INDIRA GANDHI NATIONAL OPEN UNIVERSITY

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1 Question Describe the circular flow of Income and Expenditure. How is three-sector Model different from four-sector Model? Discuss.

Ans :) Circular Flow of Income and expenditure
The circular flow of income and expenditure describes how money moves through an economy. It shows the continuous movement between different sectors: households, businesses, and sometimes the government and foreign sector.

- Households provide factors of production (like labor) to businesses and receive income (like wages) in return.

- Businesses produce goods and services and sell them to households, earning revenue.

- Households spend their income on these goods and services, completing the cycle.

in simple terms:
Income generates expenditure; and expenditure generates income, making it a continuous loop.

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Three - Sector Model vs Four - sector Model

1 Three - Sector Model (Household, Business, Government):

- Adds the Government to the basic two - sector (household and business) model.
- Government collects taxes from households and businesses.
- It spends on public services (education, defense, infrastructure)
- Government spending and taxation affect overall income and demand in the economy.

2 Four - sector Model (Household, Business, Government, Foreign sector):

- Further adds the Foreign sector (rest of the world)
- Includes exports (goods sold to other countries) and imports (goods bought from other countries)
- Introduces foreign trade into the circular flow.
- Net exports (exports - imports) : Influence the nation's total income and spending.

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Ques 2 Examine the working of the capital Market along with its various instruments and Intermediaries.

Ans ⇒ Capital Market: working, Instruments, and Intermediaries

1 What is a Capital Market ?

The Capital Market is a financial market where long-term securities like stocks, bonds, and debentures are bought and sold. It plays a crucial role in the economy by channeling savings and investments between suppliers (investors) and users (companies, governments).

It mainly deals with raising capital for longer periods (over one year).

2. Working of the Capital Market

- Mobilization of Savings: Capital markets mobilize savings from individuals and institutions.

- Investment: These savings are invested in businesses or government projects.

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- Liquidity : Investors can easily buy and sell securities, ensuring liquidity.

- Price Discovery : Through demand and supply, markets help in determining fair prices of securities.

- Risk Management : Through diversification and hedging (derivatives), investors manage risks.

The capital market works mainly through two segments :

- Primary Market (New Issues Market) : Where new securities are issued (e.g, IPOs).

- Secondary Market (Stock Exchanges) : Where existing securities are traded (eg. NSE BSE).

3 Instruments of Capital Market

There are several types of instruments traded in the capital market :

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Instrument	Description
• Equity shares	Ownership in a company with voting rights and dividend claims.
• Preference shares	Fixed dividends, preference over equity shareholders during liquidation.
• Debentures	Fixed-income instruments, representing a loan to the issuer.
• Bonds	Long-term debt securities issued by companies or governments.
• Government securities (G-secs)	Sovereign bonds issued by the goverment. Considered low-risk.
• Derivatives	Financial contracts like futures and options based on underlying assets.
• Mutual Funds	Pooled investment in diversified portfolios, managed by professionals
• Exchange-Traded Funds (ETFs)	Investment funds traded on stock exchanges, like shares.
• Commercial Papers	Short-term unsecured promissory notes issued by companies.

4 Intermediaries in Capital Market

Serveral Intermediaries help in the smooth functioning of the capital market:

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Intermediary	Role
• Stock Exchanges	Platforms for buying and selling securities (eg. BSE, NSE).
• Merchant Bankers	Help in issue management (IPOs, FPOs) and advisory services.
• Underwriters	Guarantee subscription of securites.
• Registras and Transfer Agents	Maintain records of investors and handle share transfer activities.
• Depositories	Hold securities in electronic form (eg. NSDL, CDSL).
• Brokers and Sub-brokers	Facilitate the trading of securities for clients.
• Credit Rating Agencies	Evaluate the creditworthiness of issuers (e.g CRISIL, ICRA).
• Portofolio Managers	Manage investments for individuals or institutions.
• Investment Advisors	Provide guidance on securities investment.

5 Importance of capital Market

- Facilitates economic growth.
- Helps in efficient allocation of resources.
- Provides opportunities for investment.
- Encourages savings among individuals
- Supports infrastructure development through financing.

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Ques 3 How have the reforms in the Insurance Sector Provided universal social security system especially to the underprivileged? Discuss.

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Ans ⇒ How the Reforms in the Insurance sector Have Provided universal social security, Especially to the underprivileged.

The insurance sector reforms in ~~the~~ India, especially since the liberalization of the economy in 1991 and the establishment of the Insurance Regulatory and Development Authority of India (IRDAI) in 1999, have played a significant role in building a universal social security system that reaches the underprivileged.

These reforms aimed to expand coverage, improve service delivery, promote competition, and ensure affordability.

Here's how they contributed:

1 Introduction of Micro-Insurance and Affordable schemes:

- special micro-insurance products were launched targeting low-income groups.

- Examples:

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- Pradhan Mantri Jeevan Jyoti Bima yojana (PMJJBY) life insurance at a premium of just ₹330/year.
- Pradhan Mantri Suraksha Bima yojana (PMSBY) accident insurance for ₹12/year.

