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INDIAN ECONOMY HANDBOOK

For Civil Services Examination

KETAN

FIRST EDITION

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- B.TECH, IIT DELHI
- UPSC CSE 2015: AIR 860

Ketan, an esteemed alumnus of IIT Delhi, has always been driven by a passion for economics. His profound understanding of the subject also helped him secure an All India Rank of 860 in the Civil Services Examination, 2015. But beyond the accolades and academic achievements, he finds immense joy in imparting knowledge, making complex economic concepts accessible and engaging for all.

When he's not delving into the intricacies of economics or enlightening eager minds, Ketan is a connoisseur of contemporary culture. He has a penchant for memes, often using humor as a tool to make learning more enjoyable. A devout comedy fan, he believes in the power of laughter and often draws parallels between the world of economics and comedic situations.

In his downtime, you'll find Ketan immersed in a game of chess (https://www.chess.com/member/ketanomy). His relaxed and "chilled out" demeanor, combined with his multifaceted interests, makes him not just a distinguished academic but also a relatable individual. Dive into this book and experience economics through the lens of a true enthusiast.

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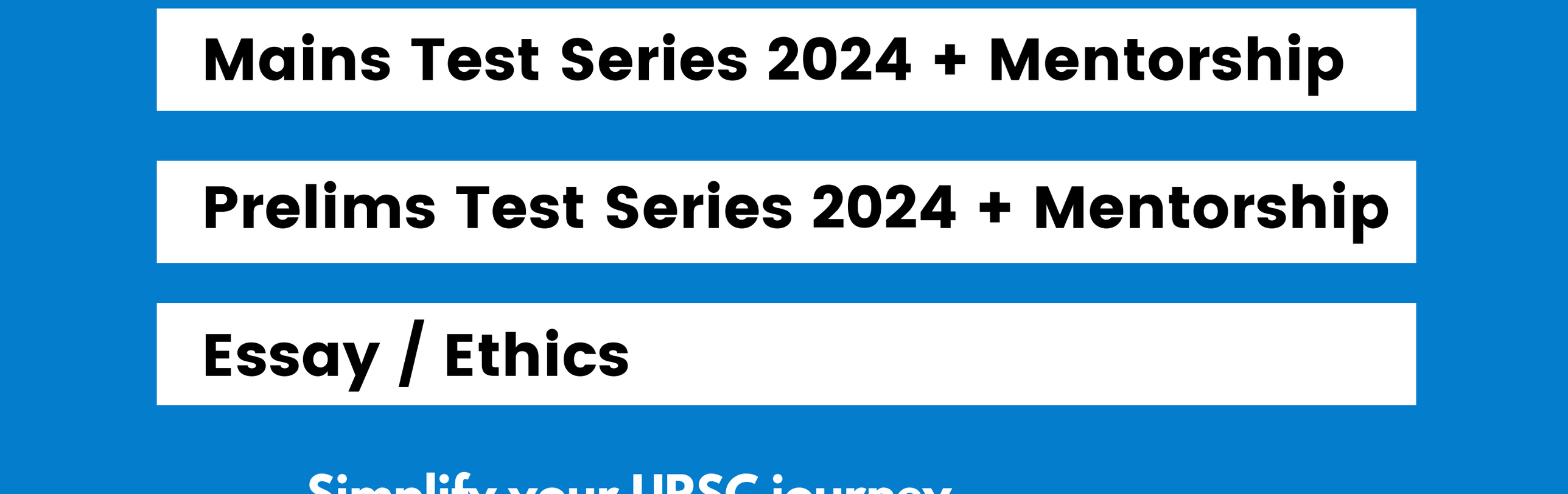

Abhijeet Yadav, Co-Founder
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To the dedicated UPSC Aspirants,

Greetings!

Before you delve into the pages of this book, I would like to set the stage for what you are about to embark upon. This book is not intended for students pursuing a degree in economics, nor is it designed for those who have chosen economics as their optional subject in the UPSC examination.

This book has been meticulously crafted for aspirants, who will encounter economics as an integral part of the General Studies (GS) in the UPSC Civil Services Prelims and Mains. I speak from experience, having been in your shoes. With four mains, two interviews, and one selection under my belt, I understand the unique challenges and gaps in the available resources for UPSC GS economics.

The journey of creating this book was inspired by the realization that there isn't a definitive guide for UPSC GS economics. Certain topics, such as agriculture and industry, often remain untouched in many books, while others are delved into with such depth that it becomes overwhelming and, frankly, unnecessary for the scope of the UPSC GS.

I've tailored this book with my students in mind, aiming to provide a comprehensive yet concise resource. My hope is that it will demystify the subject for you. Economics, though daunting for many, can be incredibly enlightening once its basic concepts are understood. Not only will this knowledge serve you well in the UPSC examination, but it will also enrich your perspective on the world and its intricate workings.

If you've chosen this book as a companion in your UPSC journey, I am humbled by your choice and wish you the very best.

Best of luck, and may your efforts bear fruit!

Warm regards,

Ketan
UPSC CSE- 2015 AIR-860
Economics Faculty, UPSCprep.com

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1. Introduction to Economics

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Chapter 1
Introduction to Economics

Definition

Economics is a social science that focuses on the study of how societies allocate and use scarce resources. At its core, economics is concerned with the problem of scarcity, which arises because human wants and needs are virtually unlimited while the resources available to satisfy them are limited. This fundamental problem drives much of economic inquiry and analysis.

Economists study how individuals, businesses, and governments make decisions about the allocation of resources, including labor, capital, and natural resources, to meet their needs and desires.

Basic Concepts

Goods

Goods refer to the physical or tangible products that are produced and consumed in an economy. Goods can be categorized into two main types: consumer goods and capital goods.

Consumer Goods: Consumer goods are products that are purchased by individuals or households for their personal consumption. These goods are used directly to fulfill people's needs and desires. Examples- food items, clothing, electronics like smartphones and televisions, and everyday items like furniture and household appliances.

