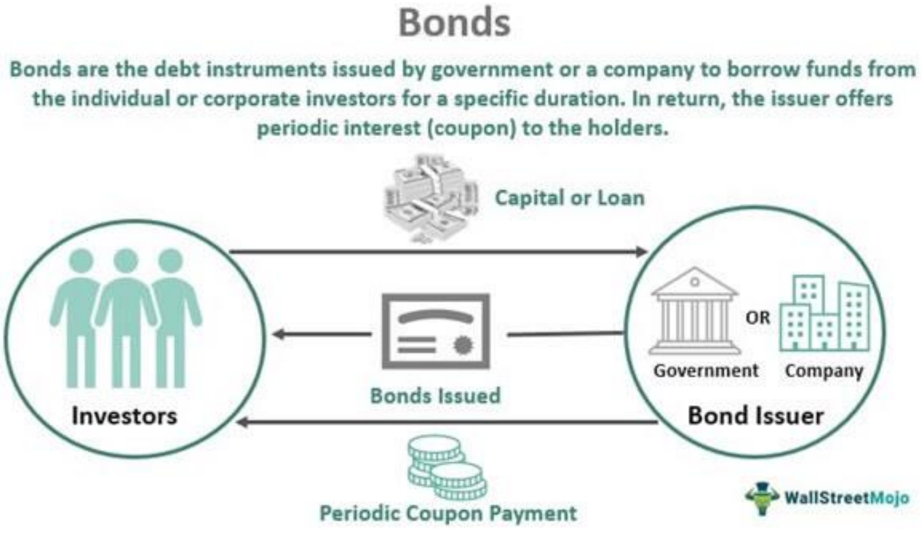
Economics Class 02
11th July, 2023 at 9:00 AM

REVISION OF THE PREVIOUS CLASS: INITIAL PUBLIC OFFERING (IPO) (9:00 AM):
- When companies are offering shares (diluting ownership) for the first time.
- IPO is a part of the primary market.

Follow-On Public Offer (FPO):
- If the company is diluting its ownership for the second time, third time, etc., and issuing new shares, it is called FPO.

Venture Capitalists:
- They are private equity investors who provide capital to companies with high growth potential in exchange for an equity stake.
- They can be individuals or institutions.
- They mainly use the money raised from other equity or debt sources.

Angel Investor:
- He is a private investor who finances small and upcoming business ventures at their initial stages through **Seed Capital.**
- Just like venture capitalists, they get equity in return.
- They use their own capital.

Bonds:
- They are debt instruments used for raising capital through debt.
- They mostly have a maturity period.
- They can be issued by both government and private bodies.
- Bondholders are creditors or lenders.
- 

- Inflation goes against bondholders/creditors/lenders.
- Inflation allows borrowers to pay lenders back with money worth less than when it was originally borrowed, which benefits borrowers.
- Similarly, bondholders have lent money (to the debtor) and received a bond in return.
- **Coupon Rates** are the yields associated with regular interest payments made by bonds.
- **Bond Yield** is the rate of return that the bond gives at the time of maturity.
- **For example-** If we have a 100 rupee bond with a 10-year maturity, that pays 6 rupees to the bondholder every year and is sold at 80 rupees to the bondholder.
- Face value/par value= 100 rupees.

- Coupon rate- (6/80) * 100= 7.5 %.
- Bond yield= 100-80= 20 rupees;(20/80) * 100 = 25%.
- Bondholders can also sell the bonds to other interested individuals/companies, and the final bondholder will get the face value of the bond at maturity.

INVESTMENT (9:40 AM):

- In economic terms, investment is something that leads to **capital formation-** the accumulation of capital goods.

Capital Goods:

- They are the goods that are used for producing other goods.
- Capital goods are man-made and they do not change their size and shape during the process of production.
- Capital goods lose their value due to wear and tear, which is also called **depreciation** of the asset.
- **Example:**
- If the Total Output of the country is 100 rupees.
- The proportion of capital goods- 30 rupees,
- The proportion of consumption goods- 70 rupees
- Investment as per economists is 30%
- Simply speaking, investment is the proportion of capital goods to the total output of the nation.
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Chinese Growth Model:

China after the 1980's focussed on increasing its capital goods production.

The main aim was to achieve export-led growth, which they did.

China had the benefit of cheap labor, and business favorable policies attracted many manufacturing companies all over the world to set up their plants in China.

India has recently aimed to achieve this growth model.

