazardous wastes. • For the disposal of hazardous waste, every organisation needs to take permission from the State Pollution Control Boards (SPCB) when required.

ENVIRONMENTAL KUZNETS CURVE

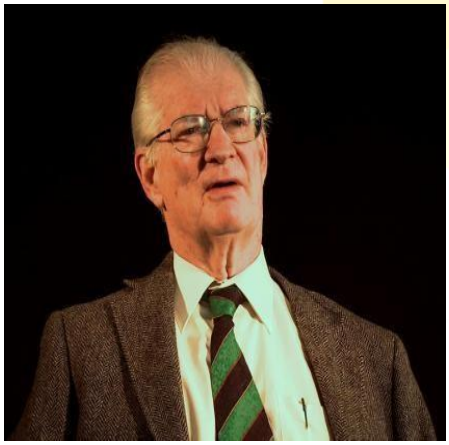
It shows the relationship between environment degradation and per capita income.



WEAK AND STRONG SUSTAINABILITY

Weak Sustainability: Substitute man-made and natural capital. Depletion of stock of natural capital could be made good by investment in man-made capital.

Strong Sustainability: Natural and man-made capital are complementary to each other. They cannot be substituted, either in production or consumption.



To maintain strong substitutability, **Herman Daly** gave three concepts:
1. Renewable resources must be harvested at or below the growth rate for some pre-determined stock of resources.
2. As non-renewable resources are depleted, renewable substitutes must be developed so as to maintain the flow of goods and services overtime.
3. Pollution emissions should be limited to the assimilative capacity of the environment.

TERMS TO KNOW

EXTERNALITIES

By externalities we mean the spillover effect of action by one person on another.

Property Rights
For valuation of environment goods for which there are no markets, two techniques are used:

1. Willingness to pay
2. Willingness to accept

If there won't be any property rights, then there would not be any control on environment degradation.

SOCIAL BENEFIT

Social benefit is a kind of a positive externality
Total Benefit = Private benefit + Social Benefit
Similarly, we have social costs which too can be either private or social in nature.

THE TRAGEDY OF THE COMMONS

The theory was given by Hardin and is related to the use of resources.
This thesis explains that unregulated access to a common property resource creates a decision making environment in which incremental benefits to an individual exceed the incremental private cost associated with the resource.

PIGOUVIAN TAX/SUBSIDY APPROACH

The objective of the tax was to internalise the externality, that is, negative externality should be internalised. Pigou's solution is that the producer must compensate the parties who are affected by negative externalities or to be taxed to the extent that marginal private cost becomes equal to marginal social cost. On the other hand, the positive externalities should be compensated by giving subsidy.

COASIAN PROPERTY RIGHTS

According to this theorem, economic efficiency will be achieved as long as property rights are fully allocated and completely free trade of property rights is possible.

Assumptions of the theory are:

1. People do not behave strategically
2. Transaction costs are zero.
3. Information is perfect.

TRAVEL COST METHOD

It measures the amount of money that people are ready to spend and opportunity cost of time are taken as a proxy for the willingness to pay for the visit.

HEDONIC PRICING METHOD

It is a method for estimating the implicit prices of the attributes that differentiates closely related products in a product category.

HOTELLING RULE

The concept was given by Harold Hotelling in 1931. His paper was based on non-renewable resource economics. He suggested that arbitrage will remove any deviation in future prices.

CONTINGENT VALUATION METHOD

It is also known as survey method. Under this, we ask people about what value they place on a particular change in environment.

INDIAN ECONOMY (PART I)

Part 2- g

Notes by Economics Harbour

Indian Economy (Part I)

NOTESBYECONOMICSHARBOUR

POPULAR SCHEMES

Scheme	Year	Key Features
Integrated Rural Development Programme (IRDP)	October, 1980	1. Main objective was to make poor families in rural areas economically independent was the main objective. 2. Does not exist now. It was merged with Swarn Jayanti Gram Swarozgar Yojana (SJGSY).
Training to Rural Youth for Self Employment (TRYSEM)	August 15, 1979	1. Objective was to impart technical and business expertise to rural youth from BPL families (age group 18-35 years). 2. Integrated part of IRDP 3. It was merged SJGSY
Development of women and children in rural areas (DWCRA)	September, 1982	1. Objective was to provide self-employment to rural women living below BPL. 2. Sub-plan of IRDP. 3. Assistance of Rupees 25000 was given to every group constituting 10-15 women. 4. Merged with SJGSY.
Supply of Imported Tool kits to Rural Artisans (SITRA)	July, 1992	1. Objective was to supply modern tools to rural artisans for improving their productivity and quality of their products; hence increasing income. 2. Rural artisans (except weavers, tailors, embroiders and tobacco workers) who lived BPL were included in the scheme. 3. It was a part of IRDP. 4. Merged with SJGSY
Million Wells Scheme (MWS)	1988-89	1. Objective was to provide open irrigation wells to poor belonging to SC/ST, marginal and small farmers, freed bonded labour; free of cost. 2. It was started as a sub-plan of NREP/RLEGP.

		3. 1995-96: given independent status 4. Merged with SJGSY in 1999
Ganga Kalyan Yojana (GKY)	February 1, 1997	1. Objective was to assist farmers to take up minor irrigation schemes, by providing them subsidy, loans, etc. 2. Small and marginal farmers living BPL were included in the scheme.
Swarn Jayanti Gram Swarozgar Yojana (SJGSY	April 1, 1999	1. SJGSY = IRDP + TRYSEM+ DWCRA + SITRA + GKY + MWS 2. Objective was to set up large number of micro-enterprises to encourage self-employment amongst rural poor.
Bharat Nirman Yojana	December 16, 2005	1. Main objective was to develop rural infrastructure and provide basic amenities to the rural areas. 2. Main sectors of improvement are: a. **Irrigation**: ensure it b. **Roads**: provide it c. **Housing**: construct it d. **Water supply**: drinking water e. **Electrification**: connect it f. **Rural communication**: telephone connections
Employment Assurance Scheme (EAS)	October 2, 1993	1. The main objective was to provide profitable employment of not less than 100 days to every villager between 18-60 years. 2. Secondary objective was to create economic infrastructure and community projects to help create employment and development. 3. It was a demand driven programme. 4. Merged with Jawahar Rozgar Yojana (JRY) in 1996.
National Rural Employment Programme (NREP)	October 2, 1980	1. The objectives were as follows: a. Generate additional gainful employment. b. Create durable community assets. c. Raise national standards of poor. 2. The programme is merged with JRY in 7th five year plan.
Rural Landless Employment Guarantee Programme (RLEGP)	August 16, 1983	1. Main objective was to provide employment to atleast one family member from each landless household for 100 days in a year. 2. Other objectives were: a. Construct productive projects b. Improve rural lives. 3. It was merged with JRY.
Jawahar Rozgar Yojana (JRY)	1989-90	1. Main objective was to provide gainful employment to people below BPL in rural areas by creating community assets. 2. It was replaced by Jawahar Gram Samridhi Yojana (JGSY) on April 1, 1999. 3. JGSY was later merged with Sampoorna Gram Rozgar Yojana (SGRY) in 2001.

Jawahar Gram Samridhi Yojana (JGSY)	April 1, 1999	1. Main objective was to develop rural infrastructure which would increase employment opportunities. 2. It was merged with SGRY in 2001.
Sampoorna Gramin Rozgar Yojana (SGRY)	September 25, 2001	1. SGRY = EAS + JGSY 2. Main objective was to provide additional wage employment in rural areas. Also it aimed to provide food security and creating durable community assets to improve the infrastructure. 3. The focus of the scheme was on SC/ST women, BPL families and even APL families.
National Rural Employment Guarantee Scheme (NREGS)	February 2, 2006	1. Formed under National Rural Employment Guarantee Act, 2005. 2. Main objective was to provide employment to unskilled workers employment for 150 days in a year at the wage rate of Rupees 120 per day. 3. It was named Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) on October 2, 2009. 4. NREGA was launched from Anantpur (Andhra Pradesh).
Twenty Point Programme	1975	1. Started under the slogan of 'Garibi Hatao'. 2. Reconstituted twice in 1982 and 1986. In operation since April 1, 1987. 3. The twenty points are: a. Attack on rural poverty b. Strategy for agriculture dependence on rains c. Best utilisation of irrigation water d. Bigger harvests e. Enforcement of land reforms. f. Special programmes for rural labour. g. Clean drinking water h. Health for all i. Two child norm j. Expansion of education k. Justice for SCs and STs l. Equality for women m. New opportunities for the youth n. Residential houses for people o. Improvement for the urban schemes. p. New strategy for forestry q. Protection of environment r. Concern for the consumer s. Energy for the villages t. Responsible administration

Pradhan Mantri Gramodaya Yojana (PMGY)	2000	1. Main objective was to establish sustainable human development in the village areas. 2. Focussed on creating social and economic infrastructure.
Prime Minister's Rozgar Yojana (PMRY)	October 2, 1993	1. It was in operation in urban areas only. 2. The basic objective was to create 10 lakh employment opportunities. 3. It was merged with Prime Minister's employment generation Programme (PMEGP) from August 15, 2008.
Prime Minister's Employment Generation Programme (PMEGP)	August 14, 2008	1. PMEGP = PMRY + REGP 2. Main objective was to create 37 lakh jobs trough the new credit linked subsidy scheme.
Pradhan Mantri Gram Sadak Yojana	December 25, 2000	1. Main objective was to provide connectivity to all unconnected habitations in rural areas with population more than 500. 2. In case of hills, desert and tribal areas, the same objective was applicable to areas with population more than 250.
National Food for Work Programme	November 14, 2004	1. The main objective was to provide additional resources apart from those available under SGRY for 150 most backward districts. 2. It was merged with NREGS on February 2, 2006
Drought Prone Area Programme (DPAP)	1973-74	1. Main objective was to re-establish the environmental balance in drought prone areas.
Antyodaya Anna Yojana (AAY)	December 2000	1. Main objective was to make public distribution system more effective by targeting the poor sections of the population.
National Food Security Mission	2007	1. Covers the following components: a. Seeds of improved variety b. Soil ameliorants c. Plant nutrients d. Farm machines/implements e. Plant protection measures.
National Rural Health Mission	2005	1. The main objective was to provide the good quality health services and affordable too to rural areas. 2. The main innovations under the programme were: a. Creation of Accredited Social Health Activities (ASHA). b. Creation of Janani Suraksha Yojana
Rashtriya Krishi Vikas Yojana	2007	1. Main objective was to provide incentive to the states to increase their investment levels in the agricultural areas.

Indira Awas Yojana	1985-86	1. It was a flagship programme for rural housing. 2. It was merged with RLEGP and is one of the six components of Bharat Nirman Yojana
Jawahar Lal Nehru National Urban Renewal Mission (JNNURM)	December 3, 2005	1. Components of the scheme: a. Urban Infrastructure development of small and medium towns. b. Integrated housing and Slum Development programme c. Urban infrastructure and governance d. Basic services to the urban poor
The Unorganised Workers' Social Security Act	2008	1. Provide the social security measures to the unorganised workers, including home based workers, self-employed workers or daily-wage workers. 2. The formulated schemes may cover matters like life and disability cover, health and maternity benefits, old age protection and any other benefit as determined suitable by the Central Government. Besides the Central Government, the respective state governments may formulate schemes covering the subjects like provident fund, employment injury benefit, and housing, educational schemes for children, skill up gradation of workers, funeral assistance and old age homes

INTERNATIONAL ORGANISATIONS

1. **International Monetary Fund (IMF)**

Year of Formation	**1945**
Objective	Promote co-operative and state global monetary framework. Provide short term loans to correct temporary balance of payment disequilibrium.
Chairman	Christine Lagarde
Headquarters	Washington D.C.

2. World Bank

Year of formation	**1945**
President	Jim Yong Kim
Members	188
Objective	Provide long term loans for the economic development.
Headquarters	Washington D.C.
Components	1. IBRD 2. IDA 3. IFC 4. MIGA

3. International Bank for Reconstruction and Development (IBRD)

Year of formation	**July 1944, came into existence in 1945**
Objective	Reduce poverty in middle and creditworthy poorer countries with the help of promotion of sustainable development through loans, guarantees, risk management products and analytical and advisory services.
Members	188
President	Jim Yong Kim
Headquarters	Washington D.C.

4. International Development Association (IDA)

Year of formation	**September 24, 1960**
Also known as	Soft Loan Window
Objective	Provide long term loan to member countries with no rate of interest.
Headquarter	Washington D.C.

5. International Finance Corporation (IFC)

Year of formation	**July 1956**
Objective	Provide loan to private industries of the developing nations without any government guarantee. It also aims to promote the additional capital investment.
Headquarters	Washington D.C.
Members	184

6. Multilateral Investment Guarantee Agency (MIGA)

Year of formation	**1988**
Objective	Encourage confident investment in developing countries.
Headquarters	Washington D.C.

7. International Centre for Settlement of Investment Disputes (ICSID)

Year of formation	**1966**
Objective	Facilitate arbitration and conciliation of legal disputes between international investors.
Headquarters	Washington D.C.

8. General Agreement on Tariff and Trade (GATT)

Year of formation	**October 30, 1947. Came into force on January 1, 1948**
Member	23 countries
Headquarters	Geneva
Objective	Provide equal opportunities to all countries in international market, minimise tariffs, provide solutions to disputes.

Current status	Was abolished on December 12, 1995 and replaced by WTO

GATT Rounds

Term	Year	Place
I	1947	Geneva (Switzerland)
II	1949	Annecy (France)
III	1950-51	Torquay (England)
IV	1956	Geneva
V	1960-61	Geneva (Dhillon Round)
VI	1964-67	Geneva (Kennedy Round)
VII	1973-79	Geneva (Tokyo Round)
VIII	1986-93	Geneva (Uruguay Round)

Dunkel proposel was compiled in December, 1991.

9. World Trade Organisation (WTO)

Year of formation	**January 1, 1995**
Headquarters	Geneva, Switzerland
Members	159
WTO Chief	Roberto Azevedo
Committees	1. Dispute Settlement Body 2. Trade Policy Review Body

WTO Rounds

Term	Year	Host City
I	1996	Singapore
II	1998	Geneva, Singapore

III	1999	Seattle, U.S.
IV	2001	Doha, Qatar
V	2003	Cancun (Mexico)
VI	2005	Hong Kong
VII	2009	Geneva (Switzerland)
VIII	2011	Geneva
IX	2013	Bali, Indonesia

10. United Nations Conference on Trade and Development (UNCTAD)

Year of formation	**1964**
Objective	World wide international trade policy
Headquarters	Geneva, Switzerland
Chairman	Allec Irwin

UNCTAD Rounds

Term	**Year**	**Host City**
I	1964	Cario
II	1968	New Delhi
III	1972	Santiage (Chile)
IV	1976	Nairobi (Africa)
V	1979	Manila (Phillippines)
VI	1983	Belgrade (Yugoslavia)
VII	1987	Geneva (Switzerland)
VIII	1992	Cartegina De Indias (Columbia)
IX	1996	Midrand (Africa)

X	2000	Bangkok (Thailand)
XI	2004	Sao Panio (Brazil)
XII	2008	Accra (Ghana)
XIII	2012	Doha (Qatar)

11. South Asian Association for Regional Co-operation (SAARC)

Year of formation	**1985**
Objective	Promote co-operation among Central Banks and Finance Ministers of SAARC members. Also it aims to work for a more efficient payment system mechanism within the SAARC region.
Members	India, Maldives, Pakistan, Bangladesh, Sri Lanka, Bhutan, Nepal and Afghanistan (Recently added)
Headquarters	Kathmandu

SAARC Rounds

Term	Year	Place
I	1985	Dhaka (Bangladesh)
II	1986	Bangalore (India)
III	1987	Kathmandu (Nepal)
IV	1988	Islamabad (Pakistan)
V	1989	Maldives (Mali)
VI	1991	Colombo (Sri Lanka)
VII	1993	Dhaka (Bangladesh)
VIII	1995	New Delhi (India)
IX	1997	Maldives (Mali)

X	1998	Colombo (Sri Lanka)
XI	2002	Kathmandu (Nepal)
XII	2004	Islamabad (Pakistan)
XIII	2005	Dhaka (Bangladesh)
XIV	2007	New Delhi (India)
XV	2008	Colombo (Sri Lanka)
XVI	2010	Thimpu (Bhutan)
XVII	2011	Adu city (Maldives)
XVIII	2014 (Proposed)	Nepal (Kathmandu)

12. South Asian Free Trade Area (SAFTA)

Year of formation	**January 1, 2006**
Objective	Main objective is to promote competition within the members of SAFTA and also to allocate equal benefits to all its members, irrespective of the size of the economy.
Members	India, Pakistan, Bangladesh, Bhutan, Maldives, Nepal, Sri Lanka

13. Association of South East Asian Nations (ASEAN)

Year of formation	**August 18, 1967**
Members	Indonesia, Philippines, Malaysia, Thailand, Singapore, Brundi, Vietnam, Laos, Cambodia, Myanmar (Burma)
Objective	Promote economic co-operation in South East Asia and ensure economic stability.
Other	India has been given an advisory status.

ASEAN Meets

Term	Year	Place
I	1976	Indonesia (Bali)
II	1977	Kualalumpur (Malaysia)
III	1987	Manila (Philippines)
IV	1992	Singapore
V	1995	Bangkok
VI	1998	Vietnam (Hanoi)
VII	2001	Brunei
VIII	2002	Phnom Penh (Cambodia)
IX	2003	Indonesia (Bali)
X	2004	Laos (Vietnam)
XI	2005	Kuala-lampur (Malaysia)
XII	2007	Philippines (Cebu)
XIII	2007	Singapore
XIV	2009	Cha-am (Thailand)
XV	2009	Cha-am, Huahin (Thailand)
XVI	2010	Hanoi (Vietnam)
XVII	2010	Hanoi (Vietnam)
XVIII	2011	Jakarta (Indonesia)
XIX	2011	Bali (Indonesia)
XX	2012	Phnom-Penh (Cambodia)
XXI	2012	Phnom-Penh (Cambodia)
XXII	April 2013	Brunei (Darussalam)
XXIII	October 2013	Brunei (Darussalam)

XXIV	2014	Myanmar

14. Organisation of Petroleum Exporting Countries (OPEC)

Year of formation	**1960**
Founding members	Iraq, Kuwait, Iran, Saudi Arabia, Venezuela
Headquarters	Vienna (Austria)
Current Members	12 Qatar, Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, UAE, Venezuela
Objective	Control the production and price of pertroleum

15. G-8 (Formerly it was G-7)

Year of formation	**1975**
Members	USA, Canada, Germany, Britain, France, Italy, Japan, Russia (became a part of it on June 21, 1997)
Feature	It is a group of highly industrialised countries in the world.

16. G-20

Year of formation	**1999**
Features	Significantly important industrialised and developing economies
Members	European Union, Brazil, Russia, India, China, South Africa, Argentina, Australia, Canada, France, Germany, Indonesia, Italy, Japan, Mexico, Saudi Arabia, Turkey, UK, USA, South Korea

Summits held under G-20

Term	Year	Place
I	November 15, 2008	Washington D.C.
II	April 2, 2009	London UK
III	September 24-25, 2009	Pittsburg, USA
IV	June 26-27, 2010	Toronto, Canada
V	November 11-12, 2010	Seoul, South Korea
VI	November 3-4, 2011	Cannes, France
VII	June 18-19, 2012	Los Cabos, Mexico
VIII	September 5-6, 2013	Constantine Palace, St. Petersburg (Russia)
IX	2014 (Proposed)	Brisbane (Australia)
X	2015 (Proposed)	Turkey

17. G-77

Year of formation	**1964**
Members	132 (belonging to 3rd world
Objective	Protect the economic interest of the member countries
Other	77 founding members. India is a member of G-77

18. G-15

Year of formation	**1989**
Secretariat	Geneva

Feature	Focus is on the co-operation amongst the developing economies of the world in areas like Investment, trade, technology, etc.
Members	Mexico, Jamaica, Columbia, Venezuela, Peru, Brazil, Chile, Argentina, Senegal, Algeria, Nigeria, Zimbabwe, Egypt, Malaysia, India, Indonesia, Kenya, Sri Lanka

Summits held:

Term	Year	Place
I	1990	Kuala Lumpur (Malaysia)
II	1991	Caracas (Venezuela)
III	1992	Dakar (Senegal)
IV	1994	New Delhi (India)
V	1995	Buenos Aires (Argentina)
VI	1996	Harare (Zimbabwe)
VII	1997	Kuala Lumpur (Malaysia)
VIII	1998	Cairo (Egypt)
IX	1999	Jamaica
X	2000	Cairo (Egypt)
XI	2001	Jakarta (Indonesia)
XII	2004	Caracus (Venezuela)
XIII	2006	Hawana (Cuba)
XIV	2010	Tehran (Iran)
XV	2012	Sri Lanka

19. G-24

Year of formation	**1971**
Members	Algeria, Cote'd'Ivoire, Egypt, Ethopia, Galron, Ghana, Nigeria, South Africa, Democratic Republic of Congo, Argentina, Brazil, Colombia, Guetamala, Mexico, Peru, Trinibad, Tobago, Venezuela, India, Iran, Lebanon, Pakistan, Philippines, Sri Lanka and Syria.
Also known as	Inter-governmental group of Twenty four

20. BRICS

Year of Formation	**2006** **Renamed as BRICS in 2010**
Features	Members are the newly industrialised countries which have a large fast growing economy.
Members	Brazil, Russia, India, China, South Africa (Added in 2010)

BRICS Meet

Term	Year	Place
I	2009	Russia (Yekaterinburg)
II	2010	Brazil (Brasilia)
III	2011	China (Sanya)
IV	2012	India (New Delhi)
V	2013	South Africa (Durban)
VI	2014	Brazil

21. Organisation for Economic Co-operation and Development (OECD)

Year of formation	**1948** **Renamed as OECD in 1961**
Members	34
Headquarters	Paris (France)
Objective	Promote welfare activities among member countries.