Capital Goods: Capital goods are goods that are used by businesses to produce other goods or provide services. These goods are not meant for direct consumption but are used in the production process. Capital goods include machinery, equipment, tools, and buildings used in manufacturing, agriculture, construction, and other industries. For example, a tractor used by a farmer to cultivate crops or a printing press used by a publishing company to print books are considered capital goods.

Goods can also be further classified based on their durability or lifespan. Durable goods are those that are used over an extended period, usually more than three years. Examples of durable goods include cars, refrigerators, furniture, and laptops. Non-durable goods, on the other hand, are consumed quickly or have a short lifespan. Items like food, beverages, toiletries, and stationery are non-durable goods.

Another way to classify goods is based on their rivalry and excludability. Rivalry refers to the extent to which the consumption of a good by one person reduces its availability for others. Excludability refers to the ability to prevent others from using or consuming a good. Based on these characteristics, goods can be classified as private goods, public goods, common goods, and club goods.

Private goods are both rivalrous and excludable. These goods are owned by individuals or companies and can be bought and sold in the market. Examples of private goods are clothing, personal electronics, and privately owned vehicles. If you buy a new smartphone, it belongs exclusively to you, and others cannot use it without your permission.

Public goods, on the other hand, are non-rivalrous and non-excludable. These goods are provided by the government or public institutions for the benefit of society as a whole. Public goods are available to everyone, and one person's consumption does not diminish its availability for others. Examples of public goods include street lighting, national defense, and public parks. For instance, if the government builds a park in your neighborhood, you can enjoy its benefits, and others can as well.

Common goods are rivalrous but non-excludable. These goods are available for use by anyone, but their consumption by one person reduces the amount available for others. Common goods often face the challenge of overuse or depletion. Examples of common goods are fisheries, forests, and grazing lands. If a fishing lake is open for everyone, each additional fish caught by a fisherman reduces the number of fish available for others.

Club goods are excludable but non-rivalrous. These goods are provided by private organizations or clubs, and people can join or pay to access them. Examples of club goods include cable television, private golf courses, and subscription-based services like Netflix. If you subscribe to a streaming service, you can enjoy its content, but your usage does not affect the availability of that content for other subscribers.

Services

Unlike physical goods, services are intangible and cannot be held or touched. They are activities or tasks performed by individuals or businesses to fulfill the needs and wants of others. They include a wide variety of sectors such as hair salons, education, banking, healthcare, transportation, and entertainment.

Services are often consumed or experienced simultaneously as they are produced. Unlike goods, which can be produced and stockpiled before being sold, services are usually produced and consumed in real-time or on-demand. They rely heavily on human skills, expertise, and interactions.

Utility

Utility refers to the satisfaction or usefulness that a person derives from consuming a good or service. It is a subjective measure and varies from person to person. For example, imagine you are hungry, and you eat a slice of pizza. The satisfaction or happiness you get from eating that slice of pizza is the utility you derive from it.

Marginal utility, on the other hand, is the additional utility gained from consuming one more unit of a good or service. It helps us understand how the satisfaction changes as we consume more of a particular item. To illustrate this, let's say you eat the first slice of pizza when you are really hungry. The enjoyment and satisfaction you get from that first slice are high, and let's say you assign it a value of 10

units of utility. Now, you decide to eat a second slice of pizza. The enjoyment you get from the second slice may be slightly less than the first one, let's say 8 units of utility. The difference between the first and second slice, which is 2 units of utility, represents the marginal utility of the second slice.

The law of diminishing marginal utility states that as a person consumes more and more units of a good or service, the additional satisfaction or utility derived from each additional unit will decrease. This means that the more you consume of something, the less additional satisfaction you will get from consuming more of it. To continue with our pizza example, let's say you eat a third slice of pizza. By this point, you may be getting full, and the satisfaction you derive from the third slice might be even lower, let's say 5 units of utility. The marginal utility keeps diminishing with each additional slice.

The law of diminishing marginal utility has important implications for consumer behavior and decision-making. It explains why we tend to seek variety and explore different goods and services to maintain or increase our overall satisfaction. As the marginal utility of a particular item decreases, we may start looking for alternatives to fulfill our needs or seek out other sources of satisfaction.

Cost

Cost refers to expenses incurred in order to produce goods or services. Costs can be divided into different categories, such as fixed costs, variable costs, and total costs.

Fixed costs are costs that do not change with the level of production. Imagine you want to start a small bakery. You need to rent a shop and buy baking equipment. The rent you pay for the shop and the monthly payment for the equipment are fixed costs. It doesn't matter how many loaves of bread you produce, these costs remain the same.

Variable costs vary with the level of production. For example, the cost of flour, sugar, and other ingredients you use to make bread will increase as you produce more loaves. The more bread you bake, the higher your variable costs will be.

Total cost is the sum of both fixed costs and variable costs. Average cost is calculated by dividing the total cost by the quantity of goods produced. It gives you an idea of how much it costs, on average, to produce each unit of output.

Opportunity Cost: Opportunity cost is a concept that highlights the value of the next best alternative that is forgone when making a choice. It represents the benefits or profits you could have gained if you had chosen a different option. For example, if you decide to use your baking skills to start a bakery, your opportunity cost might be the potential income you could have earned by working as a chef in a restaurant.

