

## Economics Class 01

10th July, 2023 at 9:00 AM

### EXAMINATION OVERVIEW OF ECONOMICS (9:03 AM)

- Economics is important for all the stages of the examination.

#### Prelims:

- We expect around 18-23 questions from the economics.
- Out of those questions, most of the questions, around 20/23 questions are doable.
- 2023 saw for the first time a higher-than-expected difficulty level.
- Even in the changed MCQ pattern, most of the questions can be attempted through

#### Mains:

- In General Studies Paper III, we expect around 10 questions from Economics + Agriculture portions.
- We expect questions to be sourced from 7 areas that will be eventually covered in the classes.
- We can also expect some essay topics, as we saw in 2015- **Can capitalism bring inclusive growth?**

#### Interview:

- We expect interview questions, especially if Indian Revenue Services are our priority.

#### General instructions:

- Current affairs and basic concepts are the most important pillars of all stages of preparations.
- We are not expected to cover topics in too much technical depth or go after formulae.
- We do not expect very difficult questions from Stock Markets, but 2023 had a question on **Beta**.
- The **Current Affairs** span for economics is of three years.
- There are several Economics topics that might be useful for the essay too like- GST, Inclusive Growth, etc.
- More than memorization, a proper understanding of the concepts is necessary.
- Not knowing the topic will most probably see us leaving the question.
- But partial understanding will tempt us to attempt the question incorrectly.
- Important terminologies will be shared as per the progression of the class.
- The first 6-7 classes will cover the basics.
- After 5th class, we will discuss proper introductions for subjective questions.

#### Sources for Prelims:

- Indian Economic Development NCERT class 12- at least 3 pages/day.
- We must not start with Macroeconomics, but it must be done later.
- We can avoid Microeconomics.
- Though any book will be sufficient, we can get **Shankar Ganesh's** book if we have not purchased any other book till now.
- Out of the four volumes of the Visionias printed material, the second volume must be done compulsorily.
- For knowing the meaning of terminologies that we will come across while reading newspapers and current affairs, **Investopedia** would be good.
- But we must only go through the first paragraph of each term defined there.
- We must try to understand the meaning of terms as soon as we come across them rather than trying to wait for the topic to be dealt with in the class.
- The **Explained** column **Indian Express**.

#### Sources for Mains:

- Class notes.
- Printed material.

- Explained section of Indian Express.
- Economic Survey.
- Data will be needed for certain questions like - employment, inequalities, growth, etc.
- Data, graphs, etc. will most probably add a half mark in the answer, but the overall effect would make a major difference
- Selective reading of **Mishra and Puri's** book.

### **Sources for both Prelims and Mains:**

- Previously asked questions are most important.
- For Prelims, we need to refer to question papers from 1995.
- For Mains, we need to refer to question papers from 2013; they will cover 60 % of our topics.
- UPSC conducted exams like CDS, CAPF, CMS, EPFO, etc. mainly for prelims.
- Economics Optional questions must only be looked into without trying to solve all of them.
- Toppers' answer sheets must be referred for presentation and not content.
- They must encourage and guide us.
- Guesswork is easy in economics as topics keep repeating.
- Mock questions are most probably tougher.

### **CAPITALISM (9:45 AM)**

- In capitalistic societies, the economic fundamentals are driven by the forces of demand and supply.
- In such societies, the factors of production- land, labor, capital, and entrepreneurship are under the private sector and government interference is minimum.
- A **market** is a place where buyers and sellers meet.
- In market economies, price and production are decided by market forces.
- **Demand** is not only about the willingness to buy a product but also the ability to pay.
- Capitalism has a perception that hard work gets rewarded there.
- In the present world, we see a victory of Capitalism over Socialism in almost all parts of the world.
- Capitalism is closer to the innate human nature of self-interest.
- The land is used for rent, labor expects wages, entrepreneurs expect profits, and capital is given to earn interest.
- Altruism is not as close to human innate nature as we wish to believe.
- **Kautilya's Arthashastra** believed in a market economy.
- He held that the King must not interfere with market functioning and he must seek a position of power.
- Communism in most cases resulted in government capitalism.
- Capitalism has more scope for innovation, hence it sees more efficiency

### **Positives of Capitalism:**

- More efficiency due to more scope for innovation.
- More wealth to distribute.
- A better record at poverty handling and creating jobs.
- The voting is based on logical voting.