22. European Union (EU)

Year of formation	**1993**
Members	28
Initiation taken by	France, Belgium, Netherlands, Luxemburg, West Germany and Italy constituted European Economic Community (EEC)

CENSUS 2011

Main Highlights

- First Census in India: 1872
- Slowest growth rate of population: 1911-21
- India accounts for 17.5 percent of the world population, next to China (19.5 percent)

Data of Census 2011

Total Population	**Total**	**1210193422**
	Males	51.53%
	Females	48.47%
	Rural Population	68.8%
	Urban Population	31.2%
Population Growth Rate	1991-2001	21.65%
	2001-2011	17.64%
	Female (2001-2011)	18.12%
	Male	17.19%

Population Density	2001	325
	2011	382
Sex Ratio	2001	933 females per 1000 males
	2011	940 females per 1000 males
Child Sex Ratio	2001	927 female children
	2011	914 female children
Literacy Rate	2001	64.83%
	2011	74.04%
Male Literacy Rate	2001	75.26%
	2011	82.14%
Female Literacy Rate	2001	53.67%
	2011	65.46%

State Rankings

State with Highest Population	**UP (19.9 crore)** **Maharashtra (11.23 crore)** **Bihar (10.38 crore)** **West Bengal (9.1 crore)**
State with lowest population	Sikkim (6.06 lakh)
UT with lowest population	Lakshadweep (64429) Daman & Diu (242911)

Maximum Density	Delhi (11297) Chandigarh (9252)
Minimum Density	Arunachal Pradesh (17) Andaman & Nicobar Islands (46)
Highest Sex Ratio	Kerala (1084 females) Pondicherry (1034 females)
Lowest Sex Ratio	Daman & Diu (615 females) Dadra & Nagar Haveli (775 females)
Highest Child Sex Ratio	Mizoram (971) Meghalaya (970)
Lowest Child Sex Ratio	Haryana (830) Punjab (846)
State with highest literacy	Kerala (93.91%) Lakshadweep (92.28%)
State with lowest literacy	Bihar (63.82%) Arunachal Pradesh (66.95%)

INDIAN ECONOMY (PART 2)

Part 2-h

Notes by Economics Harbour

INDIAN ECONOMY (PART 2)

NOTESBYECONOMICSHARBOUR

INDIAN ECONOMY: A GLANCE

Latest Data (2011)

Decadal Growth Rate	**17.7%**
Rural Population Growth Rate	12.3%
Urban Population Growth Rate	31.8%
Percent of World's population	17.5%
Rural-Urban Population Ratio	68.85:31.15
Sex Ratio	943
Child Sex Ratio	919
State with highest female-male ratio	Kerala (1084)
Density of Population	382 per sq. km
Birth Rate	21.8 per 1000 live births
Death Rate	7.1 per 1000
Total Fertility Rate (2012)	2.4 per 1000 live births
Maternal Mortality Rate (2007-09)	212 per 1,00,000 live births
Infant Mortality Rate (2012)	42 per 1000 live births (Total) 46 per 1000 live births (Rural) 28 per 1000 live births (Urban)
Child (0-5) Mortality Rate (2012)	52 per 1000
Life Expectancy	66.21 years (Total) 64.5 years (Male)

	64.6 years (Female) 2012
Literacy Rate	73%
Literacy Rate – Male	80.9% (Total) 77.2% (Rural) 88.8% (Urban)
Literacy Rate – Female	64.6% (Total) 57.9% (Rural) 79.1% (Urban)
Gross Domestic Saving Rate	33.7% (2010-11) 31.3% (2011-12) 30.1% (2012-13)
Gross Capital Formation Rate	36.5 % (2010-11) 35.5% (2011-12) 34.8% (2012-13)

Main Production

	2013-14
Food Grains	264.77 MT
Oil seeds	32.88 MT
Pulses	19.27 MT
Crude Steel	81.84 MT
Cement	303.0 MT
Coal and Lignite	609.82 MT
Crude Oil	37.77 MT
Electricity Generated	961.50 billion kWh

Economic Indicators

Index of Industrial Production May 2014 **Base Year: 2004-05**	**173.8**
Index of Agricultural Production (2013-14)	128.9
Wholesale Price Index Average (2013-14)	177.6
Wholesale Price Index (June 2014)	**182.6**
Consumer Price Index for Industrial Workers (2011-12)	195 Base year = 2001
Industries reserved for public sector	3
Industries requiring compulsory licensing	5

Agriculture

Main food crop of India	**Rice**
Largest producer of Sugar/Sugarcane in the world	India
State with highest production of wheat	Uttar Pradesh
State with highest production of rice	West Bengal
State with highest production of pulses	Madhya Pradesh
State with highest production of coarse cereals	Rajasthan
State with highest production of total foodgrains	Uttar Pradesh
State with highest production of oil seeds	Madhya Pradesh
State with highest production of Sugarcane	Uttar Pradesh
State with highest production of cotton	Gujarat
State with highest production of potato	West Bengal

State with highest production of onion	Maharashtra
State with highest production of Jute & Mesta	West Bengal

Growth Rates over the Five Year Plans

Plan	Duration	GDP
First Plan	1951-56	3.6%
Second Plan	1956-61	4.1%
Third Plan	1961-66	2.5%
Annual Plans (3)	1966-69	3.8%
Fourth Plan	1969-74	3.3%
Fifth Plan	1974-78	5.0%
Annual Plan	1979-80	6.0%
Sixth Plan	1980-85	5.4%
Seventh Plan	1985-90	5.8%
Annual Plans	1990-92	3.0%
Eighth Plan	1992-97	6.7%
Ninth Plan	1997-2002	5.5%
Tenth Plan	2002-07	7.8% (Target = 8.0%)
Eleventh Plan	2007-12	7.9% (Target = 9.0%) (Revised = 8.1%)
Twelfth Plan	2012-17	(Target = 8.0%)

Foreign Trade

- First Trade Point in India: New Delhi (August 16, 1994)

- Commodity with Highest Share in Total Export Value: Crude and Petroleum Products (including coal) 20.7% (2013-14)
- Country with Highest foreign trade with India (2013-14): China
- Percent share of Indian Exports in total world exports: 1.8% (2012)
- India's share in world imports: 2.5% (2012)

Debt

Internal Debt (End March 2013)	
Total Internal Debt	US$ 390.0 billion
Short term Debt	24.8% of total external debt
Long term debt	75.2% of total external debt
Share of Government Debt	21.7% of total external debt
Share of non-Government Debt	78.3% of total external debt
External Debt to GDP ratio	21.2%

Budget Deficit (as % of GDP)

Year	**Fiscal Deficit**	**Revenue Deficit**	**Effective Revenue Deficit**	**Primary Deficit**
2011-12	5.7	4.4	2.9	2.7
2012-13 (B.E)	5.1	3.4	1.8	1.9
2012-13 (R.E.)	5.2	3.9	2.7	2.0
2013-14 (B.E)	4.8	3.3	1.8	1.5

Finance Commission

- Appointment of Finance Commission: President (under Article 280)
- Number of Finance Commissions set up till date: 14
- Chairman of 14th Finance Commission: Y.B Reddy
- Period of adopting 13th Finance Commission Recommendations: 2015-20

ECONOMIC GROWTH, DEVELOPMENT AND INCLUSIVE GROWTH

ECONOMIC GROWTH

Process of increase in GDP of the economy over a long period of time. According to **Simon Kuznets**, "Economic Growth is used for increase in per capita production."

ECONOMIC DEVELOPMENT

- **Traditional Definition**:

  Economic Development is defined as a sustained increase in production (GDP or GNP) at 5-7 per cent plus change in the structure of the economy (decreasing share of agriculture sector in total production with increasing share of non-agricultural sector.)

- **New Definition**:

  Economic Development is the growth of the economy at a faster rate accompanied by fall in poverty, inequality and unemployment levels.

- **Definition by Kindleberger**:

Economic Growth = Increase in production

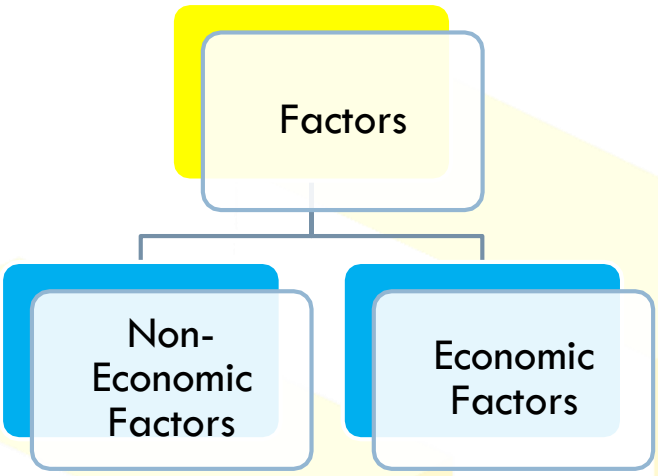
Economic Development = Economic Growth + Improvement in technology

Features of Under-Developed Countries

1. Low per capita income
2. Scarcity of capital
3. Rapid population growth
4. Low level of labour and capital productivity
5. Technological backwardness
6. Unemployment and under-employment
7. High level of inequalities
8. High incidence of poverty
9. Dependence on agriculture for income and employment

10. Relatively closed economy

Factors of Economic Development



Non-Economic Factors include:

1. Political freedom and stability
2. Social structure
3. Social organisation
4. Corruption
5. Law and order
6. Drive to development

Economic factors include:

Capital formation

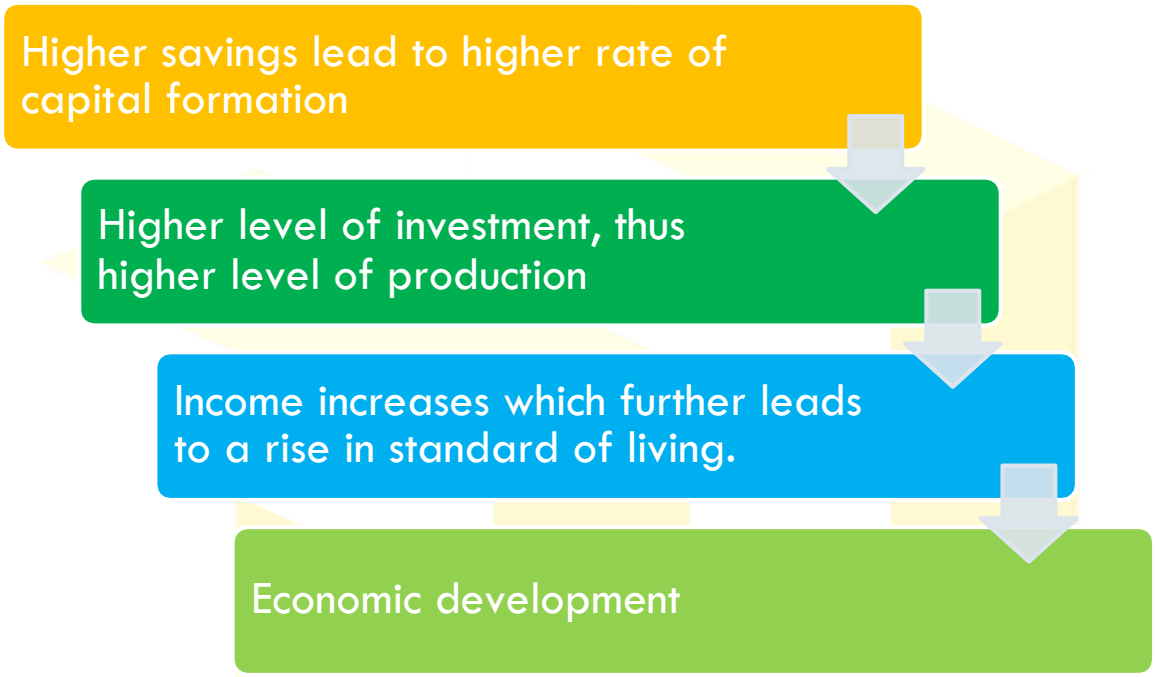
1. Capital output ratio
2. Human resource
3. Marketable surplus of agriculture
4. Terms of foreign trade
5. Population growth
6. Economic system

Let's discuss them in detail:

Economic Factors:

1. **Capital formation**: implies investment in tools, machinery, equipment, etc. to help create productive assets. Capital formation leads to an increase in labour productivity.

Level of capital formation = f (savings (+))



Under developed countries lack capital formation because:

- Small size of the market.
- Low level of income
- Inequality
- Demonstration effect

2. **Capital-Output Ratio**: It is the number of units of capital required to produce one unit of output. It is an indicator of productivity.

   Higher level of capital output ratio implies inefficiency in the economy.

Labour intensive sector

- Capital output ratio is low

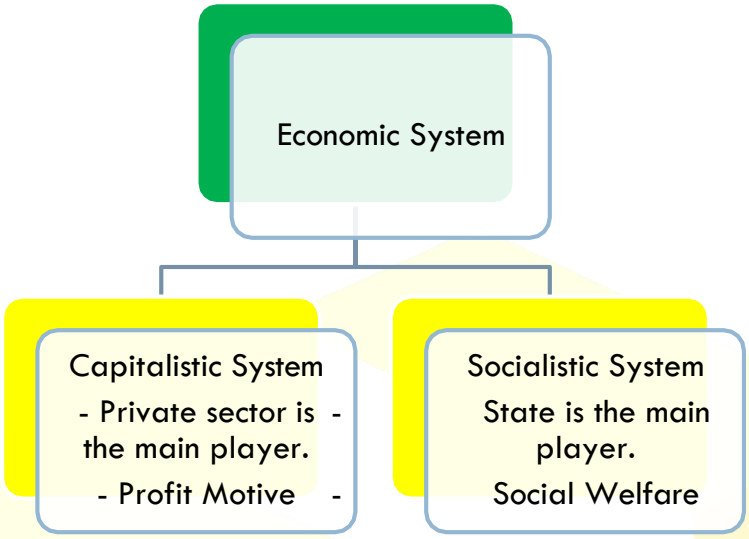
Capital intensive sector

- capital output ratio is high because:
- 1. More use of capital
- 2. Time lag between investment and production.

3. **Human Resource**: It implies educated, healthy and skilled employees. So economy should aim to utilise its manpower in the best possible manner.
4. **Marketable Surplus of Agriculture**: Availability of foodgrains (surplus in agriculture) is necessary for economic development to take place and also to serve the rural population.

   The growth of the economy was adversely affected in initial five years plans and till 1970s due to shortage of foodgrains as a result of which importers were forced to import agricultural goods and postpone the import of vital capital goods.
5. **Terms of foreign trade**: Under-developed or developing countries should reduce the import of capital-intensive product to improve their terms of trade.
6. **Population growth**: High population growth lowers the per capita income and hence poses a hindrance to economic development.

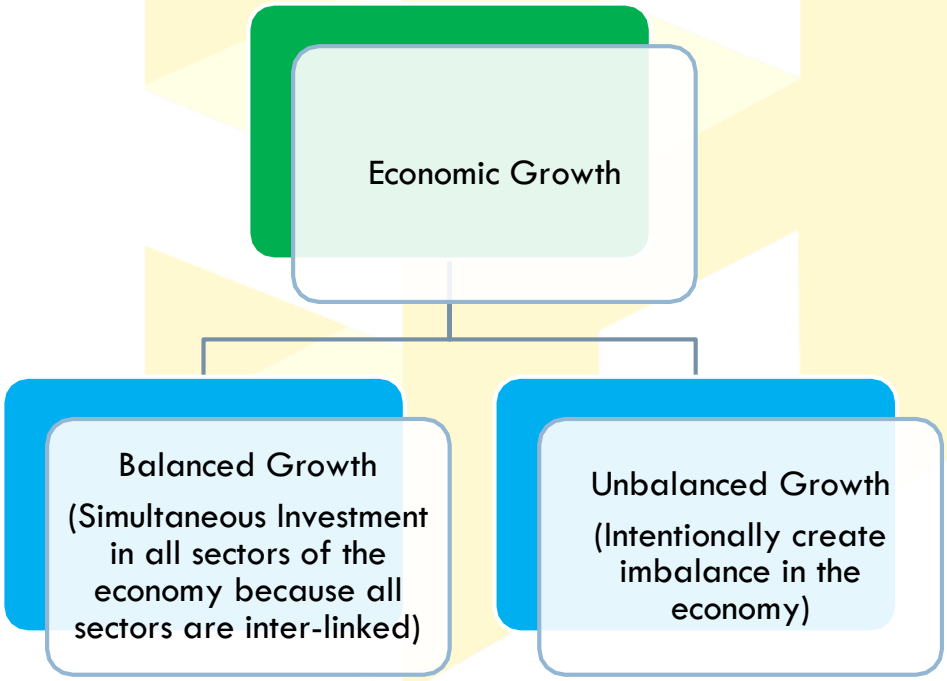
   At low levels of income, there is a tendency for high birth rate, which declines gradually with increasing income levels.
7. **Economic System**:



India adopted 'Democratic Socialism', the term coined by Jawahar Lal Nehru. In other words, India adopted a mixed economy type of economic system.

STRATEGY OF ECONOMIC DEVELOPMENT

Two strategies of growth:



Development Strategy in India

Initial growth strategy was 'Unbalanced Growth Strategy', commonly known as the 'Mahalanobis Model' which was adopted in the second five year plan. Investment was made in heavy industries.

Overall, it was not very successful because of the 'Mixed Economy' state.

PHYSICAL QUALITY OF LIFE INDEX (PQLI)

- Developed by Morris D. Morris
- Takes three measurable parameters:
  1. Life Expectancy Index (LEI)
  2. Infant Mortality Index (IMR)
  3. Basic Literacy Index (BLI)

$$\mathbf{PQLI} = \frac{\mathbf{1}}{\mathbf{3}}(\mathbf{LEI} + \mathbf{IMR} + \mathbf{BLI})$$

HUMAN DEVELOPMENT

UNDP published Human Development Report every year since 1990.

Title of Human Development Report

Year	Title
2013	"The Rise of the South: Human progress in Diverse World"
2014	Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience
2015	Rethinking Work for Human Development

UNDP publishes following indices:

1. **Human Development Index**: Since 1990
2. **Gender-related Development Index**: Since 1995
3. **Gender Empowerment Measures**: Since 1995
4. **Human Poverty Index**: Since 1997

HUMAN DEVELOPMENT INDEX

Developed by **Mahbub-Ul-Haq**

Measured on the basis of **three dimensions**:

- Health
- Education
- Standard of Living

Dimension	Indicator	Expressed as
1. Health	Life Expectancy at Birth	LEI
2. Education	a. Expected years of schooling for a school age child. b. Mean years of prior schooling for adults aged 25 years and above.	EAI
3. Standard of Living	GNI per capita	SLI

Source: Indian Economy for General Studies by Arunesh Singh

$$HDI = \sqrt[3]{LEI * EAI * SLI}$$

India's Ranking (2013): 135

Ranks of Important Countries:

Country	Rank
Norway	1
Austrailia	2
Switzerland	3
Netherlands	4
U.S.	5
Sri Lanka	73

Brazil	79
China	91
South Africa	118
India	135
Bangladesh	142
Pakistan	146
Ethiopia	173
Niger (Lowest)	187

MULTI-DIMENSIONAL POVERTY INDEX

Developed by Oxford Poverty and Human Development Initiative in 2010.

Three dimensions:

Indicators are:

1. **Education (1/6 of each indicator)**
    - Years of schooling
    - Child Enrolment
2. **Health (1/6 of each indicator)**
    - Child Mortality
    - Nutrition
3. **Standard of living (1/18 of each indicator)**
    - Electricity
    - Drinking water
    - Sanitation
    - Flooring
    - Cooking fuel
    - Assets

Under this, 104 countries are covered.

India's value = 0.283 in 2005-06 using the past data.

53.7% of India's population is living under Multi-dimensional Poverty.

According to India Human Development Report, 2011; there has been 28.5 percent improvement in the Education index during 1999-2000 and 2007-08.

GLOBAL HUNGER INDEX (GHI)

Determinants of the Index are:

1. Proportion of undernourished in the population.
2. Prevalence of under-weight in children.
3. Mortality rate of children

Value of the index lies between 0 and 100, where 0 is considered to be the best and 100 the worst.

GHI < 5	Low Hunger
5 < GHI < 9.9	Moderate Hunger
10.0 < GHI < 19.9	Serious Hunger
20.0 < GHI < 29.9	Alarming Hunger
30 < GHI	Extreme Hunger

India's ranking in GHI

2011	67th rank
2012	65th rank out of 81 nations (The value of GHI is around 21)
2014	55th rank out of 76 countries (The value of GHI is 17.8)

UNDP REPORT (2014)

- India's HDI Rank: 135 (out of 186 countries)
- Multi-dimensional Poverty Index: Only 29 countries do worse than India.
- India's poverty head count ratio: 54%

INDIA: POVERTY RATES

Poverty Rates (2011-12)	
Rural (Villages)	Expenditure per person below Rupees 27.2 per day is considered to be poor.
Urban	Expenditure per person below Rupees 33.33 per day is considered to be poor.
Planning Commission's measure of poverty	
Rural Areas	A household of 5 members is poor if its monthly expenditure is below Rupees 4080.
Urban Areas	A household of 5 members is poor if its monthly expenditure is below Rupees 5000.