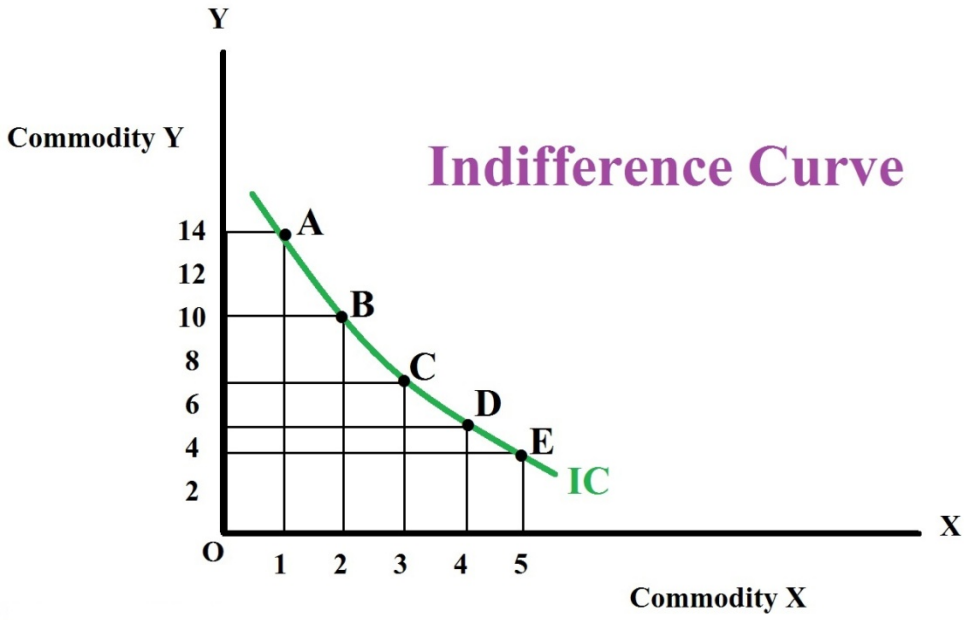
Understanding the different costs is crucial for businesses and individuals to make informed decisions. By comparing costs and benefits, they can evaluate the profitability of different options and make choices that maximize their overall welfare.

Price

Price refers to the amount of money or value that is assigned to a good or service. It is the exchange rate at which two parties agree to trade a particular item. Prices are influenced by various factors, such as supply and demand, production costs, competition, government intervention and market conditions.

Indifference Curve

An indifference curve is a graphical representation that shows different combinations of two goods that provide the same level of satisfaction to an individual. The word "indifference" means that the individual is equally happy or satisfied with any point on the curve.



The slope of an indifference curve is downward sloping, which means that as the quantity of one good increases, the quantity of the other good decreases to maintain the same level of satisfaction. This concept is known as the diminishing marginal rate of substitution. It implies that individuals are willing to give up less of one good in exchange for more of the other good as they consume more of that good.

By analyzing indifference curves, economists can study consumer preferences, make predictions about consumer choices, and understand how individuals allocate their resources to maximize their satisfaction or utility.

Types of Economics

Macroeconomics and microeconomics are two main branches of economics that focus on different levels of analysis and different economic phenomena.

Macroeconomics is concerned with the study of the economy as a whole, including the aggregate behavior of households, firms, and governments. It examines the performance of the economy in terms of overall output, income, and employment, and the factors that affect these variables. Macroeconomic topics of interest include economic growth, inflation, unemployment, monetary policy, fiscal policy, and international trade.

Microeconomics, on the other hand, focuses on the behavior of individual agents, such as consumers, firms, and industries, and how their interactions in markets determine prices and the allocation of resources. Microeconomics seeks to understand how individuals and firms make decisions, how markets work, and how government policies affect the behavior of these agents. Topics of interest in microeconomics include supply and demand, market structure, consumer behavior, producer behavior, and the economics of information.

Concepts of Microeconomics

Demand

Demand refers to the quantity of a good or service that consumers are willing and able to buy at a given price and within a specific time period. It represents the desire, affordability, and intention to purchase a product.

Determinants of demand:

1. Price of the Product: The most obvious determinant of demand is the price of the product itself. Usually, when the price of a product decreases, the quantity demanded increases, and vice versa. For example, if the price of smartphones goes down, more people might be interested in buying them.

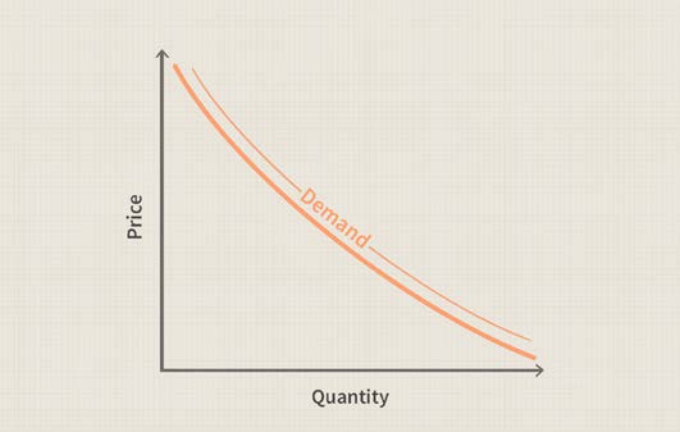
2. Income: The income of consumers plays a significant role in determining their purchasing power. When people's income increases, they can afford to buy more goods and services, leading to an increase in demand. For instance, if people's salaries increase, they might be more willing to buy luxury items like expensive jewelry.

3. Price of Related Goods: The prices of related goods, such as substitutes and complements, can affect the demand for a particular product. Substitutes are products that can be used in place of each other, like tea and coffee. When the price of one substitute increases, people may switch to the other, resulting in a change in demand. Complementary goods are products that are used together, like smartphones and mobile data plans. If the price of smartphones decreases, the demand for mobile data plans may increase, as more people will buy smartphones and want to use them with data plans.

4. Consumer Preferences and Tastes: Consumer preferences and tastes also influence demand. If a new fashion trend becomes popular, the demand for clothing items related to that trend will likely increase.

5. Population: The size and demographics of the population can impact demand. An increase in population generally leads to an increase in demand for goods and services. For example, if a new housing complex is built, the demand for furniture, appliances, and other household items may rise.

The law of demand: The law of demand states that there is an inverse relationship between the price of a product and the quantity demanded, all other factors being equal. This relationship is illustrated by the demand curve.



Elasticity of demand: Elasticity of demand measures the responsiveness of quantity demanded to a change in price. It helps us understand how sensitive consumers are to price changes. There are three types of elasticity of demand:

1. Elastic Demand: When a change in price leads to a relatively larger change in quantity demanded, we say demand is elastic. In this case, consumers are highly responsive to price changes. For example, if the price of a luxury car increases, people may decide to buy a different brand or postpone their purchase altogether.