### **Negatives of Capitalism:**

- Wants are sold as needs.
- The marketization of basic services.
- Anyone without paying capacity is outside the market.
- Inequality.

- Exploitation due to primacy of profit motive.
- **For Example- Nike** outsources its production to developing nations where workers work for long hours with no security.
- Monopoly

### **Different approaches:**

- **Gandhiji** believed in the cottage industry, decentralization, and the **trusteeship model**.
- Under the trusteeship model, the government was not believed as the owner of all resources, but only a trustee that held the resources on behalf of the people.
- He believed that the earth has enough for everyone's needs but not for anyone's greed.
- Gandhiji was neither purely capitalist nor purely socialist.
- **Pandit Nehru** had more faith in technocrats, bureaucrats, large industries, and centralization.

### **Post-Independence India:**

- India chose socialism as India had many pressing problems at that time:
- High Poverty
- Food Security (India was dependent upon the **Public Law 480** program of the USA for subsidized grains).
- India had very low health indicators like life expectancy, health, etc.
- India also needed to do much in the fields of education, employment, etc.
- India had an undeveloped pvt sector, so India went for a mixed economy

### **MIXED ECONOMY (10:35 AM)**

- Due to the issues a newly-independent India faced
- Mixed Economy is derived from the principles of capitalism and socialism.
- It is nothing but both public and private sectors moving together/running hand-in-hand.
- The first five-year plan focussed on agriculture.

### **Different approaches in private and public sector organizations:**

- It is believed that there are **4 E's for administration**:
- I. Effectiveness.
- II. Economy.
- III. Effectiveness- Outcome orientation for the public sector.
- IV. Equity-Siding with the poor for the public sector.
- The private sector focuses on the only first two E's because the main focus remains on profit maximization.
- The public sector must focus on all the four E's.

### **License Raj Era:**

- The **Industrial Policy of 1956** believed in government control over private enterprises through the system of licenses.
- People need to secure licenses before indulging in any kind of economic activity.
- This placed much discretion in the hands of the bureaucrats.
- Eventually, this caused corruption and inefficiency.

### **STOCK MARKET (11:10 AM):**

- There are two ways to raise money for business- Debt & Equity.
- Debt can be taken by families, banks, other financial institutions, raising bonds, etc.
- Startups or small businesses face difficulty in getting loans from banks.
- Their major route of raising money hence remains equity.

### **Equity Market:**

- Equity signifies ownership of the organization.
- A **Share** is simply an individual unit of stocks, that shows ownership in the company.

- **Equity** is what we actually own in the company.
- The equity market is of two types:
- **I. Primary Market:**
- It sees buying/selling shares directly from the company.
- Companies dilute their ownership and bring in **Initial Public Offering (IPO)** for selling their shares on the stock exchange for the first time.
- After a company has been listed and traded its stocks if the company wishes to dilute its ownership further and release more shares, it is done through Follow-On Public Offering (FPO).
- **II. Secondary Market:**
- The buying and sharing of shares that happen among private citizens over the stock exchange.

## **IMPORTANT TERMS (11:30 AM)**

### **Fiscal Policy:**

- It deals with incoming (receipts) and outgoing (expenditure) money of the government.