Inequality in India	**Income Gini Coefficient is 36.8**
Monthly per capita expenditure (MPCE)	Bihar (Lowest) Kerala (Highest)

DEVELOPMENT AND ENVIRONMENT

- Term **Sustainable Development** became prominent after 'World Conservation Strategy' presented in 1980 by International Union for the Conservation of Nature and Natural Resources.
- Sustainable Development was defined in Brundtland Report (1987) namely "**Our Common Future**" as "Sustainable

development seeks to meet the needs and aspirations of the present without compromising the ability of future generations to meet their own needs."

INCLUSIVE GROWTH

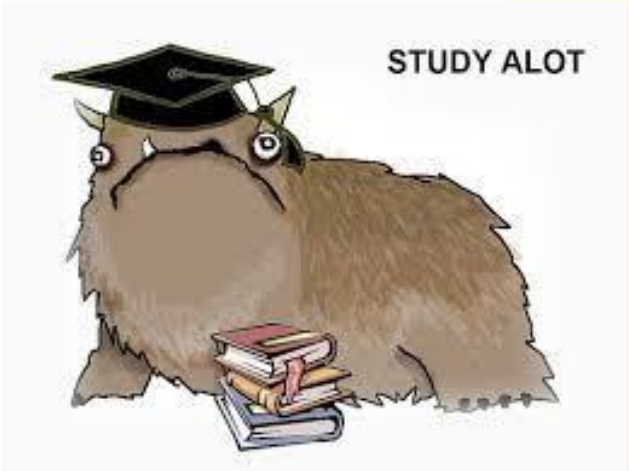
- Term was introduced in the Eleventh Five Year Plan
- Planning Commission talked about 'bridging divides' and to include those in the growth process who are excluded.

FINANCIAL INCLUSION

- Provide financial services to all sections of the population, especially those which are outside the formal banking system.
- Swabhimaan launched on February 10, 2011 to take banks to the doorsteps of rural poor and make them financially inclusive.

STATE HUMAN DEVELOPMENT REPORTS (SHDR)

- Madhya Pradesh: First state to bring out SHDR
- Till date, 18 states have published SHDR



COMPOSITION AND STRUCTURE OF INDIAN ECONOMY

Indian Economy is dependent on Agriculture.

In 1950-51, Agriculture contributed more than 50 per cent of GDP.

- Presently, Agriculture contributes around 14 per cent of GDP.
- Indian economy is still dependent on agriculture because:
  1. Approximately 50% of total employment is provided by agriculture.
  2. Net exporter of goods which helps in earning foreign exchange.
- One major weakness of agriculture is that it is still dependent on monsoons.

Indian Economy is a Dual Economy

- Co-existence of traditional and modern sector.
- Co-existence of labour intensive and capital intensive sectors in the economy.

Indian Economy is a Mixed Economy

- Existence of public and private sector.
- Dominant role played by the private sector.

Indian Economy is still a Developing economy. It is indicated by the following factors:

1. Low per capita income.
2. Inequitable distribution of income.
3. Predominance of agriculture
4. Poverty and unemployment
5. Rapid population growth
6. High dependency ratio
7. Deficiency of capital
8. Low level of human development
9. Technological backwardness

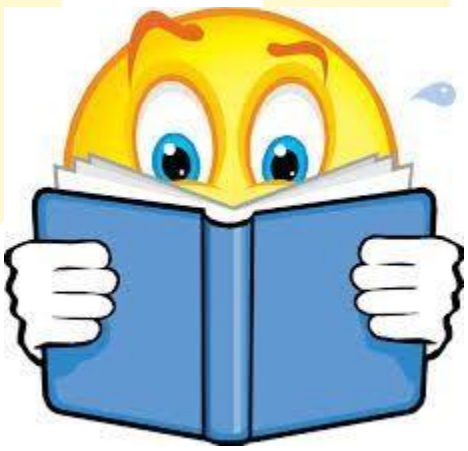
In short;

INDIAN ECONOMY: SALIENT FEATURES

Low per capita income	According to World Development Report (2013), India's per capita income was $1497.5 in 2013.
Disparities in Income Distribution	39% of rural population have 5% of the rural assets. 8% of top households have 46% of rural assets. Disparities are more intensive in urban areas.
Agricultural Income	13.9% of GDP
Unbalanced economic development	In 2009, 64% of labour is involved in agriculture. 16% of labour is involved in industrial sector. 20% of labour is involved in trade, transport and other services.
Lack of Capital	Savings are low in the economy due to low national income and high consumption expenditure.

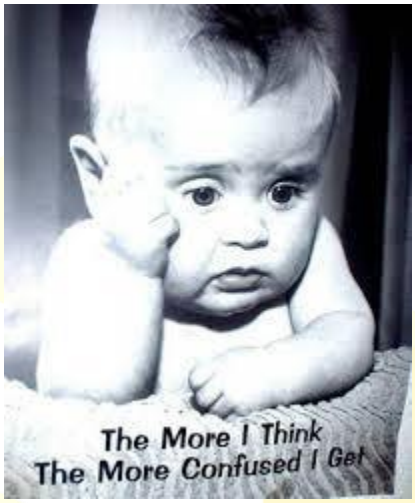
GROSS DOMESTIC SAVINGS

Year	Percent of Gross Domestic Savings in GDP
1990-91	23.1%
2007-08	36.9%
2008-09	32.0%
2009-10	33.7%
2010-11	34.0%
2011-12	31.3%
2012-13	30.1%



GROSS DOMESTIC CAPITAL FORMATION

Year	Gross Domestic Capital Formation
1993-94	23.3%
2007-08	38.1%
2008-09	34.3%
2009-10	36.5%
2011-12	35.5%
2012-13	34.8%



NATIONAL INCOME

National Income: Monetary Value of all final goods and services produced by the residents of a country.

National Income is a flow concept.

Features of national income:

1. Calculated for a specific period of time, usually a financial year.
2. Monetary value
3. Depreciation is deducted from the gross value to get net value
4. Net Factor Income from Abroad (NFIA) is added to the domestic product to get national income.

$$National\ Income = C + I + G + (X - M)$$

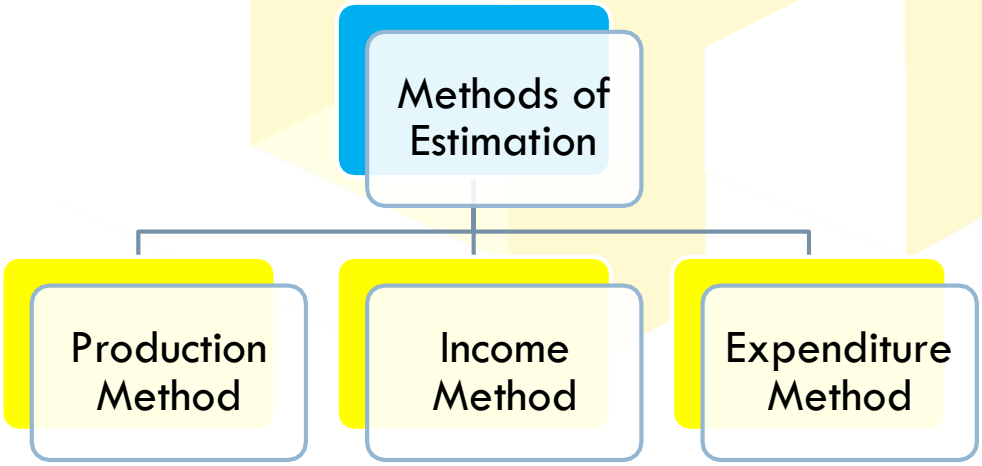
C = Consumption Expenditure; I = Investment Expenditure; G = Government Expenditure; X = Exports; M = Imports

CONCEPTS OF NATIONAL INCOME

Concept of National Income	Formula
1. GDP	Monetary value of all final goods and services produced in a country in a period of one year.
2. NDP	GDP – Depreciation

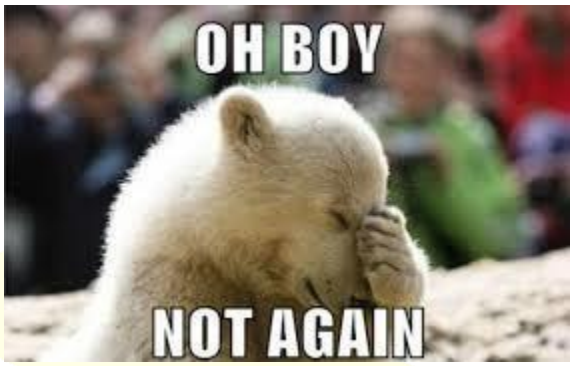
3. GNP	GDP + NFIA
4. NNP	GNP – Depreciation
5. NNP_{FC} (Also termed as National Income)	When value of goods and services is taken at the production (cost) point.
6. NNP_{MP}	NNP_{FC} + Indirect Taxes – Subsidies
7. Real National Income	National Income adjusted for inflation. $\frac{NNP\ at\ current\ prices}{Price\ Index} * 100$
8. Per Capita Income	$\frac{National\ Income}{Population\ in\ a\ year}$
9. Personal Income	National Income + Transferred payments – social security contributions – corporate tax – undistributed profits
10. Disposable Income	Personal income – direct taxes

MEASUREMENT OF NATIONAL INCOME



INDIA'S GDP

Year	Growth rate of GDP_{FC}
2011-12	6.7%
2012-13	4.5%
2013-14	4.7%



SECTOR-WISE GROWTH RATE

Sector	Provisional Growth Rates of Various Sectors (2013-14) at constant prices
Financing, insurance, real estate and business services	12.9%
Community, social and personal services	5.6%
Trade, hotels, transport and communication	3.0%
Electricity, gas and water	5.9%
Agriculture, Forestry and Fishing	4.7%
Manufacturing	-0.7%
Mining and Quarrying	-1.4%
Construction	1.6%
Community, Social and Personal Services	5.6%

INDEX OF INDUSTRIAL PRODUCTION (IIP)

Broad Sectors	Weight	2012-13	2013-14
Mining	14.2	-2.3	-0.6
Manufacturing	75.5	1.3	-0.8

Electricity	10.3	4.0	6.1
Use-based classification			
Basic Goods	45.7	2.4	2.1
Capital Goods	8.8	-6.0	-3.6
Intermediate goods	15.7	1.6	3.1
Consumer durables	84.6	2.0	-12.2
Consumer Non-durables	213.5	2.8	5.0
General Index	100.0	1.1	-0.1

IMPORTANT FACTS

- IMF cuts India's Growth forecast to 5.6% for 2013-14

  Reason: India witnessed outflows of capital, decline in equity process and currency depreciation because of development in the advanced worlds.
- ADB and Bank of America Merill Lynch cut India's Growth Projections for 2013-14.

  Reason: Firstly process of slowing fixed capital formation, secondly, weak industrial activity and lastly, slow progress on reforms. The major reason was supply side bottlenecks.
- **Bihar is the best performing state in terms of growth rate of GSDP in 2012-13 (15.1%).**
- **Maharashtra and Haryana are at the top respectively in terms of absolute values of GSDP and per capita income.**
- **Tamil Nadu has the lowest growth in GSDP in 2012-13.**
- **Assam has the lowest average GSDP in 2012-13.**
- **Rajasthan has the lowest per capita income in 2012-13.**
- In India, a combination of production method and income method is used for estimating national income.
- Fiscal deficit for 2012-13 worked out to be at 4.89% of GDP, down from revised estimate of 5.2%. Reason: Firstly, slippage on the direct tax front. Secondly, Indirect tax mop-up has exceeded the revised estimates.

Current Account Deficit

Year	% of GDP
2012-13	4.7%
2013-14	2.2%

According to World Bank, India's Growth rate in next 3 years will be,

2014-15	**5.5%**
2015-16	6.3%
2016-17	6.6%

ESTIMATES OF NATIONAL INCOME IN INDIA, TILL DATE

Name	Year	National income Estimate
Dadabhai Naoraji in his book "Poverty and Un-British rule in India"	1868	Rupees 20
Findlay Shirras	1911	Rupees 49 per capita
Wadia & Joshi	1913-14	Rupees 44.30 per capita
Dr. V.K.R.V. Rao	1925-29	Rupees 76 per capita
National Income Committee P.C. Mahalanobis	August 1949	National Income: Rs 8,650 crore Per capita income: Rs. 246.90

CSO has introduced a new series on National Income with 2004-05 as base year.

PROBLEMS IN NATIONAL INCOME ESTIMATION

Conceptual Problems:

1. Non-Inclusion of Services in National Income estimation; like at household level.
2. Problems in measuring the share of producers and consumers in case of administrative services.

Practical Problems:

1. Presence of a large non-monetized sector.
2. Un-availability of appropriate and reliable data
3. Unreported illegal income
4. Regional disparities
5. Difficulties in classification of working population

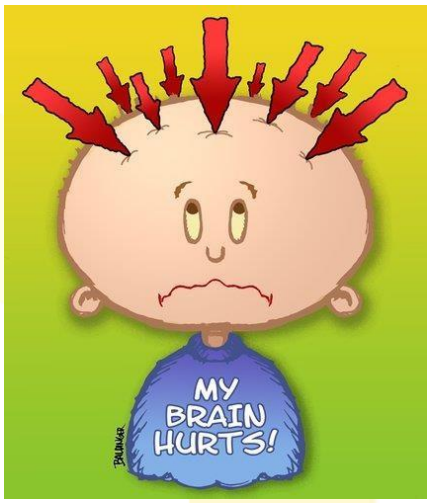
Fiscal deficit in the economy during 2013-14 has been estimated at 4.47%.

Reason: Squeeze in plan expenditure and improvement in tax collection towards the end of 2013-14.

AGRICULTURE

FOOD GRAIN PRODUCTION

Year	Production (in million tonnes)
2009-10	218.1
2010-11	244.5
2011-12	259.3
2012-13	257.1
2013-14	264.7



Share of Agriculture in GDP in 2013-14 = 13.9%

GROSS CAPITAL FORMATION

Year	Gross Capital Formation
2008-09	19.67%
2009-10	20.1%
2010-11	18.4%
2011-12	19.8%
2012-13	21.2%

Largest increase in private Gross Capital Formation was in labour saving machines, such as irrigation and water saving equipment, due to the decline in rural work force and rising real wages.

CONTRIBUTION IN EXPORTS BY AGRICULTURE AND ALLIED ACTIVITIES

Year	Percent of total exports
2009-10	8.2%
2010-11	8.0%

2011-12	10.1%
2012-13	11.8%

Average annual growth rate of agriculture and allied sectors in eleventh plan was 3.6% against the targeted 4%.

Reason: Due to severe drought experienced in most parts of the country in 2009-10.

GROWTH RATE OF AGRICULTURE

Year	Growth Rate
2010-11	7.9%
2011-12	3.6%
2012-13	1.8%

Share of Agriculture in National Income

Year	% of GDP
2009-10	14.7%
2012-13	14.1%
2013-14	13.9%

Employment

- Sector provides employment to 54.6% of country's work force.
- Single largest private sector occupation.

MINIMUM SUPPORT PRICE

- Government announces MSP for 24 major crops.

- Objectives:
    1. Prevent fall in prices in case of over-production.
    2. Protect the interest of the farmers by ensuring them a minimum price for their crops.
- MSP is announced on the basis of recommendations by Commission for Agricultural Cost and Prices (CACP).
- MSP is decided after taking into consideration input costs and favourable returns to the farmers.

List of agencies which are allowed to procure pulses and oil seeds

1. NAFED since 1976-77: Central Nodal Agency for procurement of oil seeds and pulses.
2. National Co-operative Consumer Federation (NCCF)
3. Central Warehousing Corporation (CWC)

LIST OF SCHEMES/INSTITUTES INTRODUCED IN AGRICULTURE

Scheme	Year
Macro-Management of Agriculture Scheme	2008
Rashtriya Krishi Vikas Yojana	August 16, 2007
National Horticulture Mission	2005-06
Kisan Call Centres	January 1, 2004 Opened in 25 different locations with 144 call centre agents
Tribal Co-operative Marketing Development Federation of India (TRIFED)	August, 1987 Started functioning in 1988.
National Agricultural Insurance Scheme	1999-2000 (It replaced Comprehensive Crop Insurance Scheme)
Agricultural Insurance Co-operation of India Limited	2002 Started functioning in 2003
Krishi Shramik Suraksha Yojana	2001

	(Life Insurance protection, periodical lump sum survival benefits pension, eligibility-18-50 years)
Farm Income Insurance Scheme	2004
Intensive Agricultural District Programme	1960-61
Intensive Agricultural Area Programme	1964-65
Decentralised Procurement Scheme	1997
Coconut Palm Insurance Scheme	2009-10
New Policy on Seed Development	1988 (provide best planting material available abroad to Indian farmers)
Operation flood	1970 Related to milk and was given by National Dairy Development Board. Dr. Varghese Kurian was the pioneer of it. It completed phase III in 1996.
Marine Fishing Policy	2004
Rural Infrastructure Development Fund	1995-96
Accelerated Irrigation Benefits Programme	1996-97
Command Area Development and Water Management Programme	1974-75
Farm Credit Package	2004 (Doubling the flow of institutional credit for agriculture in the ensuing 3 years)
Kisan Credit Card Scheme	1998

India depends heavily on imports for its phosphatic and Potash fertilizer requirements.

LARGEST PRODUCING STATES IN 2013-14

Foodgrains	
Rice	West Bengal, Uttar Pradesh, Andhra Pradesh
Wheat	Uttar Pradesh, Punjab, Haryana
Maize	Karnataka, Andhra Pradesh, Maharashtra
Pulses	Madhya Pradesh, Uttar Pradesh, Rajasthan
Overall Food grains	Uttar Pradesh, Punjab, Madhya Pradesh
Oilseeds	Madhya Pradesh, Rajasthan, Gujarat
Coarse Cereals	Rajasthan, Karnataka, Maharashtra
Sugarcane	Uttar Pradesh, Maharashtra, Tamil Nadu
Cotton	Gujarat, Maharashtra, Andhra Pradesh
Potato	West Bengal, Uttar Pradesh, Bihar

PLANTATION SECTOR

Tea	**India is the largest producer of tea.** **Tamil Nadu and Kerala account for 95% of total production.** **1 million ton (2013-14)**
Coffee	India is the sixth largest producer after Brazil, Vietnam, Columbia, Indonesia and Ethiopia 3 million tonnes (2013-14)
Rubber	India is the fourth largest producer with a share of 8.2% (2010) 0.8 million tonnes (2010-11) 0.9 million tonnes (2013-14)

ORGANIC FARMING

- National Project on Organic Farming was launched during 10th Plan.
- National Project on Development and Use of Bio-Fertilizers merged into this scheme.

- Objectives:
    1. Capacity building through service providers.
    2. Financial and technical support for setting up of organic input production units.
    3. Human resource development through training and demonstration.
    4. Awareness creation and market development.
    5. Quality control of organic inputs.
    6. Biological assessment of soil health.

Agriculural holdings are termed as follows:

1. **Economic holding**: ensures a minimum satisfactory standard of living to a family.
2. **Family holding**: gives work to average size family having one plough under traditional farming system.
3. **Optimum holding**: Maximum size of the holdings which must be possessed and owned by a family.

LAND REFORM PROGRAMME

It includes:

1. Elimination of intermediaries.
2. Tenancy reforms
3. Determination of ceiling of holdings per family and to distribute surplus land among landless people.
4. Consolidation of holdings.

Measures of tenancy reforms:

1. Regulation of rent
2. Security of tenure
3. Conferment of ownership on tenants

Tribal Co-operative Marketing Development Federation of India Ltd. (TRIFED)

- August 1987
- Started functioning since April 1988.

- Basic objective: Save tribals from exploitation by private traders and to offer them remunerative prices for their minor forest produce and surplus agricultural products.
- Agent of the government for purchasing wheat and rice.

PRICE STABILIZATION FUND FOR PLANTATION CROPS

- Price Stabilization fund for tea, coffee, rubber and tobacco growers introduced in April 2003.
- Objective: Safeguard the interest of growers and provide financial relief when prices fall below a specified level without resorting to the practice of procurement operation by government agencies.

NEW AGRICULTURAL POLICY (2000): ALSO DESCRIBED AS "RAINBOW REVOLUTION".

Features:

- Achieve 4% growth rate for next two decades.
- Provide land to poor farmers
- Consolidation of holdings
- Promoting private investment
- Provide insurance umbrella for crops to farmers.
- Promote bio-tech
- Promote research

Green Revolution	**Food Grains**
White Revolution	Milk
Yellow Revolution	Oil Seeds
Blue Revolution	Fisheries
Red Revolution	Meat/Tomato
Golden Revolution	Fruits – Apple
Grey Revolution	Fertilizers
Black/Brown Revolution	Non-conventional energy resources
Silver Revolution	Eggs
Round Revolution	Potato

Pink Revolution	Shrimp

Green Revolution in India (1966): The term was given by Dr. William Gande/

Credit goes to Dr. Norman Borlaug and Dr. M.S. Swaminathan.

- Focus on northern states and crop given priority was Wheat.
- The major demerit was that it focussed too much on just one part of the country.