2. Inelastic Demand: When a change in price leads to a relatively smaller change in quantity demanded, we say demand is inelastic. In this case, consumers are less responsive to price changes. For example, if the price of basic groceries increases slightly, people will still buy them because they are necessities.

3. Unit Elastic Demand: When a change in price leads to an equal percentage change in quantity demanded, we say demand is unit elastic. In this case, the responsiveness of quantity demanded matches the change in price.

Exceptions to the law of demand: While the law of demand generally holds true, there are some exceptions:

1. Giffen Goods: These are inferior goods that defy the law of demand. As the price of a Giffen good increases, the quantity demanded also increases. This happens when the good is an essential staple for lower-income consumers. For example, if the price of rice increases significantly, low-income individuals may have to spend a larger portion of their budget on rice and may end up buying more of it despite the higher price.

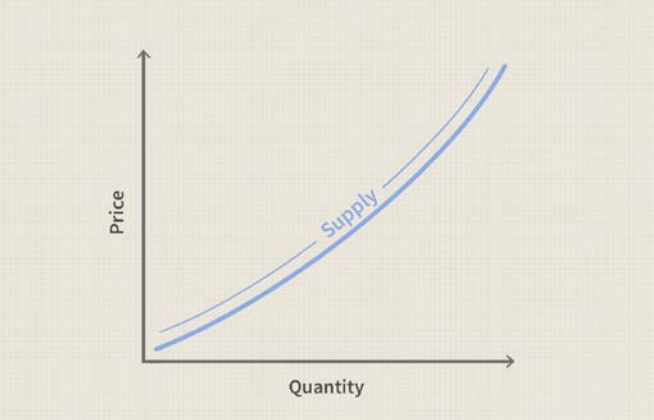
2. Veblen Goods: These are luxury goods that also defy the law of demand. As the price of a Veblen good increases, the quantity demanded may also increase. This is because the high price of the good is seen as a status symbol, making it more desirable for some consumers.

Supply

Supply refers to the quantity of a good or service that producers are willing and able to offer for sale at different prices during a specific period. It represents the relationship between the price of a product and the quantity producers are willing to produce and sell.

Law of Supply: The law of supply states that there is a direct relationship between the price of a product and the quantity supplied, assuming all other factors remain constant. In simple terms, as the

price of a product increases, the quantity supplied by producers also increases, and vice versa. This relationship can be illustrated using a supply curve.



Determinants of supply:

1. Price of inputs: The cost of resources and inputs required to produce a good or service can affect supply. For example, if the price of raw materials used in manufacturing increases, it becomes more expensive to produce the product, potentially leading to a decrease in supply.

2. Technology: Advancements in technology can enhance production efficiency, reduce costs, and increase supply. For instance, the invention of new machinery or automation can streamline production processes, allowing producers to supply more goods at lower costs.

3. Number of sellers: If new firms enter the market, the overall supply may increase. Conversely, if existing firms exit the market, supply may decrease.

4. Expectations: Expectations about future prices or changes in market conditions can influence supply. For example, if producers anticipate a significant increase in the price of a product in the future, they might reduce current supply to take advantage of higher profits later.

5. Government regulations: Government policies and regulations can affect the supply of goods and services. For instance, imposing restrictions or taxes on certain industries may reduce their supply, while subsidies or incentives can increase supply.

Elasticity of supply: Elasticity of supply measures the responsiveness of the quantity supplied to changes in price. The concept of elasticity of supply can be categorized into three types:

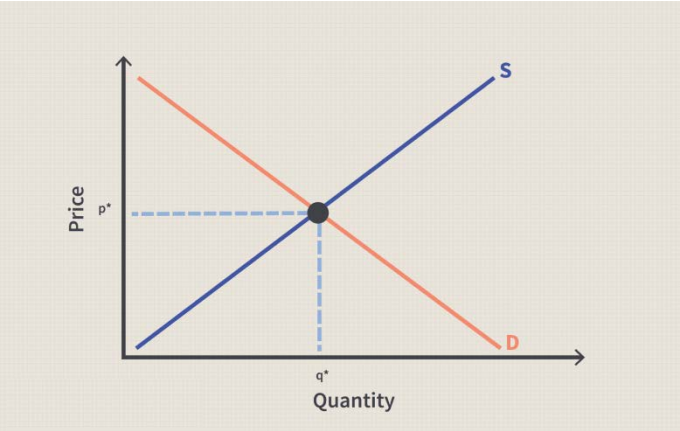
1. Elastic supply: If the quantity supplied is highly responsive to price changes, it is considered elastic. In this case, a small change in price leads to a relatively larger change in quantity supplied. For example, if the price of a particular crop increases, farmers can quickly adjust their production levels by planting more of that crop.

2. Inelastic supply: If the quantity supplied is not very responsive to price changes, it is considered inelastic. In this case, a change in price has a relatively smaller effect on the quantity supplied. For instance, if the price of rare and limited resources, like precious metals, increases, the quantity supplied may not change significantly due to their scarcity.

3. Unitary elastic supply: When the percentage change in quantity supplied is equal to the percentage change in price, the supply is said to be unitary elastic. In other words, if there is a 10% increase in price, the quantity supplied will also increase by 10%, resulting in a constant supply elasticity of 1.

Market Equilibrium

Market equilibrium refers to a situation where the quantity of a product or service demanded by buyers is equal to the quantity supplied by sellers at a particular price. In other words, it is the point where the intentions of buyers and sellers match, resulting in a balance in the market. Any deviations from the equilibrium price and quantity will create market imbalances, either as a surplus (excess supply) or a shortage (excess demand).



Competition:

Competition refers to the rivalry among sellers in the marketplace who are trying to attract buyers and sell their products. It plays a vital role in determining prices, quality, and variety of goods and services available to consumers.

Different types of markets based on the level of competition:

Perfect Competition: In a perfectly competitive market, there are many buyers and sellers offering identical products. No single buyer or seller has control over the price. Agricultural markets, such as wheat or rice, often exhibit characteristics of perfect competition.

