

## Economics Class 29

### ADVANTAGES AND PROBLEMS OF THE SWISS CHALLENGE (09:02 AM)

- **Advantages:**

- It encourages private players to bring innovation, technology, and uniqueness to the development of the project.
- It will enhance cost efficiency, reduce red-tap and shorten the project timeline.

- **Problems:**

- The CVC has observed that there is a lack of transparency and lack of fair and equal treatment of potential bidders in the Swiss challenge method.
- The Planning Commission has advised the state government to adopt the Swiss challenge as an exception rather than a rule.
- In the recent past, the **Vijay Kelkar Committee** on revisiting and revitalizing the PPP infrastructure model has discouraged the government from following the Swiss challenge method.
- Without a strong regulatory framework, the methods foster crony capitalism and are also conducive to discretionary favour.

### POSITIVES AND LIMITATIONS OF THE PPP (09:17 AM)

- **Positives of PPP**

- Access to private sector finance.
- Potentially increased transparency.
- Efficiency advantages by using private sector skills and transferring risk to the private sector.
- Enlargement of focus from only creating an asset to delivery of service including maintenance of infrastructure assets during its operating lifetime.
- Access to advanced technology and availability of additional resources.

- **Limitation of PPP**

- Not all projects are feasible due to political reasons along with commercial viability.
- The success of PPP depends upon regulatory efficiency.
- The private sector may not be interested due to the perceived high risk, lack of an easy exit mechanism, etc. --> Sometimes increase of NPAs for banks.
- Issues of staling of projects. --> In countries like India cost of PPP projects is major issue.
- More conflicts as most of the PPPs end up in court.
- Regulatory cholesterol, i.e. too much regulation by government.
- Increased market risk in the recent past. for example COVID

- **Kelkar Committee**

- Contracts need to focus more on service delivery instead of fiscal benefits.
- Better identification and allocation of risks between stakeholders.
- Prudent utilization of viability gap funds where user charges cannot guarantee a robust revenue stream.
- An Infrastructure PPP Adjudication Tribunal ("IPAT") chaired by a Judicial Member (former Judge SC/Chief Justice HC) with a Technical and/or a Financial member, where benches will be constituted by the Chairperson as per needs of the matter in question.
- Refer to the handout for more details.

## **HOW TO MAKE NOTES (09:50 AM)**

- Notes need to be made for Mains only.
- Also, note down relevant data.
- Make notes briefly on important topics such as Inclusive growth, Poverty, PDS, Infrastructure, Agriculture growth etc.
- Topper notes can be referred to as how to make notes.
- Use side headings in notes for better structuring of the answer.

## NATIONAL INCOME

### CIRCULAR FLOW OF INCOME IN A SIMPLE TWO-SECTOR ECONOMY (10:15 AM)

- It is a two-sector economy involving firms and households.
- Factor services like land, labour, capital, and entrepreneurs are provided by the household.
- In return, the firm makes a factor payment in the form of rent, wages, interest, and profits.
- Such payments are nothing but factor income for the household as there are no transfer payments involved.
- **Note-** Nonproductive incomes are not part of factor income.
- Households use this income on expenditures like goods and services, to be bought from the firm.
- **Assumptions:**
  - No government interference
  - No trade or export
  - No bank involvement
- **Definition of National Income**
  - It is the income of the normal residents of the country from within the country and the **rest of the world**. ➔ For ex. Shahrukh Khan is running a hotel in Paris.
  - National income only includes productive income i.e. income that is generated through factors of production.
- **Note-** Transfer payments are not part of National Income calculations.
- **Transfer payments-** They are all those unilateral payments corresponding to which there is no exchange of goods and services in the economy.
- **E.g.** Pensions, Remittances, unemployment compensation etc.
- However, pension to retired employees is generally not considered as a transferred payment as the services were already rendered by them before retirement.

- **Note-** Transfer payments are not included in National income but are included in Personal income.
- **Circular flow of income** refers to the cycle of generation of income in the production process, its distribution among the factors of production and finally its circulation from household to firm in the form of consumption expenditure on goods and services produced by them.

### DIFFERENT TYPES OF ECONOMIC SYSTEMS (11:09 AM)

- **Market Economy**
- A market economy is one in which individuals and private firms make the major decisions about production and consumption.
- Consumption is determined by individual decisions on how to spend wages and property income generated through labour and property ownership.
- In the extreme case of a market economy, government regulation is almost zero and economic decisions are taken by private players (**Laissez Faire**).
- **Command economy**
- In a command economy, the government makes all important decisions about production and distribution.
- Govt also own most of the factors of production.
- Govt also decide how the output of the society is to be distributed.
- Today's contemporary societies are **mixed economies** with elements of market and command.
- In the present world, most of the decisions in developed and developing economies are made in the market place but the government also plays an important role in overseeing the market.

"Laissez-faire" is an economic philosophy of free-market capitalism that opposes government intervention. The term is French and translates to "let do" or "let go," implying that the economy functions best when there is minimal governmental interference.



## **IMPORTANT CONCEPTS UNDER NATIONAL INCOME (11:30 AM)**

- **Domestic/economic territory:**
- It refers to the geographical territory administered by the Indian government within which persons, goods, and capital can circulate freely.
- Foreign embassies located in India are not a part of domestic/economic territories, whereas Indian embassies located abroad are a part of domestic/economic territories.
- Domestic/economic territories also consist of:
  - 1. Military establishment, consulates, embassies, etc. located in a foreign country
  - 2. Fishing vessels, ships, aircraft, etc. also fall under the domestic territory.
- For example, the revenues and profits of Air India are counted within India's GDP

- **Types of Goods**

- **1. Intermediate goods:**

- These are semi-finished goods that have been produced by a process but cannot be used as it is and need to go through further production processes to be converted into a final good. Note:- Intermediate goods are not part of GDP calculations as it leads to double counting.

- For example, steel sheets are used for producing cars, etc.

- **2. Final goods:** Selling of second hand goods are not part of GDP calculations.

- These goods do not undergo any further transformation in the production process.

- Final goods can be divided into two types:

- *a) Consumption goods:*

- Goods that are consumed by the ultimate consumers or meet the immediate need of the consumer are called consumption goods

- They can be of **three categories:**

- *i) Durable consumption goods:*

- These goods do not get exhausted immediately but last over a period of time and are called consumer durables.

- For example furniture, electronics

- *ii) Non-durable consumption goods:*

- The consumption goods that are consumed immediately.

- For example, food, clothing, fuel, etc.

- *iii) Service goods:*

- Services are intangible and are a kind of consumption good as it is consumed immediately

- For example education, health, etc

- *b) Capital goods:*

- Capital goods have to possess the following three characteristics:

- i) It is a durable output of a man-made process.

- ii) It again acts as an input for the further production process.

- iii) While acting as an input it does not get transformed or consumed.

- In a simple sense, capital goods are those goods that are used in producing other goods.

**TOPIC OF THE NEXT CLASS: NATIONAL INCOME (TO CONTINUE)**