SECOND GREEN REVOLUTION (2004)

- Focus was on North-Eastern states.
- It was a part of 11th plan strategy for sustainable agriculture.
- Focussed on strengthening the infrastructural facilities.
- Doubling the rate of growth of irrigated area.
- Improving the water management and rainwater harvesting.
- Reclaiming the degraded land and focussing on soil quality.
- Bridging the knowledge gap.
- Reconsidered the land reforms.
- Diversifying into HYV of fruits, vegetables, herbs, spices, medicinal plants but with adequate measures to ensure securities.

Evergreen Revolution: Given by **Dr. M.S. Swaminathan**.

Features:

1. Promoting soil health
2. Promoting laboratories to land exhibitions
3. Making rainwater harvesting compulsory
4. Providing credit to farmers on suitable conditions.

India's agricultural exports declined by 19% in Q_1 of 2013-14.

Reason:

1. Lower exports to U.S. and Bangladesh
2. Exports to US down by 59%

3. A price crash of guar-gum, the highest exported agriculture-commodity to the US from India, has been one of the biggest reasons for the decline in exports.

India's agricultural exports to Iran registered 140% rise in Q_1 of 2013. Reason was Export of Basmati Rice to Iran.

NATIONAL POLICY FOR FARMERS – 2007

Areas:

1. Economic well-being of the farmers.
2. Asset reform
3. Water-use efficiency
4. New technology
5. National agricultural bio-security system
6. Seeds and soil health
7. Support services for women
8. Credit and insurance
9. Gyan Chaupals
10. Social security scheme for farmers.
11. Minimum support price
12. Food security basket

WHITE REVOLUTION AND OPERATION FUND IN INDIA

- White Revolution is associated with a sharp increase in the production of milk.
- Operation Flood Programme was introduced in 1970 by National Dairy Development Board, and is the world's largest integrated development programme.
- Dr. Varghese Kurien is the pioneer of Operation Flood in India.

MARINE FISHING POLICY, 2004

Objectives:

1. Augment marine fish production of the country up to the sustainable level in a responsible manner so as to boost export of sea food from the country and also to increase per capita fish protein intake of the masses.

2. Ensure socio-economic security of the artisan fishermen whole livelihood solely depends on this.
3. Ensure sustainable development of marine fisheries with due concern for ecological integrity and bio-diversity.

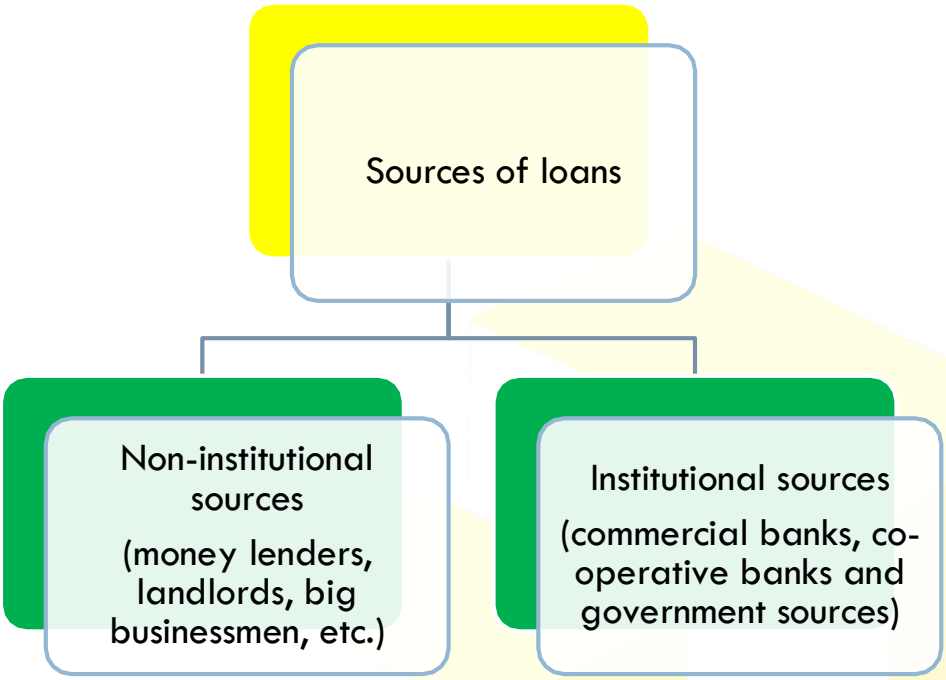
CONSUMPTION OF CHEMICAL FERTILIZERS

Fertilizer	2011-12 (Lakh tonne)	2012-13 (Lakh tonne)
Nitrogen (N)	173.00	168.20
Phosphate (P)	79.14	66.53
Potash (K)	25.76	20.61
Total	**277.90**	**255.36**

Agricultural Credit

Types of Loans provides to the Indian farmers:

Type of loan	Tenure	Purpose
Short Term loans	Less than 15 months	Meet expenses of routing farming and domestic consumption.
Medium term loans	15 months to five years	Purchase agriculture equipment, animals and for land improvement.
Long term loans	More than 5 years	Purchase land and expensive agriculture equipment and for repayment of old loans



Farm Credit Package

- June 2004
- Objective: Doubling the flow of institutional credit for agriculture in the ensuing three years.

Revival Package for Short term Co-operative credit structure

- Recommendations by Vaidyanathan Committee Task Force
- Seeks to:
    1. Provide financial assistance to bring the system to an acceptable level of health.
    2. Introduce legal and institutional reforms necessary for their democratic, self-reliant and efficient functioning.
    3. Take measures to improve the quality of management as an integrated package.

AGRICULTURE EXPORTS

Year	Growth rate of agriculture exports
2008-09 to 2013-14	132%
Only in 2013-14	5.1%

Marine product growth rate in 2013-14 was 44.8%

INDUSTRY

First Industrial Policy – 1948

- Given by Mr. Shyama Prasad Mukherjee.
- Basic aim was to develop a strong industrial base.
- The resolution visualised a mixed economy.
- Items under Central Government control: Arms, Energy, Railway.
- Items under State Government Control: Coal, Iron, Steel, etc.

Industrial Policy Resolution – 1956

- Basic objective was "Socialistic Pattern of Society"
- It was considered to be one of the major policies.
- Suggested three schedules:

Schedule A	Industries were included that were the exclusive responsibility of State/Centre Government. In total there were 17 industries namely, mining, iron ore, Atomic energy, etc.
Schedule B	Industries which were progressively state owned. Included 12 items like machine, tools, fertilizers, etc.
Schedule C	Industries which were left for the private sector.

Industrial Policy Statement – 1973

- Foreign investment was allowed in specific industries.
- Importance and preferential treatment was being given to the small scale and co-operative sectors.

Industrial Policy Statement – 1977

- Given by Janta Government
- It aimed to prevent monopoly and concentration of economic power.
- Maximise production of consumer goods.
- The policy made industry responsible to social needs.
- Generation of rural employment opportunities.

Industrial Policy Statement – 1980

- It was a growth oriented industrial policy.
- Factors focussed on were: 1. Labour relations, 2. Pollution control, 3. Ecological balance, 4. Mergers & Amalgamations, 5. Correcting industrial sickness, 6. Foreign collaborations, 7. Taking over sick industrial units.

New Industrial Policy – 1991

It was introduced in two parts: First: July 24, 1991 and Second: August 6, 1991.

Objectives:

1. Maintain a sustained growth in productivity.
2. Enhance gainful employment
3. Achieve optimum utilization of human resources.
4. Attain international competitiveness
5. Transform India into a major partner and players in the global arena.

Features:

- De-reservation of public sector. Number of public sector industries was reduced to 8. At present, its reduced to 3 industries: 1. Defence, 2. Railways, 3. Atomic energy.
- Delicensing: Abolished industrial licensing except for five industries related to security and environment:
    1. Hazardous chemicals
    2. Distillation and alcoholic drinks
    3. Cigarettes and Cigars
    4. Electronic equipment, Aerospace and defence equipment
    5. Industrial explosives including match boxes
- Disinvestment from public sector
- Liberalisation of foreign investment
    1. Single brand retail: 100%
    2. Multi-brand retail: 51%
    3. Insurance: 26%

4. Defence: 26%
5. Housing and Real Estate: 100%
6. Advertisement: 100%
7. Tourism: 100%
8. Drugs and Pharmaceuticals: 100%
9. Mining of Silver and gold: 100%
10. Mining of diamond and precious stones: 74%
11. DTH: 74%
12. Telecommunication: 100% of which 49% was from automatic route

- FDI of 51% of equity was allowed in high priority sectors.
- Mini bureaucratic control
- Removing restriction on FDI
- To free the domestic entrepreneurs from excessive MRTP restrictions.

Overall, policy measures were:

1. Liberalisation of industrial licensing policy.
2. Introduction of Industrial Entrepreneurs' Memorandum, that is, no industrial approval is required for industries not requiring compulsory licensing.
3. Liberalisation og locational policy
4. Liberalization of small scale sectors.
5. NRIs now allowed to invest upto 100% equity on non-repatriation basis in all activities except for a small negative list.
6. Liberalised policy for FDI.

GROSS CAPITAL FORMATION

Gross Capital Formation by Industry at Constant (2004-05) Prices

	2009-10	2010-11	2011-12	2012-13
Rate of growth of GCF in industry	24.2	20.2	-7.6	-8.5
Mining	3.6	3.6	3.5	3.2
Manufacturing	32.9	35.3	27.4	23.7

Electricity	6.2	7.0	7.3	7.4
Construction	4.8	4.4	5.4	5.4

New Index of Industrial Production (IIP)

- Became operative since June 10, 2011.
- Base year: 2004-05
- Number of items has gone up to 620 from 473. Number of items in mining have come down to 61 from 64.
- Jointly prepared by Industrial Promotion and Policy Department, and CSO.
- Weights given were:

Sector	Weight
Mining	14.15%
Manufacturing	75.53%
Electricity	10.32%

IIP Based Industrial Performance

Sectors	Weight	2012-13	2013-14
Mining	14.15	-2.3	-0.6
Manufacturing	75.53	1.3	-0.8
Electricity	10.3	4.0	6.1
Use Based Classification			
Basic goods	45.7	2.4	2.1
Capital goods	8.8	-6.0	-3.6
Intermediate goods	15.7	1.6	3.1
Consumer durables	84.6	2.0	-12.2
Consumer non-durables	213.5	2.8	5.0
General Index	100.0	1.1	-0.1

MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006

Classification of enterprises in manufacture is based on Investment in plant and machinery by each enterprises.

Investment required are:

Manufacturing	
Micro	Upto 25 lakhs
Small	25 lakhs – 5 crore
Medium	5 crore – 10 crore
Service	
Micro	Upto 10 lakhs
Small	10 lakhs – 2 crore
Medium	2 crore – 5 crore

First Economic Census: 1977

Fourth Economic Census: 1998

Fifth Economic Census: 2005

It recognized that 61.3% of the industrial units are in rural area while 38.7 percent are in urban areas.

Data released in 2008

Highest number of industrial units: Tamil Nadu

Largest employer:

- **Maharashtra**
- **Tamil Nadu**
- **West Bengal**
- **Uttar Pradesh**

UTs:

- **Delhi**
- **Chandigarh**
- **Puducherry**

Highest Growth Rate in enterprises

- **Mizoram**
- **Kerala**
- **Tripura**

Among UTs, Dadra and Nagar Haveli witnessed the highest growth rate in enterprises.

Sixth Economic Census: 2012

Key Findings of 6th Economic Census, 2012

Category	Top 5 states	Top UTs
Number of Establishments	Uttar Pradesh (11.6%) Maharashtra (10.48%) West Bengal (10.09%) Tamil Nadu (8.64%) Andhra Pradesh (7.25%)	Delhi (1.53%) Chandigarh (0.14%) Puducherry (0.10%)
Total Employment	Maharashtra (11.26%) Uttar Pradesh (10.77%) West Bengal (9.04%) Tamil Nadu (8.46%) Gujarat (7.10%)	Delhi (2.34%) Chandigarh (0.19%) Puducherry (0.17%)
Percent growth in number of establishments	Manipur (109.37%) Sikkim (102.92%) Assam (100.17%) Nagaland (78.74%) Telangana (78.70%)	Andaman & Nicobar Islands (84.89%) Chandigarh (31.14%) Dadra & Nagar Haveli (28.11%)
Percent growth in Total Employment	Manipur (83.29%) Assam (78.84%) Sikkim (77.14%) Uttar Pradesh (75.26%) Himachal Pradesh (68.81%)	Andaman & Nicobar Islands (75.08%) Dadra & Nagar Haveli (47.79%) Daman & Diu (35.81%)

CREDIT GUARANTEE FUND SCHEME FOR MICRO AND SMALL ENTERPRISES

- August 2000
- Originally known as Credit Guarantee Fund Scheme for Small Industries
- Objective: making available credit to SSI Units, particularly tiny units, for loans up to Rupees 100 lakh without collateral/third party guarantee

DEFINITION OF DIFFERENT TYPES OF INDUSTRIES

Cottage Industry	**Run by family members on full or part time basis. Possesses negligible capital investment.** **Hand made production and no wage earning person is employed in such type of industry.**
Small Industry	Employees wage earning labour and production is done by the use of modern techniques. Capital investment exists.
Village Industry	Industries established in rural areas having population below 10,000 and having rupees 15,000 as fixed capital investment per worker

SCHEME OF FUNDS FOR REGENERATION OF TRADITIONAL INDUSTRIES (SFURTI)

- October 2005
- Objective: Establish a regenerated holistic sustainable and replicable medal of integrated cluster based development of traditional industries.

NATIONAL MANUFACTURING POLICY

- November 4, 2011
- **Objectives**:
    1. Enhancing the share of manufacturing in GDP to 25% within a decade and creating 100 million jobs.
    2. Empower rural youth by imparting necessary skill sets to make them employable.

COTTON AND TEXTILE INDUSTRY

- First Indian modernized cotton cloth mill: 1818 at Fort Gloaster near Kolkata
- Second Mill: Bombay Spinning and Weaving Company established in 1854 at Bombay by KGN Daber

It is the largest organised and broadbased industry.

Cotton's:

Industrial Production	**12%**
GDP	4%
Total export earning	12%
India is the second largest producer of cotton accounting for 16% of the global production.	

Cotton/man-made fibre textile industry is concentrated mainly in Maharashtra, Tamil Nadu and Gujarat.

Textile's

Industrial Production	**14%**
GDP	4%
Export Earning	16.63%

The cotton and textile industry accelerated growth rate to 8-9% because:

1. Due to buoyant domestic economy.
2. Substantial increase in cotton production
3. Conducive policy environment provided by the government
4. End of MFA on December 31, 2004
5. Rationalization of fiscal duties.

First apparel park in India: Tirupur (Tamil Nadu) for boosting the exports of readymade garments. Foundation stone was lain on July 4, 2003.

MEERA SETH COMMITTEE ON HANDLOOM SECTOR

- January 21, 1997
- **Recommendations**:
    1. Establishment of National Handloom Fund of Rupees 500 crore.
    2. Weavers of non-government sector should be granted loans from this fund.
    3. Implementation of Calamity Relief Scheme to provide subsidy on handloom purchase and hand made yarn.

TECHNOLOGY MISSION ON COTTON

- February 2000.
- **Objective**: Address issues like low productivity, marketing infrastructure and availability of cotton which is the core fibre used by the industry.

Iron & Steel Industry

- First public sector unit: "Vishwashwaraiya Iron & Steel works" at Bhadravati.
- Second plan established 3 steel plants in the public sector: 1. Bhilai, 2. Durgapur, 3. Rourkela.
- There was a slowdown in Iron & Steel Industry because:
    1. Sluggish demand in the steel consuming sectors.
    2. Overall economic slowdown.
    3. Lack of investment
    4. Cost-escalation in input materials for iron and steel.
    5. Greater competition from imports
    6. Dumping of finished steel
    7. Adverse conditions in export markets.
- SAIL established in 1974
- India ranked 4th largest producer of crude steel in 2011 after China, Japan and U.S.A.

Sugar Industry

- Second largest industry after cotton textile industry in India.
- India is the largest consumer of sugar.
- Has a share of over 15% of world sugar production.
- Sugar production in 2012-13: 24.2 MT
- Cabinet approves de-control of sugar on the basis of recommendations of C. Rangarajan Committee of sugar de-control.

Fertilizer Industry

- Industry is the third largest producer of nitrogenous fertilizers after China and U.S.A.
- India is largely import dependent for meeting phosphorous and potassium fertilizers (P & K).
- Domestic Production of Fertilizers

	2013-14
Total	160.92 MT
Nitrogenous	123.38 MT
Phosphatic	37.14 MT

Cement Industry

- India is the second largest producer.
- In 2011-12, 223.5 million tonnes were produced; 2012-13, 251.97 MT
- 183 large cement plants with installed capacity of 324.9 MT and more than 350 mini cement plants with an estimated capacity of 11.10 MT were introduced on March 31, 2013.

Paper Industry

- Government had completely delicensed the paper industry from July 17, 1997.

Coal Industry

- India's largest mineral resource.
- India is the 5th largest producer of coal.
- Production in 2013 was 293.497 billion tonnes.

Sericulture and Silk Industry

- India is the second largest producer of silk after China.
- India produces 18% of the world silk.

Oil Corporation:

- Indian Oil Corporation Limited (IOCL): 1964
- Bharat Petroleum Corporation Limited (BPCL): 1976
- Gas Authority of India Limited: 1984
- ONGC Videshi Limited: 1965
- INGC has been granted a status of 'Maharatna' in 2004

Number of Maharatnas: 7

- ONGC
- NTPC
- SAIL
- IOC
- Coal India Limited (CIL)
- Bharat Heavy Electricals Limited (BHEL)
- GAIL

Number of Navratnas: 14

- BPCL
- HPCL
- MTNL
- BEL
- HAL
- PFC
- NMDC
- PGCIL
- REC
- NALCO
- SCI
- RINL
- OIL
- Neyveli Lignite Corporation Limited

POLICIES IN INDUSTRIAL SECTOR

Policy	Year/Objective
Credit Guarantee Fund Scheme for Small Industries	August, 2000 Objective: Making available credit to Small Scale Industrial units, particularly tiny units,

Renamed as: Credit Guarantee Fund Scheme for Micro and Small Enterprises	for loans upto Rupees 100 lakhs without collateral/ third party guarantees.
Scheme of Funds for Regeneration of Traditional Industries (SFURTI)	October 2005 Objective: Development of traditional clusters of Khadi, Coir and village industries, including leather and pottery.
National Manufacturing Policy	November 2011 Objective: Enhance the share of manufacturing in GDP to 25% within a decade and creating 100 million jobs. Also empower rural youth by imparting necessary skill.
Technology Mission on Cotton	February, 2000
National Textile Policy	2000 Objective: Take care of the challenges and opportunities presented by the changing global environment.
National Steel Policy	2005
National Jute Policy	2005
Miniratna Scheme	1997 To make the public sector more efficient and competitive and to grant enhanced autonomy and delegation of powers to the profit making public sector enterprises.
Competition Act	2002 Replaced MRTP Act Objective: 1. Prohibition of anti-competitive agreement, 2. Prohibition of abuse of dominance, 3. Regulation of combinations
Competition (Amendment) Bill	2007
Competition Commission of India	Established in 2003 May 20, 2009 became operational

	Chairman: Dhanendra Kumar
First National Labour Commission	December 24, 1966
Second National labour Commission	October 15, 1999 Headed by Ravindra Verma
MRTP Act	1969 Objective: Prevent concentration of economic power.
FERA	1973 Came into force in 1974 Objective: Regulating the foreign exchange markets. Focussed on areas dealing with foreign exchange market, import and export of currency.
FEMA	1999 Came into force in 2000 Replaced FERA. Objective: Emphasis on exchange management and facilitates external trade and payments.

COMMITTEE

Committee	**Year/ Sector**
Meera Seth Committee	1997 Handloom Sector
Cotton Association of India Committee **(Headed by Dena Mehta)**	Finalised cotton price index
Tiwari Committee	1985 Probe into the problems of industrial sickness

NEW COMPETITION ACT, 2013

Features:

1. Companies now required to spend 2% of their net profit on Corporate Social Responsibility.
2. Help in curbing a major source of corporate delinquency, introduces punishment for falsely inducing a person to enter into any agreement with a bank or financial institution to obtain credit facilities.
3. Limit of the maximum number of companies in which a person may be appointed as auditor has been pegged at 20.
4. Appointment of auditors for a period of five years, subject to ratification at every Annual General Meeting.
5. Independent directors to be excluded for the purpose of computing one-third of retiring directors.
6. Whole time director to be included in the definition of term key managerial personnel.
7. Maximum number of directors in a private company increased from 12 to 15 which can be further increased by a special resolution.
8. Term private placement defined to bring clarity.
9. Financial year for any company would end on March 31. Exception: Companies which are a holding/subsidiary of a foreign entity requiring consolidation outside India.