POST INDEPENDENCE GROWTH MODEL (10:10 AM):

- The post-independence era though saw a mixed-economy model, but the government had overarching powers over the private sector.
- The private sector needed to take permissions and licenses for every minor & major activity related to business.
- This was the era of **License Raj** and the government-led Public Sector Undertakings were supposed to drive national growth.
- This was a type of **Crony Socialism.**
- The PSU-led growth resulted in inefficiency due to the high cost of production.
- The focus of the **Second five-year plan 1956-1961 (Nehru Mahalanobis model)** focussed on increasing the output of industries, particularly heavy industries.
- Almost all the heavy industries at that time were government held.
- The **first five-year plan** focussed on agriculture under the **Harrod- Domar plan**.

Consumption goods:

- They are the goods that are consumed by the final consumer and are not used in the process of producing other goods.
- They can be divided into:
- I. Durables- Television.

- II. Immediate consumption goods- eatables.
- III. Services.

ECONOMIC GROWTH (10:40 AM):

- In India, economic growth is measured using **Gross Domestic Product (GDP).**
- GDP is the total final value of all final goods and services produced within the territory of India in one financial year.
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Year	Output (in rupees)
2018	100
2019	110
2020	121
2021	125
2022	120
2023	115

- In the above example, between 2020 and 2021, we saw growth, but at a lesser percentage than earlier.
- So this was a case of economic slowdown.
- We saw a decrease in production(negative growth rate) between 2021 and 2023.
- This was a case of recession.

Economic Slowdown:

- It refers to a fall in the growth rates.

Recession:

- it refers to negative growth for more than two quarters(total 6 months).
- recession is generally associated with job losses.
- **Depression:**
- Sustained and high recession for a long time.

IMPORT SUBSTITUTION MODEL IN INDIA (11:10 AM):

- The model was adopted so as to protect the infant Indian industries.
- An **Open Economy** is an economy where there is trade between the nation and the world.
- **Closed economies** restrict trade.
- India was more of a closed economy in the 1960s and India is more of an open economy today.

Import Substitution Industrialization:

- India in the 1960s focussed on protecting its domestic market, especially domestic manufacturing, which was in the nascent stage.
- Also during British time, laborers were exploited, and the manufacturing sector was not developed.
- India restricted imports to protect its manufacturing industry through different trade barriers- Tariff & Non-Tariff.
- India wished to produce all the products as much as possible rather than importing them.
- PSUs were expected to carry out the required production.
- **Effects of the policy:**
- After independence, India was a young nation and the manufacturing sector needed protection, so the adoption of this policy benefited domestic sectors.
- The government could regulate the prices and ensure the welfare of the masses.
- This led to less innovation and competition. Over-protection made the firms inefficient
- India failed to withdraw this protection at a later stage which made the PSUs void of risk-taking attitude

Tariff barriers:

- Tariff barriers are barriers in terms of tax or duties(import duties, customs, etc.).

- **Non-Tariff barriers:**
- These are non-tax barriers like quantitative restrictions:
- **Sanitary and Phytosanitary barriers-** claiming that a product will affect animal and plant health.
- Some countries claim that Indian wheat has higher pesticide residue, so they cannot import Indian wheat.
- **Rules of origin:**
- Countries allowing the import of products depend upon the origin of the product and not upon the final country which imports the goods.
- Like if India bans Chinese imports, then even Chinese imports through Bangladesh will be banned.

TRADE TERMINOLOGIES (11:40 PM):

- **A trade deficit** is a situation where a nation has more economic value in imports than exports.
- The Forex reserves in under the control of the Reserve Bank of India(RBI).
- One of the major components of the Forex Reserve is the reserve of four liquid currencies- US dollar, Euro, Pound, and Yen.

Depreciation of currency:

- This refers to a fall in the value of the currency due to market fundamentals- demand and supply.
- **Case 1**-1 $= 50 rupees
- **Case 2**- 1$ = 100 rupees.
- Moving from case 1 to case 2, the rupee value has depreciated and the dollar value has appreciated.
- This can be done for any currency and not only dollars

Appreciation of Currency:

- This refers to an increase in the value of the currency due to market fundamentals- demand and supply.

Liquid Currency:

- A liquid currency is easily accepted by everyone.
- Indian Rupee is still not a liquid currency.

Reasons for the high demand for gold in India:

- Tradition.
- Hoarding black money
- Hedging (protection) against inflation and other risks.

The topic for the next class is the continuation of economics fundamentals.