

## 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. cdcsx
- 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:** or 4 E's of Bureaucracy
- I. **Effectiveness**. **Efficiency** (Achieving the desired outcomes with the least input.)
- II. **Economy**. (Doing things at the lowest cost without sacrificing quality or output.)
- 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:**

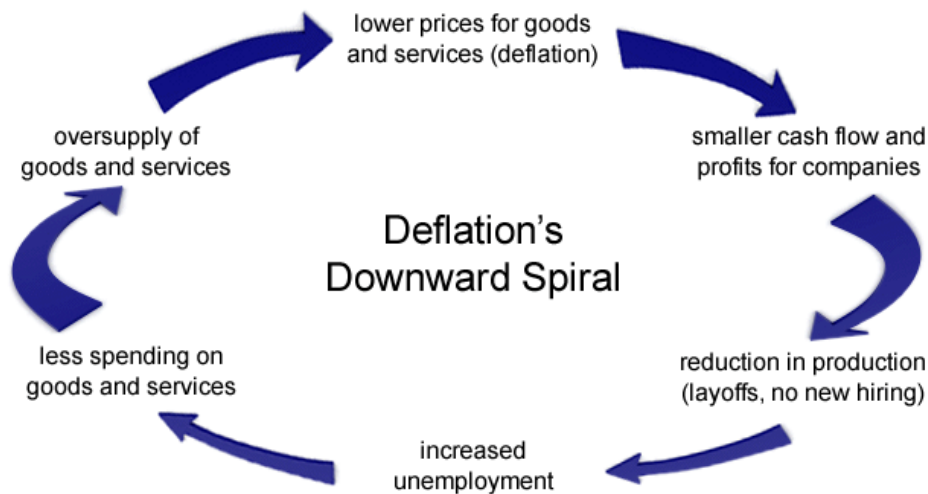
- It refers to the **government pumping money into the economy** to revive the economy which is not doing well.
- It includes:
  - I. Increasing subsidies.
  - II. Reducing tax rates.
  - III. **Bail-Out packages**, etc.
- This must not always be used after an economic crisis.
- This will lead to inflation 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.

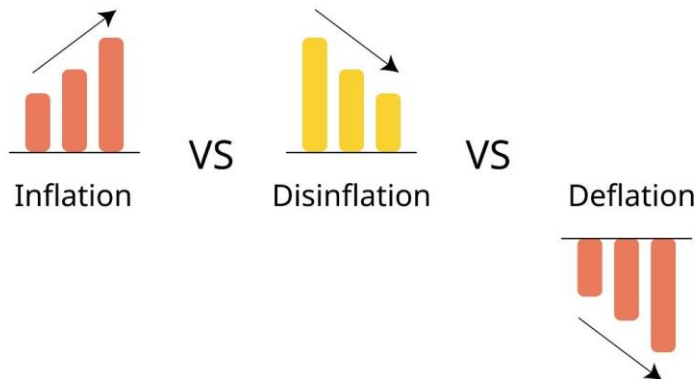
### **Deflation:**

- 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.**