MONEY AND BANKING

DIFFERENT STAGES OF THE DEVELOPMENT OF INDIAN BANKING

Year	Event
January 1, 1949	RBI was nationalised
July 1, 1955	Imperial Bank (State Bank of India) was partially nationalised
July 19, 1969	14 commercial banks were nationalised
April 15, 1980	6 private banks were nationalised
September 4, 1993	New Bank of India merged with Punjab National Bank
August 14, 1991	Narsimham Committee was established regarding the structure, organisation, function and procedure of financial system
1992-93	Reforms in banking system introduced.
December, 1997	Narsimham committee on implementation of financial system reforms.
April, 1998	Narsimham Committee submitted its report.
1972	Differential Rate Scheme which states that lend atleast 1% of the total advances to the weakest of the weak.
April 1, 1989	Service Area Approach was introduced under the Lead Bank Scheme
1992	SHG-Bank Linkage Programme
June 29, 2007	Government acquired RBI's entire 59.73% stake in SBI.
June 14, 1995	Banking Ombudsman Scheme Gives a solution for customer's complaints.
February 9, 2013	Rajiv Gandhi Equity Saving Scheme

RESERVE BANK OF INDIA

Year	Event
1935	RBI was established

January 1, 1949	RBI was nationalised
October 9, 2000	RBI released Rupees 1000 notes
July 6, 2005	Financial Market department for surveillance on financial markets was established
July 1, 2010	RBI decided to circulate 'Plastic Currency Notes'.
March 25, 2011	Coinage Bill

- Indian Coinage Act, 1906
- Small Coins (Offences) Act, 1971
- Metal Token Act, 1889
- Bronze Coin (Legal Tender) Act, 1918
- Currency Ordinance Act, 1940

PRINTING OF SECURITIES AND MINTING IN INDIA

- Indian Securities Press: Nasik
- Security Printing Press: Hyderabad (1982)
- Currency Notes Press: Nasik (1991)
- Bank Notes Press: Dewas
- Modernised Currency Notes Press: Mysore (Karnataka) and Salboni (West Bengal)
- Security paper: Hoshangabad (1967-68)
- Coins Minting: Mumbai, Kolkata, Hyderabad, Noida

FUNCTIONS OF RBI

1. **Issue of notes**: Adopted Minimum Reserve System since 1957. Maintains gold and foreign exchange reserves of Rupees 200 crore, of which least Rupees 115 crore should be in gold.
2. **Banker to the Government**: Performs all banking functions of the State and Central Government. Also acts as an adviser to the Government on matters relating to the economic and monetary policy.
3. **Banker's Bank**

4. **Controller of Credit**: Uses quantitative as well as qualitative techniques to control credit.
5. **Custodian of Foreign Reserves**: To keep the exchange rates stable.

RBI KEY RATES

Bank Rate	**8.25%**
Repo Rate	7.25%
Reverse Repo Rate	6.25%
CRR	4%
SLR	21.5%
MSF	8.25%

FINANCIAL MARKET DEPARTMENT OF RBI

- July 6, 2005
- Perform the duties of developing and monitoring the instruments of money market and also monitoring the government securities and foreign money markets.

BILLS RELATED TO BANKING AND INSURANCE SECTOR

Bill	Details
RBI (Amendment) Bill, 2005	Fix SLR and CRR
Banking Regulation (Amendment) Bill, 2004	Remove 10% cap on voting rights. Encourage foreign banks to set up subsidiaries.
Credit Information Company (Regulation) Bill, 2004	Helping banks to deal with NPAs
Securities laws (Amendment) Bill, 2004	Dematerialise the stock exchange
Insurance Regulatory Authority Bill, 2004	Increasing the FDI cap from 26% to 49%.
Micro-finance Bill, 2012	Empower RBI to regulate the microfinance industry and fix interest rates ceiling on loans to be provided by lender.

Microfinance Institution (Development and Regulation) Bill, 2012	Introduced by Pranab Mukherjee
Banking laws (Amendment) Bill, 2012	
Enforcement of Security Interest and Recovery Debts Laws (Amendment) Bill, 2012	
Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Ordinance, 2002	Tackle the problem of NPAs. Based on the recommendations of the Narsimham and Andhyariyina Committees of financial sector reforms.
Agriculture and Rural Debt Relief Scheme, 1990	Ended in 1991

Coverage Ratio is the ratio of provisions to gross NPAs and indicates the extent of funds a lender has to keep aside to cover its loan issues.

Technical/Prudential write-offs are the amount of non-performing loans in the books of branches but yet to be written off at head office.

SELECTIVE CREDIT CONTROL

Measures taken under this are:

1. Fixation of marginal requirements
2. Fixation of maximum limit of credit given for a purpose.
3. Discriminatory interest rates on some special types of advances.

Main Objective: Control the credit given to the traders for inventories.

LOANS TO UNORGANISED SECTOR

Committee under the chairmanship of **S.C. Gupta constituted in May, 2006**.

Recommendations

1. Compulsory registration of all informal loan providers.
2. Upper ceiling of interest rate to be decided by the State Government.

3. New series of Accredited Loan Providers to be constituted.
4. Loans to be distributed by approved loan providers at their own risks, after getting the money from the banks.
5. Loans given by banks to the loan providers to be treated as private sector loans.
6. Registration and renewal process of loan providers should be simplified.
7. Penalty provisions for unauthorized loan providers.
8. Dispute settlement mechanism should be developed.

DIFFERENTIAL RATE OF INTEREST SCHEME

- Introduced in 1972.
- Covers poor borrowers having an annual family income of not more than Rupees 18000 in rural areas and Rupees 24000 in other areas and not having more than 2.5 acres of unirrigated or one acre of irrigated land.
- Under this scheme, public sector banks are required to fulfil the target of lending of atleast one percent of the total advances as at the end of the preceding year to the weakest of the weak sections of the society at an interest rate of 4% per annum.

MICRO FINANCE BILL

- 2012
- Gives power to the RBI to fix the maximum interest rates that micro-finance institutions can charge and also decide on the fair and reasonable method of loan recovery.

BHARATIYA MAHILA BANK

- First all-women bank set up in Mumbai on November 19, 2013.
- Objective: Focus on the banking needs of women and to promote their economic empowerment.

CLASSIFICATION OF COMMERCIAL BANKS

1. **Scheduled Banks**:

   Under the 2nd schedule of RBI Act, 1934

   Conditions:

   - Paid up capital and collected fund of bank should be greater than 5 lakhs.
   - Any activity of the bank will not adversely affect the interest of depositors.

Facilities enjoyed by Scheduled Banks:

- Banks become eligible for obtaining debts on bank rate from RBI.
- Acquires automatic membership of clearing house.
- Get the facility of rediscount of 1st class exchange bills from RBI.

2. **Non-scheduled Banks**

CO-OPERATIVE BANKS

- Constituted by Different States under various acts related to co-operative societies of various states.
- Task force on reviving the co-operative credit structure: Chairman: Prof. Vaidyanathan.

REGIONAL RURAL BANKS

- Established since 1975.
- RRB Act, 1976
- RBI, on June 13, 2006, announced its liberalised branch licensing policy for RRBs.

NON-BANKING FINANCIAL INSTITUTIONS (NBFIS)

NBFIs in India are:

- EXIM Bank
- NABARD
- National Housing Bank
- SIDBI
- Industrial Investment Bank of India

NBFIs account for 12.3% of the assets of the total financial system.

DEBT RECOVERY TRIBUNALS

They are established in six cities:

- Kolkata
- Delhi
- Jaipur

- Ahmedabad
- Bangalore
- Chennai

These are set up to speed up the recovery of loans disbursed by banks and other financial institutions.

First debt recovery tribunal was set up in 1994 in Kolkata.

CAPITAL ADEQUACY RATIO

- Foreign banks in India: 8%
- All Indian Banks: 4%
- All Indian banks having branches in foreign countries: 8%
- All other Indian Banks: 9%

Major indicator of growing financial soundness of Indian Banking system was the improvement in capital to risk weighted ratio (CRAR).

CRAR under Basel I	13%
CRAR under Basel II	14.2%

Maximum number of bank offices	1. Uttar Pradesh 2. Maharashtra 3. Andhra Pradesh
Share in Bank deposits	1. Delhi 2. Uttar Pradesh 3. Karnataka
Bank credit share	1. Delhi 2. Maharashtra 3. Andhra Pradesh

STOCK EXCHANGE

Bombay Stock Exchange	**Set up in 1875** **BSE launched 'Shariah' Index for financial inclusion of Muslims in India in 2013.**
National Stock Exchange	Set up in 1994

	Launched two new reference rates in 1998 namely: 1. Mumbai Inter-Bank Offer Rate (MIBOR): Lending rate for loans. 2. Mumbai Inter-Bank Bid Rate (MIBID): Lending rate for receipts.

Two new share price indices for Mumbai Share Market:

- BSE 200
- Dollex

Indian Commodity Exchange (ICEX): November 27, 2009

MIBOR AND MIBID

- June 15, 1998
- MIBOR and MIBID: two new reference rates introduced by National Stock Exchange.
- MIBOR: Mumbai Inter-Bank Offer Rate; indicator of lending rate of loans
- MIBID: Mumbai Inter-Bank Bid Rate; lending rate of receipts.

MAIN SHARE PRICE INDEX IN FAMOUS SHARE MARKET IN THE WORLD

Mumbai	**DOLEX, SENSEX, S&PCNX, NIFTY FIFTY**
New York	DOW JONES
Tokyo	NIKKEI
Frankfurt (Germany)	MID DAX
Hong Kong	HANG SENG
Singapore	SIMEX, STRAITS TIMES

SECURITIES EXCHANGE BOARD OF INDIA (SEBI)

- Set up in 1988 and was given statutory status in 1992.
- Head office in Mumbai. Other offices in Kolkata, Delhi, Chennai

MCX-SX:

- New online share market
- Established on February 9, 2013
- Country's third online trading stock exchange.

RECOMMENDATIONS OF MISTRY COMMITTEE REPORT

1. Full capital account convertibility by 2008 end.
2. Eliminate securities transaction tax by 2007 and stamp duties by 2008.
3. Open the purchase of rupee-denominated debt instruments issued by the government to all buyers.
4. Monetary authority should focus exclusively on managing the key short term 'base rate' by 2009-10.
5. Set up an independent public debt management office by 2009.
6. Shift financial regulatory regime from rules-based regulation to principles based regulation by 2011.
7. Permit unrestricted entry of well-known global accounting firms operating in IFCs/GFCs by 2008.
8. Transfer all regulation/supervision of any type of organized financial trading to SEBI by 2008.

HOUSING PRICE INDEX

- National Housing Bank RESIDEX launched in 2007.
- Only effort to capture the trend of price movements in residential property.
- Expanded to fifteen cities: Bengaluru, Delhi, Bhopal, Kolkata, Mumbai, Ahmedabad, Faridabad, Chennai, Kochi, Hyderabad, Jaipur, Patna, Lucknow, Pune and Surat.
- Updated to December 2008 with 2007 as the new base year.

INDIAN MORTGAGE GUARANTEE COMPANY

- Joint venture of Genworth (US based financial security company), Asian Development Bank, International Financial Corporation.
- Main Objective: Offer credit risk coverage in the form of guarantees to housing finance companies and banks in case of borrower's default.

INSTITUTIONS

Institute	Year	Details
Industrial Development Bank of India (IDBI)	1964	Became a banking company in 2004
Small Industrial Development Bank of India	1989	Started its operations in 1990. Headquarters in Lucknow
Industrial Finance Corporation of India Ltd.	1948	Converted into a company in 1993. It will soon merge with PNB
Industrial Credit and Investment Corporation of India	1955	
National Equity Fund Scheme	1987	Provide equity status to time small scale units having capital investment of less than rupees 10 lakh and working in areas having population less than 5 lakhs.
Industrial Investment Bank of India Ltd (IIBIL) **Formerly known as IRBI**	1985	Revives sick and closed industrial units and to act as a prime loan and reconstruction agency.
EXIM Bank	1982	
National Housing Bank	1988	Regulator of Housing Finance Companies in the country.
National Bank for Agriculture and Rural Development (NABARD)	1982	
UTI	1964	
LIC	1956	
GIC	1972	
RRB	1975	
Infrastructure Development Finance corporation	1997	

Insurance Regulatory and Development Authority	2000	To protect the interest of the holders of insurance policies.

COMMITTEES

Committee	Details
Damodaran Committee	2011 Reforms in banking services
Financial Sector Legislative Reforms Commission	2011 Chairman: B.N. SriKrishna Report Submitted in 2013
Joint Parliamentary Committee	August 10, 1992
Chandrasekhar Committee	Report submitted on April, 1997 Recommendations on transfer of shares
Malhotra Committee	Submitted its report in January 1994. Recommended insurance sector.

WHOLESALE PRICE INDEX

- Compiled by Industrial Policy and Promotion under Ministry of Commerce and Industry.
- Base year = 2004-05 (with effect from September 14, 2010)
- Number of commodities covered = 676 (In 1993-94 = 435)
- Components:

Articles	Number of items	Weight
Primary Articles	102	22.2%
Fuel & Power, light, lubricants	19	14.22%
Manufactured products	555	63.74%

- WPI does not include housing items.

DEFLATION

During deflation, the prices of goods and services fall and value of money rises. It restrains production and employment generation. It is a continuous process leading to depression.

Reasons for deflation are:

1. Government withdraws money in circulation.
2. Government imposes heavy direct taxes.
3. Central bank sells the securities in the open market.
4. Central bank controls credit money, and increase CRR.
5. Central bank increases the bank rate.
6. State of over-production

Measures of checking deflation:

1. Increase money supply
2. Promote credit creation by banks
3. Reduce taxes to increase the purchasing power of the people.
4. Increase public expenditure and increase employment opportunities in the economy.
5. Provide economic subsidy by the government to the industrial sector of the economy.

CONSUMER PRICE INDEX (CPI)

Three new CPI launched on February 18, 2011

1. All India CPI: Prepared by CSO
2. Rural CPI: Prepared by Labour Bureau
3. Urban CPI: Prepared by Labour Bureau

Base Year = 2010

Number of Commodities: Rural (225) and Urban (250)

Till 2012, CPI old series was calculated for 4 different categories:

1. Industrial Labour
2. Agricultural labour
3. Rural labour

4. Urban non-manual employees

In new series, number of weighted items are 200.

COMPONENTS OF CPI:

Components	Weight
Food, Beverages, Tobacco	49.7%
Fuel and Light	9.49%
Housing	9.77%
Clothing, Bedding, Footwear	4.73%
Miscellaneous	26.31%

CPI based inflation in February, 2013, was 10.91% due to high food prices.

On the basis of the recommendations given by Urjit R. Patel Committee report namely "Revising and Strengthening the Monetary Policy Framework", RBI adopted CPI as the new measure of inflation. It was adopted in the first bi-monthly monetary policy statement for 2014-15.

MONEY STOCK MEASURES

M_1 = Currency with the public + Demand deposits with the banks + Other Deposits (with the RBI)

M_2 = M_1 + Savings deposits with the Post office savings bank

M_3 = M_1 + Time deposits with the banks

M_4 = M_3 + All deposits with the post office savings bank (excluding National Savings Certificates)

M_1 is the most liquid and M_4 is the least liquid.

The decline in liquidity of the measures indicates the shifting from 'medium of exchange' function to 'store of value'.

Cheap Money Policy: Under this, loans and advances are made available on low interest rate and easy terms.

Dear Money Policy: It is used to squeeze the credit utilization facility in the economy.

Inflation Indexed Bonds: Issued by RBI to raise money under central Government's borrowing programme, where the principle is linked to price rise in the economy. Thus, these bonds eliminate the inflation risk of an Investment.

INDIAN POPULATION

THEORY OF OPTIMUM POPULATION

Optimum Population is the one at which per capita income is maximum.

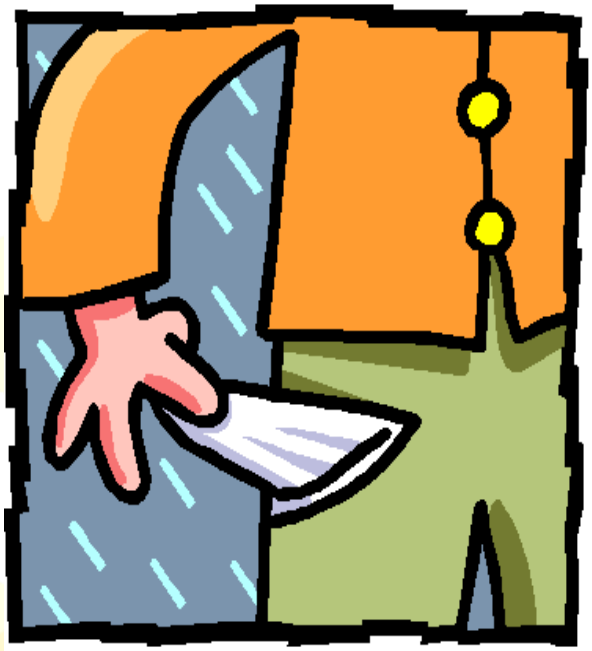
If with increase in population, the per capita income also increases, then population is less than the optimum level and vice versa.

The theory is based on the concept of balance between different resources.

POVERTY IN INDIA

Various committees formed are as follows:

Committee	Year	Measure/Objective
Dandakar Committee	1971	A person is considered to be poor if his daily consumption is less than 2250 calories a day for both rural and urban areas.
Alagh Committee	1979	A person is considered to be poor if he consumes: 2400 calories a day (Rural) 2100 calories a day (Urban)
Lakhadawala Committee	1993	The committee provided state specific poverty estimates. It used Consumer price index for Industrial workers as a measure of poverty.
Tendulkar Committee	2009	The families were considered to be BPL on the basis of their consumption expenditure. The committee adopted the cost of living index as a measure for poverty.
Rangarajan Committee	2012	The committee reviewed the process and methodology for the measurement of poverty. They had to submit their report by mid-2014.



- **Planning Commission uses Monthly Per Capita Expenditure (MPCE)** as a measure of poverty in India. In 2011-12, the line of divide between BPL and APL was Rupees **816 per month in rural areas and Rupees 1000 per month in urban areas**.
- According to the latest estimates of **July, 2013**, **the poverty line is Rupees 27 per day in rural areas and Rupees 30 per day in urban areas**.
- International Food Policy Research Institute developed a new index namely **Global Hunger Index (GHI)** which measured the level of malnourishment. The **determinants** of GHI are:
  1. Proportion of Under-nourished in total population
  2. Child under-weight (upto the age of 5 years)
  3. Child Mortality rate

GHI < 5	Low Hunger
5 < GHI < 9.9	Moderate Hunger
10.0 < GHI < 19.9	Serious Hunger
20.0 < GHI < 29.9	Alarming Hunger
30 < GHI	Extremely Alarming Hunger

It scales from zero to 100, with zero considered to be the best and 100 to be the worst.

India moved to 63rd rank from 65th in 2013 and the score was 21.3. Latest estimates reveal that India moved up to 55th rank in 2014 with the score 17.8.

- **Human Poverty Index**: It was introduced as a part of Human Development Report bu UNDP in **1997**. It was prepared in two forms:
  1. **HPI 1**: The determinants were Longevity, Knowledge and decent standard of living.
  2. **HPI 2**: It was especially for Industrial nations. The index includes another determinant, that is, social exclusion.
- **Multi-Dimensional Poverty Index:** It **replaced HPI index in 2010**. It was developed by **Oxford Poverty and Human Development Initiative (OPHI).** The indicators are as follows:
  1. **Education (1/6th of each indicator)**

a. Years of schooling
b. Child enrolment.

2. **Health (1/6th of each indicator)**
   a. Child Mortality
   b. Nutrition
3. **Standard of living (1/18th of each indicator)**
   a. Electricity
   b. Drinking Water
   c. Sanitation
   d. Flooring
   e. Cooking Fuel
   f. Assets

Under the index, 104 countries are covered. **India's multi-dimensional index value was 0.283 in 2005-06 and 53.7 percent of the population** was living under multi-dimensional poverty.

POPULATION TRENDS IN INDIA

Years	**Period**	**Features**
1891-1921	Period of Stagnant Population	Growth rate of population = 0.19%
1921-1951	Period of Steady Growth	Death rate decreases and Birth rate remains constant. Increasing population
1951 – 1981	Period of High Growth	Population increasing at a faster rate (Population Explosion in India)
1981-2011	Period of declining growth rate	Birth rate decreasing at a faster rate than Death Rate

Causes of Population Growth

High Birth Rate

1. **Economic Factors:**
   - Predominance of agriculture
   - Slow rate of urbanisation
   - High poverty ratio
   - Low growth rate of income
2. **Social Factors:**
   - Early marriage
   - Universality of marriage
   - Preference of male child
   - Religious and social superstitions
   - Lack of education

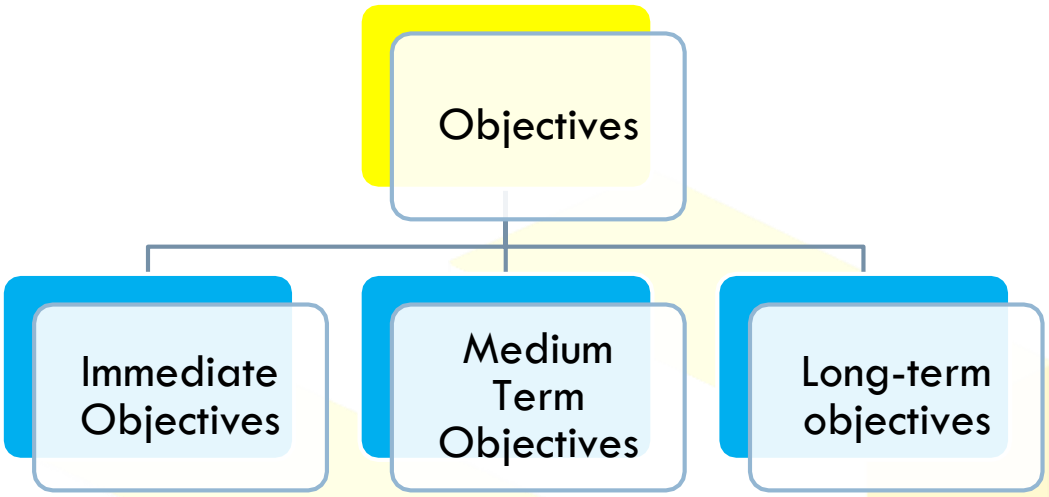
Relatively low Death Rate

1. Elimination of famines
2. Control of epidemics
3. Decline in incidence of malaria and tuberculosis
4. Other factors like safe drinking water, improved medical facilities, etc.