Monopolistic Competition: Monopolistic competition refers to a market with many sellers offering similar but not identical products. Each seller has some control over the price and can differentiate their product through branding, marketing, or product features. Fast-food chains, like McDonald's and Burger King, operate in a monopolistically competitive market.

Oligopoly: An oligopoly market consists of a few large sellers dominating the market. These sellers have significant market power and can influence prices and market conditions. The actions of one seller can have a noticeable impact on others. Examples of industries with oligopolistic competition include the automobile industry and the smartphone market.

Monopoly: A monopoly occurs when there is only one seller in the market, dominating the entire industry. This seller has complete control over the price and quantity of the product or service. Monopolies can be harmful to consumers as they may lead to higher prices and reduced choices. A classic example of a monopoly is a public utility company that has exclusive control over providing electricity or water in a particular region.

Monopsony: Monopsony is a market structure in which there is only one buyer for a particular product or service, while there are multiple sellers. In other words, it is the opposite of a monopoly. Single buyer has significant market power and can exert control over the terms of trade with sellers.

Let's consider an example of a monopsonistic market for labor. Imagine a small town with a single large employer, such as a factory or a mine. This employer is the only buyer of labor in the area, and there are many individuals looking for jobs as sellers of labor. The single buyer has the ability to influence the wage rate and employment conditions. They can choose to hire fewer workers to keep wages down and maintain their bargaining power.

Previous Year Prelims Questions

1.	Consider the following statements Other things remaining unchanged, market demand for a good might increase if 1. Price of its substitute increases 2. Price of its complement increases 3. The good is an inferior good and income of the consumers increases 4. Its price falls Which of the above statements are correct? (a) 1 and 4 only (b) 2, 3 and 4 (c) 1, 3 and 4 (d) 1, 2 and 3	2021
2.	If a commodity is provided free to the public by the Government, then (a) the opportunity cost is zero. (b) the opportunity cost is ignored. (c) the opportunity cost is transferred from the consumers of the product to the tax-paying public. (d) the opportunity cost is transferred from the consumers of the product to the Government.	2018

Answers

1.	(a)	2.	(c)

2. National Income Accounting

Contents

Chapter 2
National Income Accounting

National income accounting is a method of measuring and analyzing the economic activity of a country or region. National income accounting is widely used by governments, central banks, and international organizations to monitor and analyze economic performance, and to design and evaluate economic policies.

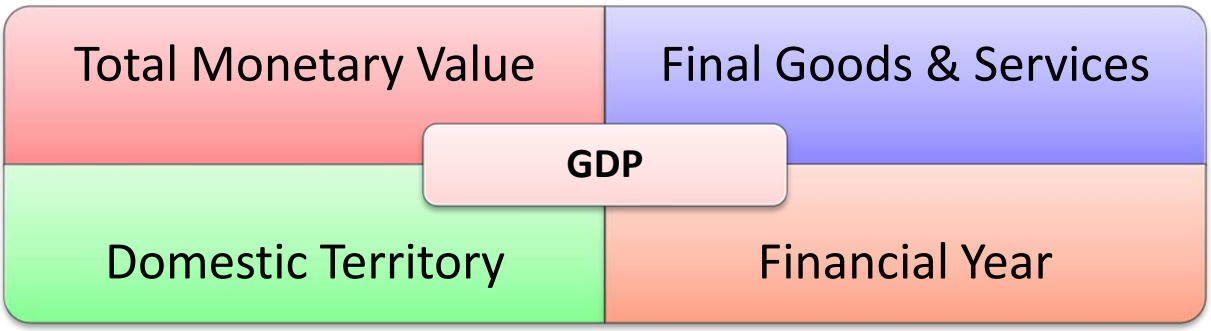
Various measures of National Income

There are several measures of national income that are commonly used:

1. Gross Domestic Product (GDP)
2. Gross National Product (GNP)
3. Net Domestic Product (NDP)
4. Net National Product (NNP)
5. National Income (NI)
6. Personal Income (PI)
7. Personal Disposable Income (PDI)

Gross Domestic Product

Gross Domestic Product, or GDP, is a measure of the total monetary value of all final goods and services produced within a country's domestic territory over a specified period of time, typically a financial year. It is one of the most widely used indicators of a country's economic performance.



Key Term	What is Included	What is Not Included
Total monetary value	The monetary value of all goods and services produced within a country's domestic territory in a given period of time	Non-monetary goods and services, such as volunteer work or unpaid household work
Final goods and services	Goods and services that are produced for final consumption or investment, including durable goods, non-durable goods, and services	Intermediate goods and services, which are used as inputs in the production of other goods and services
Domestic territory	The geographical boundaries, including airspace and territorial waters, within which persons, goods, and capital can circulate freely. These include: (i) Territory lying within the political frontiers of a country. It includes territorial waters also. (ii) Ships and aircrafts owned and operated by the residents between two or more countries. For instance, Passenger planes operated by Air India between Russia and Japan are parts of domestic territory of India. (iii) Fishing vessels, oil and natural gas rigs and floating platforms operated by the residents of a country in the international waters or engaged in extraction in areas where the country has exclusive rights of operation. For example, fishing boats operated by Indian fishermen in the international waters of the Indian Ocean will be considered as a part of domestic territory of India. (iv) Embassies, consulates and military establishments of the country located abroad. To illustrate, Indian embassies in Russia, America and other countries will form parts of domestic territory of India.	(i) Territorial enclaves (like embassies) used/administered by foreign governments. (ii) International organisations which are physically located within geographical boundaries of a country. Their offices form part of international territory.
Financial year	A period of 12 months used for accounting purposes. In India, Financial Year starts on 1st April and ends on 31st March.	