- These schemes ensured that even the poorest could afford basic insurance.

2 Government - sponsored Health Insurance:

- Rashtriya Swasthya Bima yojana (RSBY) and later Ayushman Bharat + Pradhan Mantri Jan Arogya yojana (AB-PMJAY) were launched to provide health insurance coverage to economically weaker sections.

- Millions of poor families now have access to cashless treatment in hospitals, reducing out of pocket expenditure.

3 Increased Private sector participation:

- Entry of Private players led to innovation, customization, and wider availability of products.

- competition brought better customer service and cheaper premiums, making insurance more attractive to middle and lower-income groups.

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4 Technology - Driven Inclusion:

- Digital platforms, mobile insurance (m-insurance), and e-KYC simplified onboarding for rural and remote populations.

- Direct Benefit Transfer (DBT) linked insurance payments directly to beneficiaries, reducing leakages.

5 Regulatory Push for Financial Inclusion:

- IRDAI mandated insurers to have a rural and social sector obligation, forcing them to sell a portion of their policies in underprivileged areas.

- Promotion of insurance literacy campaigns to spread awareness about the importance of insurance.

6 Expansion of Life and Non-Life coverage.

- Life insurance, health insurance, crop insurance (e.g. Pradhan Mantri Fasal Bima Yojana) and personal accident insurance products were tailored to meet the needs of farmers, laborers, and small business owners.

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7 Pension and Annuity Reforms:

- Launch of Atal Pension yojana (APY) aimed at providing old-age income security to workers in the unorganized sector.

The reforms in the Insurance sector have fundamentally shifted insurance from being a luxury to an essential social security tool. By making insurance affordable, accessible, and understandable, those reforms have empowered millions of underprivileged Indians, contributing significantly toward achieving the goal of universal social security.

good if it can produce that good more efficiently.

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Ques 4 How is the theory of Absolute Advantage different from the theory of comparative Advantage? Discuss.

Ans ⇒ Introduction

International trade forms the backbone of the global economy, allowing nations to specialize, exchange goods, and improve living standards. Two cornerstone theories explain why nations engage in trade: the Theory of Absolute Advantage and the theory of comparative Advantage.
Although they are often discussed together, these theories differ fundamentally in their logic, assumptions, and implications.

understanding both helps clarify not only why countries trade but also how trade can benefit even those nations that might seem less productive.

Theory of Absolute Advantage

The Theory of Absolute Advantage was introduced by Adam Smith in his groundbreaking book The Wealth of Nations in 1776.
According to Smith, a country has an absolute advantage over another in the production of a good if it can produce that good more efficiently-

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that is, with fewer inputs or more output per unit of input, Smith argued that countries should specialized in producing goods where they are most efficient and trade for goods where they are less efficient.

Key Differences

The theories differ on several major fronts:

1 Focus on Efficiency vs. Opportunity Cost

- Absolute advantage is concerned with the overall productivity: who can produce more with the same resources.
- Comparative advantage focuses on opportunity cost. Who can produce something with the least sacrifice of other goods.

2 Possibility of Mutual Benefit

- In the Absolute advantage model, if a country is less efficient in producing all goods, it seemingly has no incentive to trade.
- In the comparative advantage model, all countries can benefit from trade, regardless of their absolute efficiency levels.

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3 Underlying Assumptions

- Smith's model assumes differences in productivity due to technological advancement or resource endowments.

- Ricardo's model assumes that opportunity costs differ between countries, and that these differences create room for mutually beneficial trade.

4 Scope of Application

- Absolute advantage is simpler but limited, it does not explain trade between countries with similar Productivity levels.

- Comparative advantage is broader and explains trade patterns even between rich and poor countries.

- Practical Example

Consider a simple two country, two good scenario involving the production of wheat and Shoes:

Country	Wheat (tons per worker)	Shoes (Pairs per worker)
A	8	4
B	6	2

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Absolute Advantage:

- Country A can produce more of both goods with the same labor input compared to country B.

- Based on absolute advantage, it seems country A should produce everything, and country B should not produce any thing

Comparative Advantage:

- Calculate opportunity costs:

① In country A, 1 ton of wheat costs 0.5 pairs of shoes (4/8).

② In country B, 1 ton of wheat costs 0.33 pairs of shoes (2/6).

- Therefore, country B sacrifices fewer shoes to produce wheat and has a comparative advantage in wheat.

- Conversely, country A has a comparative advantage in shoes.

Even though country A is better at producing both goods, it benefits by specializing in shoes, while country B specializes in wheat, both countries can then trade to achieve a consumption bundle that would be unattainable without trade.

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Ques 5 Write short notes:-

(a) Corporate Social Responsibility

Ans ⇒ Corporate Social Responsibility (CSR)

Corporate social Responsibility (CSR) refers to a company's commitment to manage the social, environmental, and economic effects of its operations responsibly and in line with public expectations.

CSR goes beyond legal obligations and involves voluntary actions taken by businesses to contribute positively to society while conducting their core activities.