NATIONAL POPULATION POLICY, 1976

- Announced on April 6, 1976
- Coercive methods used
- Treated family planning and economic development as substitutes
- The policy failed.

NATIONAL POPULATION POLICY, 2000



Immediate Objectives:

1. Address the unmet needs of contraception, health, infrastructure, health personnel and to provide integrated service delivery for basic reproductive and child health care.

Medium Term Objectives:

1. Decrease the total fertility rates to replacement level by 2010.

Long term Objectives:

1. Achieve stable population by 2045

Other Objectives:

1. Decrease the Maternal Mortality Rate to below 100 per lakh live births.
2. Decrease the Infant Mortality Rate to below 30 per 1000 live births.
3. Achieve universal immunization of children against all vaccine preventable diseases.
4. Counselling services related to fertility and contraception methods.
5. Promote delayed marriage for girls.
6. Prevent and control communicable diseases.
7. Promote the small family norm.
8. Make family welfare a people central programme.

GOALS IN THE TWELFTH FIVE YEAR PLAN

1. Decreasing maternal mortality rate to 1 per 1000 live births.
2. Decreasing infant mortality rate to 25 per 1000 live births.
3. Decreasing total fertility rate to 2.1
4. 50% 'Gram Panchayat' receive 'Nirmal Gram Status'.
5. 50% of rural population should have access to 40lped piped drinking water.
6. Decreasing malnutrition among children of age group 0-3 to half its present level.
7. Raising sex ratio for age group 0-6 to 950 by 2016-17.

CLASSIFICATION OF URBAN AREAS

- Class I: Population 1,00,000 & above
- Class II: Population 50,000 - 99,999
- Class III: Population 20,000 - 49,999
- Class IV: Population 10,000 - 19,999
- Class V: Population 5,000 - 9,999
- Class VI: Population of less than 5,000

URBAN AGGLOMERATION

- Introduced in Census 1971.
- Includes suburban outgrowth of towns.
- Includes outgrown population

Year	Urban Agglomeration
1971	9
1981	12
1991	23
2001	35
2011	53
2013	54

Out-Growths

Viable unit made up of such village or hamlet and clearly identified in terms of its boundaries and location.

Example: University Campus

CENSUS 2011

	Year	Percent of Population
Urban Population	2001	27.78%
	2011	31.16%
Rural Population	2001	72.2%
	2011	68.84%

Density of Population

	State	2001	2011
Highest	Delhi	9340	11,320
	Chandigarh	7900	9258
Lowest	Andaman & Nicobar Islands	43	46
	Arunachal Pradesh	13	17

Decadal Growth Rate

	State	2001-11
Highest	Dadra & Nagar Haveli	55.5
	Daman & Diu	53.54
Lowest	Kerala	4.86
	Nagaland	-0.6

Sex Ratio (India: 943)

	State	2001	2011
Highest	Kerala	1058	1084
	Puducherry	1001	1037
Lowest	Dadra & Nagar Haveli	812	774
	Daman & Diu	710	618

State-wise Literacy Rate

(India: 73%; Male: 80.9%; Female: 64.6%)

	State	2011	Male/Female
Highest	Kerala	94%	Male: 96.1% Female: 92.1%
	Lakshadweep	91.8%	Male: 95.6% Female: 89.3%
Lowest	Arunachal Pradesh	65.4%	Male: 72.6% Female: 52.1%
	Bihar	61.8%	Male: 71.2% Female: 51.5%

Share in Total Population

	State	2001	2011
Highest	Bihar	16.16	16.49
	Maharashtra	9.42	9.29
Lowest	Daman & Diu	0.02	0.02
	Lakshadweep	0.01	0.01

Population Density:

2001: 325; 2011: 385

NATIONAL POPULATION REGISTER

Objectives:

1. Collection of personal details of all residents of the country.
2. Take pictures of finger prints of people above 15 years in villages/ urban areas.

WORLD POPULATION

	Country	Population (in millions)
Highest	China	1347.6
	India	1210.5
Lowest	Russian Fed.	143.1
	Japan	127.6

Highest Gender Development Index and Gender Empowerment Index:

1. Kerala
2. Chandigarh
3. Goa

Infant Mortality rates:

Area	**Infant Mortality rate (2011)**
Rural	48
Urban	29
All	44
Lowest Infant Mortality Rate	**Goa, Manipur**
Highest Infant Mortality Rate	**Madhya Pradesh, Uttar Pradesh, Odisha**

India has a high population growth rate because:

- Large size of population in the reproductive age-groups.
- High fertility rate due to unmet need for contraception and high wanted fertility due to prevailing high infant mortality rate.

PROJECTED SCENARIO BY 2026

This was given by Technical group of National Population Commission constituted in July, 2000. The projections are as follows:

Total Projected population	**140 crore**
Birth rate	16 per 1000
Infant mortality rate	40 per 1000
Sex ratio	930 per 1000 males
Population density	426 persons per sq. km
Population growth (2001- 2026)	36%
Highest population growth	Delhi (102%)
Lowest population growth	Tamil Nadu (15%), Kerala (17%)

NATIONAL RURAL HEALTH MISSION, 2005

It aims to provide accessible, affordable and accountable quality health services to rural areas with emphasis on poor persons and remote areas.

NATIONAL URBAN HEALTH MISSION

- January 20, 2014.
- Objective: Provide adequate and efficient urban public health delivery system for the urban poor.
- Importance to be given to sanitation, clean drinking water, vector control and other related issues.
- Scheme would benefit migrant labour, slum dwellers, rag pickers and other marginalized sections of the society.

POVERTY

COMMITTEES ON POVERTY

Committee	Year	Details
Dandakar Committee	1971	2250 calories per day for rural and urban areas. Those consuming below this limit were considered to be poor.
Alagh Committee	1979	2400 calories per day for rural. 2100 calories per day for urban.
Lakhadawala Committee	1993	Gave state specific poverty estimates. Followed CPI for Industrial workers.
Tendulkar Committee	2009	Identified BPL families on the basis of consumption expenditure. They evolved a new formula incorporating the cost of living index.
Rangarajan Committee	2012	They reviewed the process and methodology of poverty measurement. They submitted the report by mid 2014.

Planning Commission uses Monthly Per Capita Expenditure (MPCE) which in 2011-12 was Rupees 816 per head for people staying in Rural areas and Rupees 1000 per head for the ones staying in urban areas.

As per the latest estimates of July, 2013, poverty line is defined as:

Rural	Rupees 27 per day
Urban	Rupees 30 per day

Global Hunger Index: It measures the level of mal-nourishment computed by International Food Policy Research Institute.

It takes into account:

- Under-nourishment
- Child (below 5 years) under weight
- Child Mortality

The value of GHI lies between 0 and 100 where 0 is considered to be the best and 100 to be the worst.

India's rank moved from 63 to 55 in 2014 and the score was 17.8.

HUMAN POVERTY INDEX

It was introduced as a part of Human Development Report by UNDP in 1997. It was prepared in two forms:

1. HPI 1: Determinants were:
    - Longevity
    - Knowledge
    - Decent Standard of living
2. HPI 2: It was for industrial nations and includes social exclusion as well, besides all the determinants of HPI 1.

Multi-dimensional poverty index replaced HPI in 2010.

FOREIGN TRADE AND BALANCE OF PAYMENTS

India's Balance of Trade improved in 1993-94.

Reason: Firstly, Devaluation of rupee in 1991. Secondly, Convertibility of Indian rupee in trade account and current account during 1993-94 and 1994-95 respectively.

Trade Deficit

Year	Trade Deficit
2012-13	US $190.3 billion
2013-14	US $137.5 billion

Export Composition

Share of Manufacturing exports decreased **(Reason: Fall in shares of traditional items like textiles and leather)**	**78.8% (2000-01)** **63.7% (2013-14)**
Share of engineering goods and chemicals increased	15.7% (2000-01) 19.8% (2013-14)
Share of gems and jewellery fell marginally	16.6% (2000-01) 13.1% (2013-14)
Share of petroleum, crude and products exports increased.	4.2% (2000-01) 20.1% (2013-14)

Import Composition

Share of POL Increased	**31.3% (2000-01)** **36.7% (2013-14)**
Share of Gold and Silver increased	9.3% (2000-01) 7.4% (2013-14)

Share of pearls, precious and semi-precious stones decreased	9.7% (2000-01) 5.3% (2013-14)
Share of capital goods increased	10.5% (2000-01) 11.9% (2013-14)
Share of electronic good decreased	7.0% (2000-01) 6.9% (2013-14)

RECENT DEVELOPMENTS IN BILATERAL AND REGIONAL CO-OPERATION

Agreement	Year	Details
Agreement on South Asia Free Trade Area (SAFTA)	January 6, 2004 Came into force in 2006	India granted zero custom duty to less developed countries: Afghanistan, Bangladesh, Bhutan and Maldives; except on 25 items: alcohol & tobacco, etc. India reduced peak tariff rates to 5% with effect from January 1, 2013
India-Thailand FTA, Early Harvest Scheme (EHS)	October 9, 2003	Eliminate tariffs
India-ASEAN Comprehensive Economic Co-operation Agreement (CECA)	August 13, 2009	
Regional Comprehensive Economic Partnership	April, 2012	Agreement among ASEAN + 6 (Australia, China, India, Japan, Korea and New Zealand) Objective was to achieve a modern, comprehensive high quality and mutually

BALANCE OF PAYMENT

1. **Current Account:**
    - Visible Balance of Trade
    - Invisible Balance of Trade: Services (Tourism, Transport, Software service); Private transfers, Accounting of investment income
2. **Capital Account**
    - FDI: India and abroad
    - Portfolio Investment: Loans, Banking capital, NRI deposits

MEASURES TAKEN BY THE GOVERNMENT FOR IMPROVING THE BALANCE OF PAYMENT

Full convertibility of Rupee in the current account

LERMS	1992-93 60% to any dealer (foreign exchange) 40% to RBI
Full convertibility of Rupee in trade account	1993-94

Tarapore Committee on Full Convertibility of rupee in Capital account: It submitted its report on July 31, 2006.

The committee suggested three phases of adopting full convertibility:

1. 2006-07
2. 2007-09
3. 2011

EXPORT PROMOTING ZONES (EPZS)

There are 8 EPZs namely:

1. Kandla
2. Surat
3. Santa Cruz
4. Cochin
5. Chennai
6. Vishakhapatnam
7. Faeta
8. Noida

Special Economic Zones (SEZs) was announced in EXIM policy, 2000. It aimed to set up 579 SEZs of which 384 have been notified.

Duty Drawback Scheme was introduced in October 1, 2011. It aimed to give lower tax refunds to the exporters of the country.

After 1991, Indian foreign exchange reserves have rapidly increased due to:

1. Devaluation of rupee
2. Availability of loans from international institution
3. Availability of foreign exchange from NRIs under various schemes.
4. Increased foreign investment
5. Full convertibility of rupee on current account.
6. Absorption of dollar supplies by central bank.
7. Easy access to external commercial borrowing

FERA, 1973 was replaced by FEMA, 1999 and came into force on June 1, 2000.

Note: External debt of India increased during 2012-13 due to rise in short term credit needs.

India is the fifth largest indebted nation.

FOREIGN TRADE POLICY (2009-14)

Introduced by **Anand Sharma**

Targets were as follows:

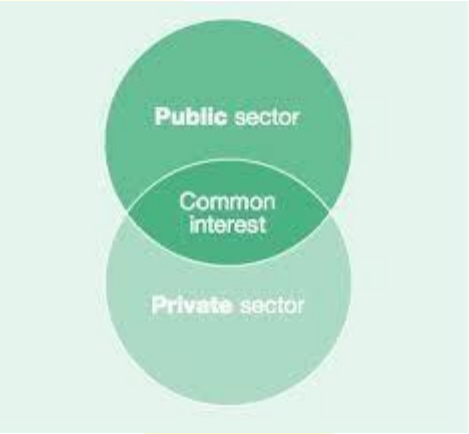
- Double India's share in global trade by 2020 which was 1.64% in 2008 according to WTO estimates.
- Increasing the exports to 25% annually. Target was US$ 200 billion by 2011.
- Promote free trade, zero duty export promotion. Capital goods scheme to be extended by one year to march 31, 2012.
- Number of items under this scheme was also increased. List of items allowed for duty free imports of gems and jewellery, etc. were expanded.
- Steps were taken to reduce the transaction cost of exports.
- Duty Entitlement passbook extended till December 2010.

INFRASTRUCTURE AND INVESTMENT MODELS

PUBLIC-PRIVATE PARTNERSHIP

Arrangement between government or statutory entity and private sector entity for the provision of public assets or public services.

Features:



1. Arrangement with private sector entity: Private sector's share: 51% or more.
2. Provision of public assets or service for the public benefit.
3. Investments undertaken by private sector entity.
4. Operations or management of services for a specified period.
5. Risk sharing with the private sector.
6. Focus on the performance and accordingly the payment is made.

Conditions:

1. Allocation of risks in an optimal manner.
2. Performance linked fee payment.
3. Long term arrangement
4. Incentive and penalty based structures.
5. Outcomes of public private partnership are normally pre-defined as output parameters.

Types of Public-Private Partnership Models in India

1. **BOT-Toll (Build-Operate Transfer Toll):**
   - Large risk sharing component.
   - Private sector undertakes all costs and earns all profits.
2. **BOOT (Build Operate Own Transfer)**
   - Projects with long gestation period like highways.
   - Facility transferred back to government after some time period.
3. **JV (Joint Venture)**

- Private sector takes the responsibility of design, construction and management.
- Public sector offers fixed assets at a predetermined value.

4. **MC (Management Control)**
    - Agreement regarding the management
5. **BOT (Build Operate Transfer)**
    - Private sector has the responsibility to design, build, operate the facility and then transfer it to the private sector.
    - Private sector arranges for the finance.
6. **BOT Annuity (Build Operate TransferAnnuity)**
    - Cost of building the facility is paid annually to the private sector after the starting of commercial operations.
7. **BOO (Build Own Operate)**
    - Ownership of the project remains with the private entity. Private entity has the responsibility to design, construct, finance, operate and maintain the project.
8. **DBFOT (Design Build Finance Operate Transfer)**
    - Design Build Finance Operate Transfer for the period of concession.
9. **BOOST (Build Operate Own Share Transfer)**
    - Similar to BOOT but the revenue is shared with private sector even when the rights are transferred to the public entity.

GLOBAL FINANCIAL CRISIS

RECESSION IN US ECONOMY IN 2008

Reasons:

1. Recession in U.S. was due to the huge amount of losses in the US Subprime Mortgage Market.
2. Tightening of monetary policy
3. Lack of supervision and regulatory failures.

Effect of U.S. Recession on other economies:

1. Direct effect on sub-prime assets.
2. Loss of confidence
3. Drying-up of wholesale financial markets.
4. Loss in economic activity of the countries dependent on U.S.
5. Outflow of capital from U.S. to other countries helped in stimulating the investment and increasing economic activity in certain nations.

Measures taken by Advanced Economies and G-20 forum:

1. Easing of monetary policy. Interest rate to be near zero in major developed economies.
2. Easing of fiscal policy
3. Discretionary stimulus package announced by each country.

EURO ZONE CRISIS

Countries most Affected: Greece, Ireland, Portugal

Causes of the Crisis:

1. Globalisation of finance
2. Easy credit conditions which led to high risk lending and borrowing practices.
3. Global financial crisis of 2008.
4. Imbalances due to international trade
5. Real estate bubbles
6. Wrong fiscal policies adopted by the countries.

7. Bail out packages for troubled banking industries and private bond holders.

EUROPEAN FINANCIAL STABILIZATION MECHANISM (EFSM)

- Created by European Union on January 5, 2011.
- Emergency fund programme
- Dependent on funds raised in the financial markets which were guaranteed by the European Commission.
- Budget of the European Union was used as a collateral.
- Aims at preserving the financial stability of European Union by providing financial assistance at times of economic instability.
- Backed by 27 European Union Members.
- Can raise upto Euro 60 billion
- EFSM has been replaced by European Stabilization Mechanism since October, 2012.

BRUSSELS AGREEMENT

- Signed by 17 Euro Zone Countries' leaders on October 26, 2011.
- Bail-out package to waive off 50% of Greek sovereign debt held by banks.
- Increased mandatory level of 9% for bank capitalisation within EU.
- Italy to reduce its national debt.
- Euro 35 billion to be constituted as "Credit Enhancement" to cover for losses likely to be suffered by European banks.

LONG TERM REFINANCING OPERATION

- December 22, 2011
- European Central Bank infused a credit worth Euro489 billion to 523 banks.
- Loans were given to these banks for a period of three years at 1% rate of interest.

COMMITTEES

Year	Committee	Purpose
1969	Gadgil Committee	Determine priority sector lending.
1975	Narsimham Committee	Establishment of Regional Rural Banks
1980	Chore Committee	Review of cash credit
1983	Y.B. Damle Committee	Introduction of Magnetic In Character Recognition (MICR)
1986	Rangarajan Committee	Related to Banking
1991	Rangarajan Committee	Related to Banking
1991	Khusro Committee	Review of agricultural credit system
1991	Gorporia Committee	Customer Service Improvement
1991	Narsimham Committee	Financial sector reforms
1993	Malhotra committee	Insurance sector reforms
1995	Padmanabham committee	Banking supervision
1997	Tarapore committee	Capital account convertibility
1998	Narsimham committee	Part II of the financial sector reforms
1978	Dantwala committee	Check the viability of RRBs
2008	Rangarajan committee	Financial inclusion
2011	Malgaem committee	Issues on micro-finance institutions
2011	Damodran committee	Improvement of customer service in banks
2012	Mahapatra committee	Restructuring of advances by banks
2006	Gupta working group	Provide suggestions on regulating loans to unorganised sector.

Key Features
of
Budget
2015-2016

February 28, 2015

Key Features of Budget 2015-2016

INTRODUCTION

- Credibility of Indian economy has been re-established in the last nine months.
- Indian economy about to take-off on a fast growth trajectory.
- Most growth forecasts have upgraded Indian economic growth while downgrading global economic growth.
- Economically empowered States are equal partners to Indian economic growth.
- Round the clock, round the year Government to pursue accelerated growth, enhanced investment for the benefit of all Indians.
- After inheriting an economy with sentiments of "doom and gloom" with adverse macro-economic indicators, nine months have seen at turn around, making India fastest growing large economy in the World with a real GDP growth expected to be 7.4% (New Series).
- Stock market - Second best performing in 2014.
- Macro-economic stability and conditions for sustainable poverty alleviation, job creation and durable double digit economic growth have been achieved.
- Restored the trust of the people on the Government by delivering on different areas.

Three Key achievements:

- Financial Inclusion - 12.5 crores families financially mainstreamed in 100 days.
- Transparent Coal Block auctions to augment resources of the States.
- Swachh Bharat is not only a programme to improve hygiene and cleanliness but has become a movement to regenerate India.
- Game changing reforms on the anvil:
  - Goods and Service Tax (GST)
  - Jan Dhan, Aadhar and Mobile (JAM) - for direct benefit transfer.

STATE OF ECONOMY

Inflation

- Inflation declined - a structural shift
- CPI inflation projected at 5% by the end of the year, consequently, easing of monetary policy.

- Monetary Policy Framework Agreement with RBI, to keep inflation below 6%.
- GDP growth in 2015-16, projected to be between 8 to 8.5%.

Amrut Mahotsav - The year 2022, 75th year of Independence

Vision for "Team India" led by PM

- Housing for all - 2 crore houses in Urban areas and 4 crore houses in Rural areas.
- Basic facility of 24x7 power, clean drinking water, a toilet and road connectivity.
- At least one member has access to means for livelihood.
- Substantial reduction in poverty.
- Electrification of the remaining 20,000 villages including off-grid Solar Power- by 2020.
- Connecting each of the 1,78,000 un-connected habitation.
- Providing medical services in each village and city.
- Ensure a Senior Secondary School within 5 km reach of every child, while improving quality of education and learning outcomes.
- To strengthen rural economy - increase irrigated area, improve the efficiency of existing irrigation systems, and ensure value addition and reasonable price for farm produce.

- Ensure communication connectivity to all villages.
- To make India, the manufacturing hub of the World through Skill India and the Make in India Programmes.
- Encourage and grow the spirit of entrepreneurship - to turn youth into job creators.
- Development of Eastern and North Eastern regions on par with the rest of the country.

Major Challenges Ahead

- Five major challenges: Agricultural income under stress, increasing investment in infrastructure, decline in manufacturing, resource crunch in view of higher devolution in taxes to states, maintaining fiscal discipline.
- To meet these challenges public sector needs to step in to catalyse investment, make in india programme to create jobs in manufacturing, continue support to programmes with important national priorities such as agriculture, education, health, MGNREGA, rural infrastructure including roads.
- Challenge of maintaining fiscal deficit of 4.1% of GDP met in 2014-15, despite lower nominal GDP growth due to lower inflation and consequent sub-dued tax buoyancy.