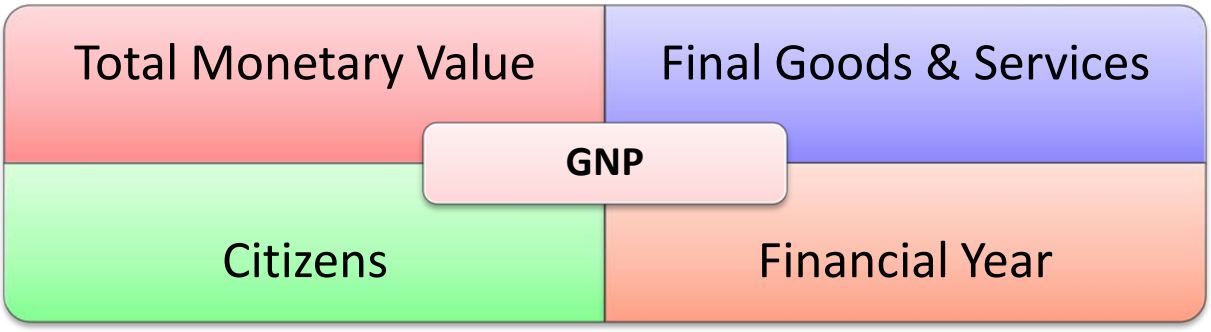
Real GDP and Nominal GDP

Criteria	Nominal GDP	Real GDP
Definition	GDP measured at current year market prices	GDP measured at constant base-year price (A base year is a reference year used as a benchmark for measuring changes in economic variables such as prices, wages, production, and income.)
Calculation	(Price x Quantity) of all goods and services produced	(Price of base year x Quantity) of all goods and services produced
Effects of Inflation	Reflects the effects of inflation on the economy's output	Adjusts for the effects of inflation, providing a more accurate picture of the economy's growth
Accuracy	Less accurate measure of economic growth and well-being, as it does not adjust for inflation	More accurate measure of economic growth and well-being, as it adjusts for the effects of inflation

For example, if the base year is 2010, and the quantity of a good produced in 2023 is 100 units, with a price of Rs 2 per unit, the nominal GDP contribution of that good in 2023 would be Rs 200. However, if the price of that good was Re 1 per unit in 2010, the real GDP contribution of that good in 2023 would be Re 100, reflecting the effects of inflation.

Gross National Product

Gross National Product, or GNP, is a measure of the total monetary value of all final goods and services produced by the citizens of a country, regardless of where they are located, over a specified period of time, typically a financial year. It includes the value of goods and services produced by citizens who are living and working abroad, and excludes the value of goods and services produced within the country by foreign nationals.



GDP vs GNP

Gross Domestic Product (GDP) and Gross National Product (GNP) are both measures of economic activity, but they differ in their approach to measuring economic output.

GDP is a territory-based concept that measures the total value of all final goods and services produced within a country's domestic territory. It includes goods and services produced by both domestic and foreign-owned firms located within the country's domestic territory.

In contrast, GNP is a citizenship-based concept that measures the total value of all final goods and services produced by a country's citizens, regardless of where they are located. It includes goods and services produced both domestically and abroad by citizens of the country.

Net Factor Income from Abroad

Net Factor Income from Abroad (NFIA) is the difference between income earned by the citizens of a country abroad and income earned by foreigners in the country.

GNP = GDP + Net Factor Income from Abroad (NFIA)

For example, if the GDP of India in a financial year is 10 trillion dollars, and the Net Factor Income from Abroad is 0.5 trillion dollars (which means that Indian citizens earned more income from their investments or work abroad than foreigners earned in India), then the GNP of India for that year would be 10.5 trillion dollars.

Conversely, if the Net Factor Income from Abroad is negative, it means that foreigners earned more income in the country than the citizens earned from their investments or work abroad. In this case, the GNP will be lower than the GDP.

Depreciation

Depreciation is the decrease in the value of capital goods and assets over time due to wear and tear, obsolescence, and other factors. Since capital goods are used in the production of goods and services, their decline in value needs to be accounted for to accurately measure the value of goods and services produced.

For example, if a machine in a factory costs Rs. 1,000,000 and has a useful life of 10 years, then its annual depreciation would be Rs. 100,000 (Rs. 1,000,000 divided by 10 years). This depreciation expense needs to be accounted for in the company's financial statements to reflect the true cost of producing the goods and services. If the depreciation is not accounted for, the value of the company's assets will be overstated, and the company's profitability will be understated.

Gross vs Net

Gross and Net are two important concepts in economics that are used to measure the value of goods and services produced in an economy.

- Gross refers to the total value of goods and services produced without accounting for Depreciation.
- Net refers to the value of goods and services produced after accounting for Depreciation.

As such,

Net Domestic Product (NDP) = Gross Domestic Product (GDP) - Depreciation

Net National Product (NNP) = Gross National Product (GNP) - Depreciation

Factors of Production

The factors of production are the resources and inputs required to produce goods and services in an economy. There are four factors of production:-

Factors of Production	Explanation	Income Earned
Land	Refers to all natural resources such as forests, minerals, water, and land itself, which are used to produce goods and services.	Rent
Labour	Includes all human resources, such as skills, abilities, and knowledge, which are used in the production process.	Wages
Capital	Includes all man-made resources, such as machinery, buildings, tools, and equipment, used in the production process.	Interest
Entrepreneurship	Refers to the ability and willingness of individuals to take risks and innovate to produce goods and services.	Profit

Factor Cost vs Market Price

Factor cost refers to the total cost of the four factors of production (land, labour, capital, and entrepreneurship) that are used to produce goods and services. This includes the cost of wages, rent, interest, and profits paid to these factors. Factor cost is an important consideration for businesses as it determines the cost of production and profitability.

Market price, on the other hand, refers to the price at which goods and services are sold in the market.

The relationship between factor cost and market price can be expressed through the following equation:

Market Price (MP) = Factor Cost (FC) + Indirect Taxes - Subsidies

Indirect taxes refer to taxes paid by producers such as excise duty, customs duty, and sales tax. Subsidies, on the other hand, refer to financial assistance provided by the government to producers to reduce their cost of production. When indirect taxes are levied on the production of goods and services, they increase the cost of production and hence increase the market price. Similarly, when subsidies are provided, they reduce the cost of production and hence decrease the market price.