### **Fiscal Stimulus:**

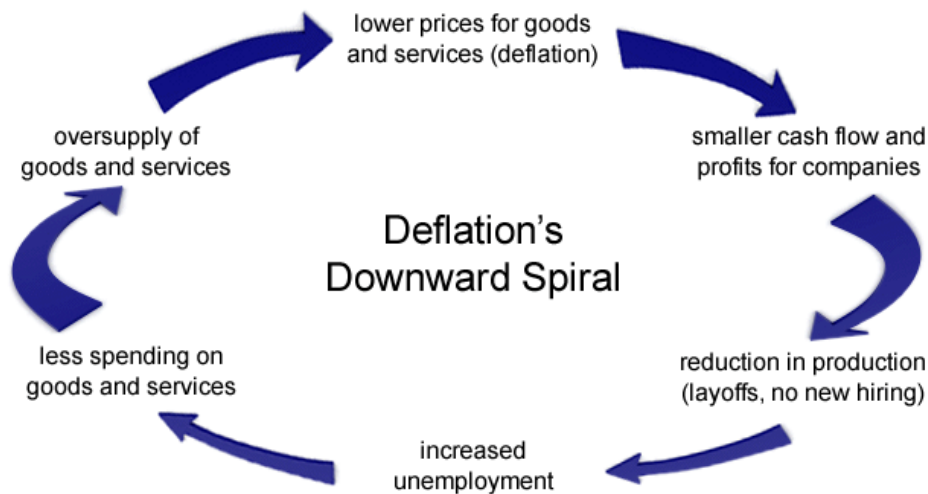
- It refers to the government pumping money into the economy to revive the economy which is not doing well.
- It includes:
- I. Increasing subsidies.
- II. Reducing tax rates.
- III. Bail-Out packages, etc.
- This must not always be used after an economic crisis.
- This will lead to inflation as it will increase the paying capacity of the people, hence the demand will increase.
- The **Atmanirbhar Bharat** package sought to use subsidies and transfers against the supply-side constraints after the demand reduction caused by Covid.
- This sudden increase in demand will be much more than the increase in production capacity.
- So we will have too much money chasing too few goods and it is known as **Demand-Pull inflation**.
- This was seen in many countries after the Covid period when many governments gave fiscal stimulus.
- The fiscal stimulus must hence be properly targeted and temporary.

### **Inflation**

- It refers to a situation where there is a sustained increase in prices of goods and services in a time period.

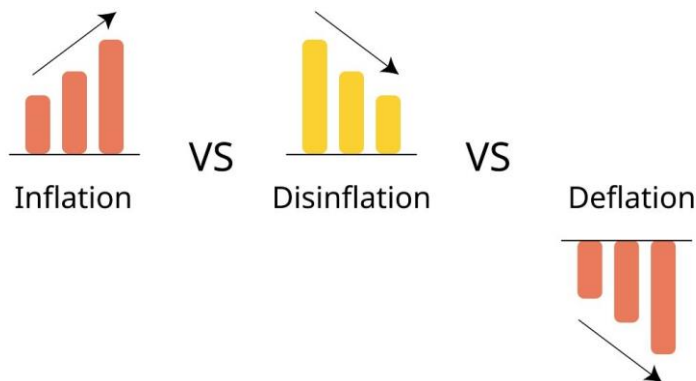
### **Deflation:**

- It refers to a fall in prices.
- Deflationary cycles are more dangerous than inflation.



### Disinflation:

- It refers to the fall in the inflation rate.



### Pent-Up Demand:

- It is the increase in demand after a drop in consumption.

### Stagflation:

- This is a situation where inflation and unemployment are seen together.

### Monetary Policy:

- This deals with the money supply in the economy.
- RBI handles the monetary policy in India.
- The monetary stimulus will be given in the form of allowing easy loans through the reduction of interest rates.
- For pumping money into the economy, both fiscal and monetary policies are used.
- But for sucking out money from the economy, monetary policy will be preferred because fiscal policy steps to reduce the money supply (increasing taxes, reducing subsidies, etc.) will have political backlash.

**The topics for the next class are the continuation of monetary policy and other basics of the economy.**