Fiscal Roadmap

- Government firm on journey to achieve fiscal target of 3% of GDP.
- Realistic figures shown in fiscal account without showing exaggerated revenue projections.

- With improved economy, pressure to accelerate fiscal consolidation too has decreased.
- Accordingly, journey for fiscal deficit target of 3% will be achieved in 3 years rather than 2 years. The fiscal deficit targets are 3.9%, 3.5% and 3.0% in FY 2015-16, 2016-17 & 2017-18 respectively.

- Additional fiscal space will go to funding infrastructure investment.
- Need to view public finances from a National perspective and not just the perspective of the Central Government. Aggregate public expenditure of the Governments, as a whole can be expected to rise substantially.
- Disinvestment to include both disinvestment in loss making units, and some strategic disinvestment.

Good governance

- Need to cut subsidy leakages, not subsidies themselves. To achieve this, Government committed to the process of rationalizing subsidies.
- Direct Transfer of Benefits to be extended further with a view to increase the number of beneficiaries from 1 crore to 10.3 crore.

Agriculture

- Major steps take to address the two major factors critical to agricultural production, that of soil and water.

- 'Paramparagat Krishi Vikas Yojana' to be fully supported.
- 'Pradhanmantri Gram Sinchai Yojana' to provide 'Per Drop More Crop'.
- ` 5,300 crore to support micro-irrigation, watershed development and the 'Pradhan Mantri Krishi Sinchai Yojana'. States urged to chip in.
- ` 25,000 crore in 2015-16 to the corpus of Rural Infrastructure Development Fund (RIDF) set up in NABARD; ` 15,000 crore for Long Term Rural Credit Fund; ` 45,000 crore for Short Term Co-operative Rural Credit Refinance Fund; and ` 15,000 crore for Short Term RRB Refinance Fund.
- Target of ` 8.5 lakh crore of agricultural credit during the year 2015-16.
- Focus on improving the quality and effectiveness of activities under MGNREGA.
- Need to create a National Agriculture Market for the benefit farmers, which will also have the incidental benefit of moderating price rises. Government to work with the States, in NITI, for the creation of a Unified National Agriculture Market.

Funding the Unfunded

- Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of ` 20,000 crores, and credit guarantee corpus of ` 3,000 crores to be created.
- In lending, priority will be given to SC/ST enterprises.

- MUDRA Bank will be responsible for refinancing all Micro-finance Institutions which are in the business of lending to such small entities of business through a Pradhan Mantri Mudra Yojana.
- ATrade Receivables discounting System (TReDS) which will be an electronic platform for facilitating financing of trade receivables of MSMEs to be established.
- Comprehensive Bankruptcy Code of global standards to be brought in fiscal 2015-16 towards ease of doing business.
- Postal network with 1,54,000 points of presence spread across villages to be used for increasing access of the people to the formal financial system.
- NBFCs registered with RBI and having asset size of ` 500 crore and above may be considered for notifications as 'Financial Institution' in terms of the SARFAESI Act, 2002.

From Jan Dhan to Jan Suraksha

- Government to work towards creating a functional social security system for all Indians, specially the poor and the under-privileged.
- Pradhan Mantri Suraksha Bima Yojna to cover accidental death risk of ` 2 Lakh for a premium of just ` 12 per year.
- Atal Pension Yojana to provide a defined pension, depending on the contribution and the period of contribution. Government to contribute 50% of the beneficiaries' premium limited to ` 1,000 each year, for five years, in the new accounts opened before 31st December 2015.
- Pradhan Mantri Jeevan Jyoti Bima Yojana to cover both natural and accidental death risk of ` 2 lakh at premium of ` 330 per year for the age group of 18-50.
- A new scheme for providing Physical Aids and Assisted Living Devices for senior citizens, living below the poeverty line.
- Unclaimed deposits of about ` 3,000 crores in the PPF, and approximately ` 6,000 crores in the EPF corpus. The amounts to be appropriated to a corpus, which will be used to subsidize the premiums on these social security schemes through creation of a Senior Citizen Welfare Fund in the Finance Bill.
- Government committed to the on-going schemes for welfare of SCs, STs and Women.

Infrastructure

- Sharp increase in outlays of roads and railways. Capital expenditure of public sector units to also go up.
- National Investment and Infrastructure Fund (NIIF), to be established with an annual flow of ` 20,000 crores to it.
- Tax free infrastructure bonds for the projects in the rail, road and irrigation sectors.
- PPP mode of infrastructure development to be revisited and revitalised.

- Atal Innovation Mission (AIM) to be established in NITI to provide Innovation Promotion Platform involving academicians, and drawing upon national and international experiences to foster a culture of innovation , research and development. A sum of ` 150 crore will be earmarked.

- Concerns of IT industries for a more liberal system of raising global capital, incubation facilities in our Centres of Excellence, funding for seed capital and growth, and ease of Doing Business etc. would be addressed for creating hundreds of billion dollars in value.

- (SETU) Self-Employment and Talent Utilization) to be established as Techno-financial, incubation and facilitation programme to support all aspects of start-up business. ` 1000 crore to be set aside as initial amount in NITI.

- Ports in public sector will be encouraged, to corporatize, and become companies under the Companies Act to attract investment and leverage the huge land resources.

- An expert committee to examine the possibility and prepare a draft legislation where the need for multiple prior permission can be replaced by a pre-existing regulatory mechanism. This will facilitate India becoming an investment destination.

- 5 new Ultra Mega Power Projects, each of 4000 MW, in the Plug-and-Play mode.

Financial Market

- Public Debt Management Agency (PDMA) bringing both external and domestic borrowings under one roof to be set up this year.

- Enabling legislation, amending the Government Securities Act and the RBI Act included in the Finance Bill, 2015.

- Forward Markets commission to be merged with SEBI.

- Section-6 of FEMA to be amended through Finance Bill to provide control on capital flows as equity will be exercised by Government in consultation with RBI.

- Proposal to create a Task Force to establish sector-neutral financial redressal agency that will address grievance against all financial service providers.

- India Financial Code to be introduced soon in Parliament for consideration.

- Vision of putting in place a direct tax regime, which is internationally competitive on rates, without exemptions.

- Government to bring enabling legislation to allow employee to opt for EPF or New Pension Scheme. For employee's below a certain threshold of monthly income, contribution to EPF to be option, without affecting employees' contribution.

Monetising Gold

- Gold monetisation scheme to allow the depositors of gold to earn interest in their metal accounts and the jewellers to obtain loans in their metal account to be introduced.

- Sovereign Gold Bond, as an alternative to purchasing metal gold scheme to be developed.

- Commence work on developing an Indian gold coin, which will carry the Ashok Chakra on its face.

Investment

- Foreign investments in Alternate Investment Funds to be allowed.
- Distinction between different types of foreign investments, especially between foreign portfolio investments and foreign direct investments to be done away with. Replacement with composite caps.
- A project development company to facilitate setting up manufacturing hubs in CMLV countries, namely, Cambodia, Myanmar, Laos and Vietnam.

Safe India

- ` 1000 crores to the Nirbhaya Fund.

Tourism

- Resources to be provided to start work along landscape restoration, signage and interpretation centres, parking, access for the differently abled , visitors' amenities, including securities and toilets, illumination and plans for benefiting communities around them at various heritage sites.
- Visas on arrival to be increased to 150 countries in stages.

Green India

- Target of renewable energy capacity revised to 175000 MW till 2022, comprising 100000 MW Solar, 60000 MW Wind, 10000 MW Biomass and 5000 MW Small Hydro.
- A need for procurement law to contain malfeasance in public procurement.
- Proposal to introduce a public Contracts (resolution of disputes) Bill to streamline the institutional arrangements for resolution of such disputes.

- Proposal to introduce a regulatory reform Bill that will bring about a cogency of approach across various sectors of infrastructure.

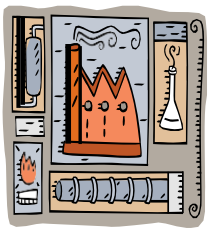
Skill India

- Less than 5% of our potential work force gets formal skill training to be employable. A national skill mission to consolidate skill initiatives spread accross several ministries to be launched.
- Deen Dayal Upadhyay Gramin Kaushal Yojana to enhance the employability of rural youth.
- A Committee for 100th birth celebration of Shri Deen Dayalji Upadhyay to be announced soon.
- A student Financial Aid Authority to administer and monitor the front-end all scholarship as well Educational Loan Schemes, through the Pradhan Mantri Vidya Lakshmi Karyakram.

- An IIT to be set up in Karnataka and Indian School of Mines, Dhanbad to be upgraded in to a full-fledged IIT.
- New All India Institute of Medical Science (AIIMS) to be set up in J&K, Punjab, Tamil Nadu, Himachal Pradesh and Assam. Another AIIMS like institutions to be set up in Bihar.
- A post graduate institute of Horticulture Research & Education is to be set up in Amritsar.

- 3 new National Institute of Pharmaceuticals Education and Research in Maharashtra, Rajasthan & Chattisgarh and one institute of Science and Education Research is to be set up in Nagaland & Orissa each.
- An autonomous Bank Board Bureau to be set up to improve the governance of public sector bank.
- The National Optical Fibre Network Programme (NOFNP) to be further speeded up by allowing willing states to execute on reimbursement of cost basis.
- Special assistance to Bihar & West Bengal to be provided as in the case of Andhra Pradesh.
- Government is committed to comply with all the legal commitments made to AP & Telengana at the time of their re-organisation.
- Inspite of large increase in devolution to state sufficient fund allocated to education, health, rural development, housing, urban development, women and child development, water resources & cleaning of Ganga.

- Part of Delhi-Mumbai Industrial Corridor (DMIC); Ahmedabad-Dhaulera Investment region and Shendra-Bidkin Industrial Park are now in a position to start work on basic infrastructure.



- Made in India and the Buy and the make in India policy are being carefully pursued to achieve greater self-sufficiency in the area of defence equipment including air-craft.
- The first phase of GIFT to become a reality very soon. Appropriate regulations to be issued in March.

BUDGET ESTIMATES

- Non-Plan expenditure estimates for the Financial Year are estimated at ` 13,12,200 crore.
- Plan expenditure is estimated to be ` 4,65,277 crore, which is very near to the R.E. of 2014-15.

- Total Expenditure has accordingly been estimated at ` 17,77,477 crore.
- The requirements for expenditure on Defence, Internal Security and other necessary expenditures are adequately provided.
- Gross Tax receipts are estimated to be ` 14,49,490 crore.
- Devolution to the States is estimated to be ` 5,23,958.
- Share of Central Government will be ` 9,19,842.

- Non Tax Revenues for the next fiscal are estimated to be ` 2,21,733 crore.
- Fiscal deficit will be 3.9 per cent of GDP and Revenue Deficit will be 2.8 per cent of GDP.

TAX PROPOSAL

- Objective of stable taxation policy and a non-adversarial tax administration.
- Fight against the scourge of black money to be taken forward.
- Efforts on various fronts to implement GST from next year.
- No change in rate of personal income tax.

- Proposal to reduce corporate tax from 30% to 25% over the next four years, starting from next financial year.
- Rationalisation and removal of various tax exemptions and incentives to reduce tax disputes and improve administration.
- Exemption to individual tax payers to continue to facilitate savings.
- Broad themes:
  - Measures to curb black money;
  - Job creation through revival of growth and investment and promotion of domestic manufacturing – "Make in India";
  - Improve ease of doing business - Minimum Government and maximum governance;
  - Improve quality of life and public health – Swachh Bharat;
  - Benefit to middle class tax-payers; and
  - Stand alone proposals to maximise benefit to the economy.

Black Money

- Generation of black money and its concealment to be dealt with effectively and forcefully.
- Investigation into cases of undisclosed foreign assets has been given highest priority in the last nine months.

- Major breakthrough with Swiss authorities, who have agreed to:
  - Provide information in respect of cases independently investigated by IT department;
  - Confirm genuineness of bank accounts and provide non-banking information;
  - Provide such information in time-bound manner; and
  - Commence talks for automatic exchange of information.

- New structure of electronic filing of statements by reporting entities to ensure seamless integration of data for more effective enforcement.

- Bill for a comprehensive new law to deal with black money parked abroad to be introduced in the current session.

- Key features of new law on black money:

  - Evasion of tax in relation to foreign assets to have a punishment of rigorous imprisonment upto 10 years, be non-compoundable, have a penalty rate of 300% and the offender will not be permitted to approach the Settlement Commission.

  - Non-filing of return/filing of return with inadequate disclosures to have a punishment of rigorous imprisonment upto 7 years.

  - Undisclosed income from any foreign assets to be taxable at the maximum marginal rate.

  - Mandatory filing of return in respect of foreign asset.

  - Entities, banks, financial institutions including individuals all liable for prosecution and penalty.

  - Concealment of income/evasion of income in relation to a foreign asset to be made a predicate offence under PML Act, 2002.

  - PML Act, 2002 and FEMA to be amended to enable administration of new Act on black money.

- Benami Transactions (Prohibition) Bill to curb domestic black money to be introduced in the current session of Parliament.

- Acceptance or re-payment of an advance of ` 20,000 or more in cash for purchase of immovable property to be prohibited.

- PAN being made mandatory for any purchase or sale exceeding Rupees 1 lakh.

- Third party reporting entities would be required to furnish information about foreign currency sales and cross border transactions.

- Provision to tackle splitting of reportable transactions.

- Leverage of technology by CBDT and CBEC to access information from either's data bases.

Make in India

- Revival of growth and investment and promotion of domestic manufacturing for job creation.

- Tax "pass through" to be allowed to both category I and category II alternative investment funds.

- Rationalisation of capital gains regime for the sponsors exiting at the time of listing of the units of REITs and InvITs.

- Rental income of REITs from their own assets to have pass through facility.

- Permanent Establishment (PE) norm to be modified to encourage fund managers to relocate to India.

- General Anti Avoidance Rule (GAAR) to be deferred by two years.

- GAAR to apply to investments made on or after 01.04.2017, when implemented.

- Additional investment allowance (@ 15%) and additional depreciation (@35%) to new manufacturing units set up during the period 01-04-2015 to 31-03-2020 in notified backward areas of Andhra Pradesh and Telangana.

- Rate of Income-tax on royalty and fees for technical services reduced from 25% to 10% to facilitate technology inflow.

- Benefit of deduction for employment of new regular workmen to all business entities and eligibility threshold reduced.

- Basic Custom duty on certain inputs, raw materials, inter mediates and components in 22 items, reduced to minimise the impact of duty inversion.

- All goods, except populated printed circuit boards for use in manufacture of ITAbound items, exempted from SAD.

- SAD reduced on import of certain inputs and raw materials.

- Excise duty on chassis for ambulance reduced from 24% to 12.5%.

- Balance of 50% of additional depreciation @ 20% for new plant and machinery installed and used for less than six months by a manufacturing unit or a unit engaged in generation and distribution of power is to be allowed immediately in the next year.

Ease of doing business – Minimum Government Maximum Governance

- Simplification of tax procedures.

- Monetary limit for a case to be heard by a single member bench of ITAT increase from ` 5 lakh to ` 15 lakh.

- Penalty provision in indirect taxes are being rationalised to encourage compliance and early dispute resolution.

- Central excise/Service tax assesses to be allowed to use digitally signed invoices and maintain record electronically.

- Wealth-tax replaced with additional surcharge of 2 per cent on super rich with a taxable income of over ` 1 crore annually.

- Provision of indirect transfers in the Income-tax Act suitably cleaned up.

- Applicability of indirect transfer provisions to dividends paid by foreign companies to their shareholders to be addressed through a clarificatory circular.

- Domestic transfer pricing threshold limit increased from ` 5 crore to ` 20 crore.

- MAT rationalised for FIIs and members of an AOP.

- Tax Administration Reform Commission (TARC) recommendations to be appropriately implemented during the course of the year.

- Education cess and the Secondary and Higher education cess to be subsumed in Central Excise Duty.

- Specific rates of central excise duty in case of certain other commodities revised.

- Excise levy on cigarettes and the compounded levy scheme applicable to pan masala, gutkha and other tobacco products also changed.

- Excise duty on footwear with leather uppers and having retail price of more than ` 1000 per pair reduced to 6%.

- Online central excise and service tax registration to be done in two working days.

- Time limit for taking CENVAT credit on inputs and input services increased from 6 months to 1 year.

- Service-tax plus education cesses increased from 12.36% to 14% to facilitate transition to GST.

- Donation made to National Fund for Control of Drug Abuse (NFCDA) to be eligible for 100% deduction u/s 80G of Income-tax Act.

- Seized cash can be adjusted towards assessees tax liability.

Swachh Bharat

- 100% deduction for contributions, other than by way of CSR contribution, to Swachh Bharat Kosh and Clean Ganga Fund.

- Clean energy cess increased from ` 100 to ` 200 per metric tonne of coal, etc. to finance clean environment initiatives.

- Excise duty on sacks and bags of polymers of ethylene other than for industrial use increased from 12% to 15%.

- Enabling provision to levy Swachh Bharat cess at a rate of 2% or less on all or certain services, if need arises.

- Services by common affluent treatment plant exempt from Service-tax.

- Concessions on custom and excise duty available to electrically operated vehicles and hybrid vehicles extended upto 31.03.2016.

Benefits to middle class tax-payers

- Limit of deduction of health insurance premium increased from ` 15000 to ` 25000, for senior citizens limit increased from ` 20000 to ` 30000.

- Senior citizens above the age of 80 years, who are not covered by health insurance, to be allowed deduction of ` 30000 towards medical expenditures.

- Deduction limit of ` 60000 with respect to specified decease of serious nature enhanced to ` 80000 in case of senior citizen.

- Additional deduction of ` 25000 allowed for differently abled persons.

- Limit on deduction on account of contribution to a pension fund and the new pension scheme increased from ` 1 lakh to ` 1.5 lakh.

- Additional deduction of ` 50000 for contribution to the new pension scheme u/s 80CCD.

- Payments to the beneficiaries including interest payment on deposit in Sukanya Samriddhi scheme to be fully exempt.

- Service-tax exemption on Varishtha Bima Yojana.

- Concession to individual tax-payers despite inadequate fiscal space.

- Lot to look forward to as fiscal capacity improves.

- Conversion of existing excise duty on petrol and diesel to the extent of ` 4 per litre into Road Cess to fund investment.

- Service Tax exemption extended to certain pre cold storage services in relation to fruits and vegetables so as to incentivise value addition in crucial sector.

- Negative List under service-tax is being slightly pruned to widen the tax base.

- Yoga to be included within the ambit of charitable purpose under Section 2(15) of the Income-tax Act.

- To mitigate the problem being faced by many genuine charitable institutions, it is proposed to modify the ceiling on receipts from activities in the nature of trade, commerce or business to 20% of the total receipts from the existing ceiling of ` 25 lakh.

- Most provisions of Direct Taxes Code have already been included in the Income-tax Act, therefore, no great merit in going ahead with the Direct Taxes Code as it exists today.

- Direct tax proposals to result in revenue loss of ` 8315 crore, whereas the proposals in indirect taxes are expected to yield ` 23383 crore. Thus, the net impact of all tax proposals would be revenue gain of ` 15068 crore.

Others

- Increase in basic custom duty:

  - Metallergical coke from 2.5 % to 5%.

  - Tariff rate on iron and steel and articles of iron and steel increased from 10% to 15%.

  - Tariff rate on commercial vehicle increased from 10 % to 40%.

- Basic custom duty on digital still image video camera with certain specification reduced to nil.

- Excise duty on rails for manufacture of railway or tram way track construction material exempted retrospectively from 17-03-2012 to 02-02-2014, if not CENVAT credit of duty paid on such rails is availed.

- Service-tax to be levied on service provided by way of access to amusement facility, entertainment events or concerts, pageants, non recoganised sporting events etc.

- Service-tax exemption:

  - Services of pre-conditioning, pre-cooling, ripening etc. of fruits and vegetables.

  - Life insurance service provided by way of Varishtha Pension Bima Yojana.

  - All ambulance services provided to patients.

  - Admission to museum, zoo, national park, wile life sanctuary and tiger reserve.

  - Transport of goods for export by road from factory to land customs station.

- Enabling provision made to exclude all services provided by the Government or local authority to a business entity from the negative list.

- Service-tax exemption to construction, erection, commissioning or installation of original works pertaining to an airport or port withdrawn.

- Transportation of agricultural produce to remain exempt from Service-tax.

- Artificial heart exempt from basic custom duty of 5% and CVD.

- Excise duty exemption for captively consumed intermediate compound coming into existance during the manufacture of agarbathi.

सत्यमेव जयते

HIGHLIGHTS OF THE FOREIGN TRADE POLICY 2015-2020

Government of India
Department of Commerce
Ministry of Commerce and Industry

HIGHLIGHTS OF THE FOREIGN TRADE POLICY 2015-2020

A. SIMPLIFICATION & MERGER OF REWARD SCHEMES

Export from India Schemes:

1. Merchandise Exports from India Scheme (MEIS)

(a) Earlier there were 5 different schemes (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip, VKGUY) for rewarding merchandise exports with different kinds of duty scrips with varying conditions (sector specific or actual user only) attached to their use. Now all these schemes have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS) and there would be no conditionality attached to the scrips issued under the scheme. The main features of MEIS, including details of various groups of products supported under MEIS and the country groupings are at Annexure-1.