Using these concepts, we can calculate

GDP_{MP} (Gross Domestic Product at Market Price) = GDP_{FC} (Gross Domestic Product at Factor Cost) + Indirect Taxes – Subsidies

NDP_{MP} = NDP_{FC} + Indirect Taxes – Subsidies
GNP_{MP} = GNP_{FC} + Indirect Taxes – Subsidies
NNP_{MP} = NNP_{FC} + Indirect Taxes – Subsidies

GDP Deflator

GDP deflator = (Nominal GDP / Real GDP) x 100

The GDP deflator is used to measure the change in the overall level of prices in an economy over time. A rise in the GDP deflator indicates that the overall level of prices has increased, while a decrease indicates that the overall level of prices has decreased.

National Income

National Income is the total income earned by the citizens of a country during a financial year, calculated as Net National Product (NNP) at factor cost.

National Income (NI) = NNP_{FC} = GNP_{FC} - Depreciation

Real National Income = National Income at base price

Nominal National Income = National Income at current price

Per capita Income

Per capita income is a measure of the average income earned by an individual in a country.

PCI = National Income/ Total Population of the country

Transfer Payments

Transfer payments refer to payments made by the government to individuals or other entities without any corresponding exchange of goods or services. These payments are made for various reasons such as social welfare, redistribution of income, and to support certain economic activities.

Some examples of transfer payments include: Old age pensions, scholarships etc

Personal Income

Personal income (PI) is a measure of income received by individuals in an economy.

To calculate personal income, we start with national income (NI), which is the total income earned by the citizens of a country during a financial year. We then add transfer payments such as social welfare payments and subsidies, which are payments made by the government to individuals or entities without any corresponding exchange of goods or services.

However, not all of the national income is received by individuals as personal income. Certain payments, such as corporate retained earnings, corporate taxes, and social security taxes are not paid out to individuals. Therefore, we must deduct these payments from national income to estimate personal income.

The formula for calculating personal income is:

PI = NI + Transfer payments - Corporate retained earnings, corporate taxes, Social security taxes

Disposable Personal Income

Disposable Personal Income (DPI) is a measure of the income that individuals have available to spend or save after taxes have been paid. DPI is calculated by subtracting personal taxes from personal income.

Personal taxes include all taxes paid by individuals, such as income tax, property tax, professional tax, and other taxes that are levied on personal income.

The formula for calculating DPI is:

DPI = PI - Personal taxes

The disposable income can be used either for consumption or saving. The amount spent on consumption is called consumption expenditure, and the amount saved is called savings. Therefore, disposable income is equal to consumption expenditure plus savings:

Disposable Income = Consumption Expenditure + Savings

It is an important measure for analyzing consumer behavior and trends in consumption and saving.

Capital-output ratio (COR)

COR is a measure used to quantify the amount of capital required to produce a unit of output or goods and services. It represents the relationship between the amount of capital invested and the level of output produced in an economy or a specific industry.

Capital-Output Ratio = Total Capital Stock / Total Output

The capital-output ratio provides insights into the efficiency and productivity of an economy or industry. A lower capital-output ratio indicates that less capital is required to produce a unit of output, suggesting higher efficiency and productivity. On the other hand, a higher capital-output ratio indicates that more capital is needed for the same level of output, which may suggest lower efficiency.

The capital-output ratio is influenced by various factors, including technology, the level of infrastructure, the availability of skilled labor, and the production techniques employed. Understanding the capital-output ratio can help identify sectors or industries that require higher or lower capital investment relative to their output and guide decision-making regarding resource allocation and economic development strategies.

Measurement of National Income

There are three methods of measuring national income:

Value Added Method

The value-added method is a way of calculating national income by adding up the value added by each producer in the economy. This method measures the contribution of each stage of production to the final output and includes only the value added at each stage.

Here's an example to help you understand the value-added method:

Let's say there is a simple economy that produces only two goods: bread and jam. The bread is sold for Rs 5 per loaf and the jam is sold for Rs 300 per jar. The bakery buys flour for Rs 2 per loaf. The jam maker buys fruit for Rs 100 per jar and sugar for Rs 50 per jar. Using the value-added method, we can calculate the national income as follows:

Bakery: Revenue from bread sales: Rs 5 per loaf x 1000 loaves = Rs 5000

Value added: Rs 5000 - (Rs 2 per loaf x 1000 loaves) = Rs 3000

Jam maker: Revenue from jam sales: Rs 300 per jar x 100 jars = Rs 30,000

Value added: Rs 30,000 - ((Rs 100 per jar + Rs 50 per jar) x 100 jars) = Rs 15,000

National income: Value added by bakery + value added by jam maker = Rs 3,000 + Rs 15,000 = Rs 18,000

So the national income of this simple economy is Rs 18,000, which is the total value added by both the bakery and the jam maker.

Income method

The income method is another way of calculating national income. It measures national income by adding up the income earned by various factors of production, such as wages, rent, interest, and profit.

Let's assume there is an economy that produces only one good, which is rice. The rice farmers sell their rice to a rice miller who processes it and sells it to consumers.

Here's the income earned by different factors of production:

1. Wages: The rice farmers hire laborers to help with planting, harvesting, and transporting the rice. Let's assume that the farmers pay their laborers a total of Rs. 10,00,000 per year.
2. Rent: The rice farmers also rent land from landowners to grow their rice. Let's assume that the farmers pay a total of Rs. 2,00,000 per year in rent.
3. Interest: The rice miller takes a loan from a bank to buy machinery for processing the rice. The miller pays an interest of Rs. 1,00,000 per year on the loan.
4. Profit: The rice miller earns a profit of Rs. 5,00,000 per year from processing and selling the rice.

Using the income method, we can calculate the national income as follows:

Total wages earned by laborers: Rs. 10,00,000
Total rent earned by landowners: Rs. 2,00,000
Total interest earned by banks: Rs. 1,00,000
Total profit earned by the rice miller: Rs. 5,00,000

Total national income: Rs. 18,00,000 (sum of all the incomes earned by different factors of production)

In this example, the national income of the economy is Rs. 18,00,000, which is the sum of all the income earned by the laborers, landowners, banks, and rice miller in the production of rice.

The income method provides a more comprehensive view of the income earned in the economy and helps to understand the contribution of different factors of production.