Definition and Meaning

CSR can be defined as a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public. Companies practising CSR aim to operate in ways that enhance society and the enviroment, instead of contributing negatively to them. It reflects a company's acknowledgment of the impact it has on all aspects of society, including economic, social, and environmental.

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Key areas of CSR

1. Environmental Responsibility :- Businesses adopt eco-friendly practices, like reducing carbon footprints, improving energy efficiency, recycling, and using sustainable resources.

2. Ethical Responsibility: Companies strive to operate fairly and ethically. This includes fair treatment of employees, ethical sourcing of materials, and respect for human rights.

3. Philanthropic Responsibility: Many organizations support community initiatives, donate to charities, or engage in volunteer work.

4. Economic Responsibility: Companies ensure that they operate profitably but fairly, contributing to economic development while improving the quality of life of their workforce and society.

Benefits of CSR

- Enhances brand image and reputation.
- Builds customer loyalty and trust
- Improves employee morale and attracts talent.
- Reduces regulatory intervention.

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- Leads to innovation in products and processes

Challenges of CSR

Implementing CSR initiatives can be costly and time-consuming. Sometimes, there is a gap between CSR claims and actual practices, leading to accusations of greenwashing. Moreover, balancing profit motives with social goals can be challenging, especially in highly competitive industries.

Examples of CSR

- Companies like TATA Group in India focus on education, healthcare, and rural development.
- Google invests heavily in renewable energy.
- Unilever promotes sustainability through its ~~sustainable~~ Sustainable Living Plan.

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SUBQ 5 (B) Banking structure in India.

Ans :) Banking structure in India

The banking structure in India is a well-organized and diverse system designed to serve the needs of various sectors of the economy. It plays a critical role in mobilizing savings, providing credit, and supporting economic development.

The Indian banking system is regulated primarily by the Reserve Bank of India (RBI) which is the central bank of the country.

1 Reserve Bank of India (RBI)

The Reserve Bank of India is at the apex of the Indian structure.
Established in 1935, it controls the issue and supply of the Indian currency and manages the country's monetary policy. The RBI acts as a regulator and supervisor of all banks and financial institutions, ensuring stability and public confidence in the banking system.

2 Commercial Banks

Commercial banks from the backbone of India's banking sector. They are profit-making institutions that accept deposits from the public and provide loans for various purposes. Commercial banks are categorized into.

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- Public sector Banks : These banks are owned and manged by the government. Examples include State Bank of India (SBI), Punjab National Bank (PNB), and Bank of Baroda.

- Private Sector Banks : These banks are Privately owned. Examples are HDFC Bank, ICICI Bank, And AXIS ~~Bank~~ Bank.

- Foreign Banks : These are branches of banks headquartered abroad operating in India, like Citibank and HSBC.

3 Cooperative Banks

Cooperative banks operate on a cooperative basis, mainly serving rural and semi-urban areas. They are registerd under the cooperative societies Act are regulated jointly by the RBI and state governments.

- Urban cooperative Banks.
- State cooperative Banks.
- District central cooperative Banks.

The Primary focus is to Provide credit to farmers, small businesses, and weaker sections of society.

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4 Regional Rural Banks (RRBs)

Regional Rural Banks were established in 1975 to serve the rural population by providing banking services to farmers, small entrepreneurs and laborers.

They are jointly owned by the central government, state government, and a sponsoring public sector bank. Examples include Prathama Bank and Baroda Uttar Pradesh Gramin Bank.

5. Development Banks.

Development banks focus on providing long-term financial assistance for the development of sector like industry, agriculture, and infrastructure.

Examples are the Industrial Development Bank of India (IDBI) and the National Bank for Agriculture and Rural Development (NABARD)

Defense

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Ques 5 (C) Atmanirbhar Bharat Abhiyan

Ans ⇒ Atmanirbhar Bharat Abhiyan

Atmanirbhar Bharat " means self Reliant India.

- Launch : Announced by Prime Minister Narendra Modi on 12 May 2020.

- objective : To make India economically self-sufficient and reduce dependency on other countries.

- COVID-19 Response : Introduced as a major economic stimulus package to revive the economy after the COVID-19 impact.

- Economic Package :- Worth ₹ 20 lakh crore (around 10% of India's GDP)

- Key sectors Focused :-

- MSMEs (Micro, Small and Medium Enterprises)
- Agriculture and allied activities
- Healthcare
- Infrastructure
- Defense manufacturing
- Digital technology.

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- Major Reforms:

- Ease of doing business
- Land, labor, liquidity, and law reforms
- Promotion of local manufacturing (Vocal for Local)

- Five Pillars of Atmanirbhar Bharat:

a- Economy :- Focus on quantum jumps. not incremental changes.

b Infrastructure: Building modern infrastructure.

c System : Technology-driven governance.

D Demography : Vibrant demography as a strength.

e Demand : Strengthening domestic demand and supply chain.

- Phases of the campaign:

- Atmanirbhar Bharat 1.0 to 3.0
(Various phases announced with different measures).

- Key initiatives under it:
- Production Linked Incentive (PLI) schemes
- Make in India 2.0
- Startup India and Digital India

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- Global cooperation: self-reliance doesn't mean isolation, India aims for global competitiveness.