(b) Rewards for export of notified goods to notified markets under 'Merchandise Exports

from India Scheme (MEIS) shall be payable as percentage of realized FOB value (in free foreign exchange). The debits towards basic customs duty in the transferable reward duty credit scrips would also be allowed adjustment as duty drawback. At present, only the additional duty of customs / excise duty / service tax is allowed adjustment as CENVAT credit or drawback, as per Department of Revenue rules.

2. Service Exports from India Scheme (SEIS)

(a) Served From India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS). SEIS shall apply to 'Service Providers located in India' instead of 'Indian Service Providers'. Thus SEIS provides for rewards to all Service providers of notified services, who are providing services from India, regardless of the constitution or profile of the service provider. The list of services and the rates of rewards under SEIS are at Annexure-2.

(b) The rate of reward under SEIS would be based on net foreign exchange earned. The reward issued as duty credit scrip, would no longer be with actual user condition and will no longer be restricted to usage for specified types of goods but be freely transferable and usable for all types of goods and service tax

debits on procurement of services / goods. Debits would be eligible for CENVAT credit or drawback.

3. Chapter -3 Incentives (MEIS & SEIS) to be available for SEZs

It is now proposed to extend Chapter -3 Incentives (MEIS & SEIS) to units located in SEZs also.

4. Duty credit scrips to be freely transferable and usable for payment of custom duty, excise duty and service tax.

(a) All scrips issued under MEIS and SEIS and the goods imported against these scrips would be fully transferable.

(b) Scrips issued under Exports from India Schemes can be used for the following:-

(i) Payment of customs duty for import of inputs / goods including capital goods, except items listed in Appendix 3A.

(ii) Payment of excise duty on domestic procurement of inputs or goods, including capital goods as per DoR notification.

(iii) Payment of service tax on procurement of services as per DoR notification.

(c) Basic Customs Duty paid in cash or through debit under Duty Credit Scrip can be taken back as Duty Drawback as per DoR Rules, if inputs so imported are used for exports.

5. Status Holders

(a) Business leaders who have excelled in international trade and have successfully contributed to country's foreign trade are proposed to be recognized as Status Holders and given special treatment and privileges to facilitate their trade transactions, in order to reduce their transaction costs and time.

(b) The nomenclature of Export House, Star Export House, Trading House, Star Trading House, Premier Trading House certificate has been changed to One, Two, Three, Four, Five Star Export House.

(c) The criteria for export performance for recognition of status holder have been changed from Rupees to US dollar earnings. The new criteria is as under:-

Status category	Export Performance FOB / FOR (as converted) Value (in US $ million) during current and previous two years
One Star Export House	3
Two Star Export House	25
Three Star Export House	100
Four Star Export House	500
Five Star Export House	2000

(d) Approved Exporter Scheme - Self certification by Status Holders

Manufacturers who are also Status Holders will be enabled to self-certify their manufactured goods as originating from India with a view to qualify for preferential treatment under different Preferential Trading Agreements [PTAs], Free Trade Agreements [FTAs], Comprehensive Economic Cooperation Agreements [CECAs] and Comprehensive Economic Partnerships Agreements [CEPAs] which are in operation. They shall be permitted to self-certify the goods as manufactured as per

their Industrial Entrepreneur Memorandum (IEM) / Industrial Licence (IL)/ Letter of Intent (LOI).

B. BOOST TO "MAKE IN INDIA"

6. Reduced Export Obligation (EO) for domestic procurement under EPCG scheme:

   Specific Export Obligation under EPCG scheme, in case capital goods are procured from indigenous manufacturers, which is currently 90% of the normal export obligation (6 times at the duty saved amount) has been reduced to 75%, in order to promote domestic capital goods manufacturing industry.

7. Higher level of rewards under MEIS for export items with high domestic content and value addition.

   It is proposed to give higher level of rewards to products with high domestic content and value addition, as compared to products with high import content and less value addition.

C. TRADE FACILITATION & EASE OF DOING BUSINESS

8. Online filing of documents/ applications and Paperless trade in 24x7 environment:

(a) DGFT already provides facility of Online filing of various applications under FTP by the exporters/importers. However, certain documents like Certificates issued by Chartered Accountants/ Company Secretary / Cost Accountant etc. have to be filed in physical forms only. In order to move further towards paperless processing of reward schemes, it has been decided to develop an online procedure to upload digitally signed documents by Chartered Accountant / Company Secretary / Cost Accountant. In the new system, it will be possible to upload online documents like annexure attached to ANF 3B, ANF 3C and ANF 3D, which are at present signed by these signatories and submitted physically.

(b) Henceforth, hardcopies of applications and specified documents would not be required to be submitted to RA, saving paper as well as cost and time for the exporters. To start with, applications under Chapter 3 & 4 of FTP are being covered (which account for nearly 70% of total applications in DGFT). Applications

under Chapter-5 would be taken up in the next phase.

(c) As a measure of ease of doing business, landing documents of export consignment as proofs for notified market can be digitally uploaded in the following manner:-

(i) Any exporter may upload the scanned copy of Bill of Entry under his digital signature.

(ii) Status holders falling in the category of Three Star, Four Star or Five Star Export House may upload scanned copies of documents.

9. Online inter-ministerial consultations:

It is proposed to have Online inter-ministerial consultations for approval of export of SCOMET items, Norms fixation, Import Authorisations, Export Authorisation, in a phased manner, with the objective to reduce time for approval. As a result, there would not be any need to submit hard copies of documents for these purposes by the exporters.

10. Simplification of procedures/processes, digitisation and e-governance

(a) Under EPCG scheme, obtaining and submitting a certificate from an independent Chartered Engineer, confirming the use of spares, tools, refractory and catalysts imported for final redemption of EPCG authorizations has been dispensed with.

(b) At present, the EPCG Authorisation holders are required to maintain records for 3 years after redemption of Authorisations. Now the EPCG Authorization Holders shall be required to maintain records for a period of two years only. Government's endeavour is to gradually phase out this requirement as the relevant records such as Shipping Bills, e-BRC are likely to be available in electronic mode which can be archived and retrieved whenever required.

(c) Exporter Importer Profile: Facility has been created to upload documents in Exporter/Importer Profile. There will be no need to submit copies of permanent records/ documents (e.g. IEC, Manufacturing licence, RCMC, PAN etc.) repeatedly with each application, once uploaded.

(d) Communication with Exporters/Importers: Certain information, like mobile number, e-mail address etc. has been added as mandatory fields, in IEC data base. This information once provided by exporters, would help in better communication with exporters. SMS/ email would be sent to exporters to inform them about issuance of authorisations or status of their applications.

(e) Online message exchange with CBDT and MCA: It has been decided to have on line message exchange with CBDT for PAN data and with Ministry of Corporate Affairs for CIN and DIN data. This integration would obviate the need for seeking information from IEC holders for subsequent amendments/ updation of data in IEC data base.

(e) Communication with Committees of DGFT: For faster and paperless communication with various committees of DGFT, dedicated e-mail addresses have been provided to each Norms Committee, Import Committee and Pre-Shipment Inspection Agency for faster communication.

(f) Online applications for refunds: Online filing of application for refund of TED is being

introduced for which a new ANF has been created.

11. Forthcoming e-Governance Initiatives

(a) DGFT is currently working on the following EDI initiatives:

(i) Message exchange for transmission of export reward scrips from DGFT to Customs.

(ii) Message exchange for transmission of Bills of Entry (import details) from Customs to DGFT.

(iii) Online issuance of Export Obligation Discharge Certificate (EODC).

(iv) Message exchange with Ministry of Corporate Affairs for CIN & DIN.

(v) Message exchange with CBDT for PAN.

(vi) Facility to pay application fee using debit card / credit card.

(vii) Open API for submission of IEC application.

(viii) Mobile applications for FTP

D. Other new Initiatives

12. New initiatives for EOUs, EHTPs and STPs

(a) EOUs, EHTPs, STPs have been allowed to share infrastructural facilities among themselves. This will enable units to utilize their infrastructural facilities in an optimum way and avoid duplication of efforts and cost to create separate infrastructural facilities in different units.

(b) Inter unit transfer of goods and services have been allowed among EOUs, EHTPs, STPs, and BTPs. This will facilitate group of those units which source inputs centrally in order to obtain bulk discount. This will reduce cost of transportation, other logistic costs and result in maintaining effective supply chain.

(c) EOUs have been allowed facility to set up Warehouses near the port of export. This will help in reducing lead time for delivery of goods and will also address the issue of un-predictability of supply orders.

(d) STP units, EHTP units, software EOUs have been allowed the facility to use all duty free equipment/goods for training purposes. This will help these units in developing skills of their employees.

(e) 100% EOU units have been allowed facility of supply of spares/ components up to 2% of the value of the manufactured articles to a buyer in domestic market for the purpose of after sale services.

(f) At present, in a period of 5 years EOU units have to achieve Positive Net Foreign Exchange Earning (NEE) cumulatively. Because of adverse market condition or any ground of genuine hardship, then such period of 5 years for NFE completion can be extended by one year.

(f) Time period for validity of Letter of Permission (LOP) for EOUs/EHTP/ STPI/BTP Units has been revised for faster implementation and monitoring of projects. Now, LOP will have an initial validity of 2 years to enable the unit to construct the plant and install the machinery. Further extension can be granted by the Development Commissioner up to one year. Extension beyond 3 years of the validity of LOP, can be granted, in case unit has completed 2/3rd of activities, including the construction activities.

(g) At present, EOUs/EHTP/STPI units are permitted to transfer capital goods to other EOUs, EHTPs, STPs, SEZ units. Now a facility has been provided that if such

transferred capital goods are rejected by the recipient, then the same can be returned to the supplying unit, without payment of duty.

(h) A simplified procedure will be provided to fast track the de-bonding / exit of the STP/ EHTP units. This will save time for these units and help in reduction of transaction cost.

(i) EOUs having physical export turnover of Rs.10 crore and above, have been allowed the facility of fast track clearances of import and domestic procurement. They will be allowed fast tract clearances of goods, for export production, on the basis of pre-authenticated procurement certificate, issued by customs / central excise authorities. They will not have to seek procurement permission for every import consignment.

13. Facilitating & Encouraging Export of dual use items (SCOMET).

(a) Validity of SCOMET export authorisation has been extended from the present 12 months to 24 months. It will help industry to plan their activity in an orderly manner and obviate the need to seek revalidation or relaxation from DGFT.

(b) Authorisation for repeat orders will be considered on automatic basis subject to certain conditions.

(c) Verification of End User Certificate (EUC) is being simplified if SCOMET item is being exported under Defence Export Offset Policy.

(c) Outreach programmes will be conducted at different locations to raise awareness among various stakeholders.

14 Facilitating & Encouraging Export of Defence Exports

(a) Normal export obligation period under advance authorization is 18 months. Export obligation period for export items falling in the category of defence, military store, aerospace and nuclear energy shall be 24 months from the date of issue of authorization or co-terminus with contracted duration of the export order, whichever is later. This provision will help export of defence items and other high technology items.

(b) A list of military stores requiring NOC of Department of Defence Production has been notified by DGFT recently. A committee has been formed to create ITC (HS) codes

for defence and security items for which industrial licenses are issued by DIPP.

15. e-Commerce Exports

(a) Goods falling in the category of handloom products, books / periodicals, leather footwear, toys and customized fashion garments, having FOB value up to Rs.25000 per consignment (finalized using e-Commerce platform) shall be eligible for benefits under FTP. Such goods can be exported in manual mode through Foreign Post Offices at New Delhi, Mumbai and Chennai.

(b) Export of such goods under Courier Regulations shall be allowed manually on pilot basis through Airports at Delhi, Mumbai and Chennai as per appropriate amendments in regulations to be made by Department of Revenue. Department of Revenue shall fast track the implementation of EDI mode at courier terminals.

16. Duty Exemption

(a) Imports against Advance Authorization shall also be eligible for exemption from Transitional Product Specific Safeguard Duty.

(b) In order to encourage manufacturing of capital goods in India, import under EPCG Authorisation Scheme shall not be eligible for exemption from payment of anti-dumping duty, safeguard duty and transitional product specific safeguard duty.

17. Additional Ports allowed for Export and import

Calicut Airport, Kerala and Arakonam ICD, Tamil Nadu have been notified as registered ports for import and export.

18. Duty Free Tariff Preference (DFTP) Scheme

India has already extended duty free tariff preference to 33 Least Developed Countries (LDCs) across the globe. This is being notified under FTP.

19. Quality complaints and Trade Disputes

(a) In an endeavour to resolve quality complaints and trade disputes, between exporters and importers, a new chapter, namely, Chapter on Quality Complaints and Trade Disputes has been incorporated in the Foreign Trade Policy.

(b) For resolving such disputes at a faster pace, a Committee on Quality Complaints and

Trade Disputes (CQCTD) is being constituted in 22 offices and would have members from EPCs/FIEOs/APEDA/EICs.

20. Vishakhapatnam and Bhimavaram added as Towns of Export Excellence

Government has already recognized 33 towns as export excellence towns. It has been decided to add Vishakhapatnam and Bhimavaram in Andhra Pradesh as towns of export excellence (Product Category–Seafood)

Annexure-1

I. Merchandise Exports from India Scheme

(i) Merchandise Exports from India Scheme has replaced 5 different schemes of earlier FTP (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri. Infrastructure Incentive Scrip, VKGUY) for rewarding merchandise exports which had varying conditions (sector specific or actual user only) attached to their use.

(ii) Now all these schemes have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS) and there would be no conditionality attached to the scrips issued under the scheme. Notified goods exported to notified markets would be rewarded on realised FOB value of exports.

A. Country Groups:

Category A: Traditional Markets (30) - European Union (28), USA, Canada.
Category B: Emerging & Focus Markets (139), Africa (55), Latin America and Mexico (45), CIS countries (12), Turkey and West Asian countries (13), ASEAN countries (10), Japan, South Korea, China, Taiwan,
Category C: Other Markets (70).

B. Products supported under MEIS

Level of Support:

Higher rewards have been granted for the following category of products:

- Agricultural and Village industry products, presently covered under VKGUY.
- Value added and packaged products.
- Eco-friendly and green products that create wealth out of waste from agricultural and other waste products that generate additional income for the farmers, while improving the environment.
- Labour intensive Products with large employment potential and Products with large number of producers and /or exporters.
- Industrial Products from potential winning sectors.
- Hi-tech products with high export earning potential.

C. Markets Supported

- Most Agricultural products supported across the Globe.
- Industrial and other products supported in Traditional and/or Emerging markets only.

D. High potential products not supported earlier:

Support to 852 Tariff lines that fit in the product criteria but not provided support in the earlier FTP. Includes lines from Fruits, Vegetables, Dairy products, Oils meals, Ayush & Herbal Products, Paper, Paper Board Products.

E. Global support has been granted to the following category:

- Fruits, Flowers, vegetables
- Tea Coffee, Spices
- Cereals preparation, shellac, Essential oils
- Processed foods,
- Eco Friendly products that add value to waste
- Marine Products
- Handloom, Coir, Jute, products and Technical Textiles, Carpets Handmade. Other Textile and Readymade garments have been supported for European Union, USA, Canada and Japan.
- Handicraft, Sports Goods
- Furniture, wood articles

F. Support to major markets have been given to the following product categories

- Pharmaceuticals, Herbals, Surgicals

- Industrial Machinery, IC Engine, Machine tools, Parts, Auto Components/Parts
- Hand Tools, Pumps of All Types
- Automobiles, Two wheelers, Bicycles, Ships, Planes
- Chemicals, Plastics
- Rubber, Ceramic and Glass
- Leather garments, saddlery items, footwear
- Steel furniture, Prefabs, Lighters
- Wood , Paper, Stationary
- iron, steel, and base metals, products

G. Other sectors supported under MEIS

- 352 Defence related Product with export of US$ 17.7B consisting of Core Products (20), Dual Use products (60) ,General Purpose products (272).
- 283 Pharmaceutical products of Bulk Drugs & Drug Intermediates, Drug Formulations Biologicals, Herbal, Surgicals, and Vaccines.
- 96 lines of Environment related Goods, Machinery, Equipment's.
- 49 lines where mandatory BIS standards are prescribed.
- 7 lines of Technical Textiles.

H. Participation in global value chain of the items falling under the scheme:

- 1725 lines of Intermediate Goods - These goods become inputs in the manufacturing

of other countries and will strengthen backward manufacturing linkages which is vital for India's participation in Global Value Chains.

- 1109 lines of Capital Goods sector- will also strengthen Manufacturing Base in India.
- 1730 lines of Consumer Goods sector- We hope a quantum jump in export from this sector with strengthening of Make in India Brand in near future.

I. Technology based analysis:

- 572 lines-Low skill Technology-intensive manufacturing.
- 1010 lines-Medium skill Technology-intensive manufacturing.
- 1309 lines-High Skill Technology-intensive manufacturing.

J. Women Centric Products supported under MEIS

(a) Women workers constitute 52% of plantation workers-203 lines of Tea Coffee, Spices, Cashew.

(b) 69% of the aggregate female employment is concentrated in the following sectors:

(i) Manufacture of other food products - Jelly Confectionery, tomato ketchup,

cooked stuffed pasta, pawa, mudi and the like, gingerbread , papad, pastries and cakes.

(ii) Manufacture of wearing apparel-396 lines of Readymade Garments

(c) Sectors that have a significant proportion of female employment (more than 25%):

(i) Agricultural and animal husbandry service activities, except veterinary activities– 263 lines of basic Agriculture products.

(ii) Manufacture of footwear – 28 Footwear and Leather products.

(iii) Consumer Electronics and Electronic Components, watches and clocks -483 lines.

Annexure-2

II. Services Exports from India Scheme

(i) Served from India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS). SEIS shall apply to `Service Providers' located in India' instead of `Indian Service Providers'. Thus SEIS provides for rewards to all Service providers of notified services, who are providing services from India, regardless of the constitution or profile of the service provider.

(ii) The rate of reward under SEIS would be based on net foreign exchange earned. The reward issued as duty credit scrip, would no longer be with actual user condition and will no longer be restricted to usage for specified types of goods but be freely transferable and usable for all types of goods and service tax debits on procurement of services/goods. Debits would be eligible for CENVAT credit or drawback.

(iii) The present rates of reward are 3% and 5%. The list of services and the rates of rewards would be reviewed after 30.9.2015.

Sl No	SECTORS	Admissible rate
1	**BUSINESS SERVICES**	
A	Professional services Legal services, Accounting, auditing and bookkeeping services, Taxation services, Architectural services , Engineering services, Integrated engineering services, Urban planning and landscape architectural services, Medical and dental services, Veterinary services, Services provided by midwives, nurses, physiotherapists and paramedical personnel.	5%
B	Research and development services R&D services on natural sciences, R&D services on social sciences and humanities, Interdisciplinary R&D services	5%
C.	Rental/Leasing services without operators Relating to ships, Relating to aircraft, Relating to other transport equipment, Relating to other machinery and equipment	5%
D	Other business services Advertising services, Market research and public opinion polling services Management consulting service, Services related to management consulting, Technical testing and analysis services, Services incidental to agricultural, hunting and forestry, Services incidental to fishing, Services incidental to mining, Services	3%

	incidental to manufacturing, Services incidental to energy distribution, Placement and supply services of personnel, Investigation and security, Related scientific and technical consulting services, Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment), Building-cleaning services, Photographic services, Packaging services, Printing, publishing and Convention services	
2	**COMMUNICATION SERVICES** Audiovisual services Motion picture and video tape production and distribution service, Motion picture projection service, Radio and television services, Radio and television transmission services, Sound recording	5%
3	**CONSTRUCTION AND RELATED ENGINEERING SERVICES** General Construction work for building, General Construction work for Civil Engineering, Installation and assembly work , Building completion and finishing work	5%
4	**EDUCATIONAL SERVICES** (Please refer Note 1) Primary education services, Secondary education services, Higher education services, Adult education	5%
5	**ENVIRONMENTAL SERVICES** Sewage services, Refuse disposal services, Sanitation and similar services	5%

6	**HEALTH-RELATED AND SOCIAL SERVICES** Hospital services	5%
7	**TOURISM AND TRAVEL-RELATED SERVICES**	
A.	Hotels and Restaurants (including catering)	
a.	Hotel	3%
b.	Restaurants (including catering)	3%
B.	Travel agencies and tour operators services	5%
C.	Tourist guides services	5%
8	**RECREATIONAL, CULTURAL AND SPORTING SERVICES** (other than audiovisual services) Entertainment services (including theatre, live bands and circus services), News agency services, Libraries, archives, museums and other cultural services, Sporting and other recreational services	5%
9	**TRANSPORT SERVICES** (Please refer Note 2)	
A.	Maritime Transport Services Passenger transportation*, Freight transportation* , Rental of vessels with crew *, Maintenance and repair of vessels, Pushing and towing services, Supporting services for maritime transport	5%
B.	Air transport services Rental of aircraft with crew, Maintenance and repair of aircraft, Airport Operations and ground handling	5%

C	Road Transport Services Passenger transportation, Freight transportation, Rental of Commercial vehicles with operator, Maintenance and repair of road transport equipment, Supporting services for road transport services	5%
D.	Services Auxiliary To All Modes Of Transport. Cargo-handling services, Storage and warehouse services, Freight transport agency services	5%

Note:

(1) Under education services, SEIS shall not be available on Capitation fee.

(2) *Operations from India by Indian Flag Carriers only is allowed under Maritime transport services.