Expenditure Method

Calculating national income using the expenditure method involves adding up all the expenditures made by various sectors in an economy over a specific period. The formula for calculating National Income using the expenditure method is as follows:

Y = C + I + G + (X - M)

National income (Y) = Consumption Expenditure (C) + Investment Expenditure (I) + Government Expenditure (G) + Net Exports (Exports (X) – Imports (M))

Let's break down each component:

1. Consumption Expenditure (C): Consumption refers to the total spending by households on goods and services during the given period. It includes purchases of items like food, clothing, housing, healthcare, and other consumer goods and services.
2. Investment Expenditure (I): Investment represents the spending by businesses and households on capital goods used for future production. This includes purchases of machinery, equipment, buildings, and other productive assets.
3. Government Expenditure (G): Government expenditure refers to the total spending by the government on goods, services, and infrastructure projects during the period. It includes spending on public services, defense, education, healthcare, and various development projects.
4. Net Exports (Exports - Imports): Net exports represent the difference between a country's total exports (the value of goods and services sold to other countries) and total imports (the value of goods and services purchased from other countries). If a country's exports exceed imports, it is a trade surplus, and if imports exceed exports, it is a trade deficit.

Potential GDP

Potential GDP, also known as potential output or full employment GDP, refers to the level of real GDP an economy can produce when all of its resources are fully utilized, including labor, capital, and technology, while maintaining stable inflation.

Let's consider an example to illustrate potential GDP. Imagine a country with a workforce of 10 million people, factories, machinery, and other physical capital, as well as technological advancements. The country's potential GDP would be the maximum level of output it can produce when all 10 million workers are employed, factories are running at full capacity, and the available technology is fully utilized.

However, it's important to note that potential GDP does not imply that the economy always operates at this maximum level. Economic fluctuations, such as recessions or booms, can cause actual GDP to deviate from potential GDP. For instance, during a recession, there may be a decline in employment, businesses may operate below full capacity, and overall economic output may be lower than the economy's potential.

It's also worth mentioning that potential GDP is an estimate and can change over time. Factors such as population growth, changes in labor force participation rates, technological advancements, and improvements in productivity can influence the economy's potential output.

Understanding potential GDP is essential for policymakers and economists. It provides a benchmark to assess the performance of the economy, evaluate its growth potential, and design appropriate policies to achieve sustainable economic growth. When actual GDP falls significantly below potential GDP, policymakers may implement measures to stimulate economic activity and bridge the output gap. Conversely, if actual GDP exceeds potential GDP, policies may focus on maintaining price stability and preventing inflationary pressures.

Factors that inhibit India from achieving its potential GDP

1. Infrastructure Deficiencies: Insufficient infrastructure, such as roads, ports, railways, and power supply, can lead to increased transportation costs, inefficient logistics, and limited connectivity between regions, which can negatively affect productivity and hinder the overall economic potential.

For example, if there are frequent power outages in an area, it can disrupt industrial production and hamper business operations.

2. Skill Gaps and Education: The quality of human capital plays a crucial role in economic development. Skill gaps and deficiencies in education can limit productivity and hinder innovation.

For instance, if there is a shortage of skilled healthcare professionals, it can limit the capacity to provide quality healthcare services, impacting the overall health sector's potential contribution to GDP.

3. Regulatory Burden and Bureaucracy: Complex and burdensome regulations, bureaucratic red tape, and corruption can impede business growth and deter investments. Cumbersome administrative processes and delays in obtaining permits can discourage entrepreneurship and hinder the expansion of businesses.

4. Income Inequality: When wealth and income are concentrated in the hands of a few, it can limit consumption and demand, as a large portion of the population may have limited purchasing power.

5. Agricultural Sector Challenges: Agriculture still plays a significant role in the Indian economy, and challenges in this sector can affect overall growth. Issues such as low agricultural productivity, fragmented landholdings, inadequate irrigation facilities, and vulnerability to climate change can limit the sector's potential contribution to GDP.

New GDP Series 2011-12

India adopted the new GDP series in 2015, with a base year of 2011-12. This series replaced the old series with a base year of 2004-05. The new series uses market prices instead of factor costs, which means that it includes indirect taxes and subsidies in the calculation of GDP.

Moreover, the new series also adopts the international practice of valuing industry-wise estimates based on Gross Value Added (GVA) at basic prices. GVA is the value of output minus the value of intermediate consumption.

The adoption of the new GDP series with a more recent base year and the use of market prices instead of factor costs provide a more accurate measure of the economy's size and growth rate. Moreover, valuing industry-wise estimates based on GVA at basic prices allows for a more detailed analysis of the contribution of different sectors to the economy.

Organizations

The organization in India responsible for calculating national income is the Central Statistics Office (CSO), which is a part of the Ministry of Statistics and Programme Implementation. The CSO is responsible for collecting, analyzing and publishing statistical data related to the Indian economy, including national income accounts. It uses various methods, including the production, income and expenditure methods, to estimate the Gross Domestic Product (GDP) and other measures of economic activity. The CSO releases estimates of national income and other macroeconomic indicators on a quarterly basis, and these estimates are widely used by policymakers, economists, and investors to understand the performance of the Indian economy.

Previous Year Prelims Questions

1.	Despite being a high saving economy, capital formation may not result in significant increase in output due to (a) weak administrative machinery (b) illiteracy (c) high population density (d) high capital-output ratio	2018
2.	With reference to the Indian economy, consider the following statements: (1) The rate of growth of Real Gross Domestic Product has steadily increased in the last decade. (2) The Gross Domestic Product at market prices (in rupees) has steadily increased in the last decade. Which of the statements given above is/are correct? (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2	2015
3.	Economic growth in country X will necessarily have to occur if (a) there is technical progress in the world economy (b) there is population growth in X (c) there is capital formation in X (d) the volume of trade grows in the world economy	2013
4.	The national income of a country for a given period is equal to the	2013

	(a) total value of goods and services produced by the nationals (b) sum of total consumption and investment expenditure (c) sum of personal income of all individuals (d) money value of final goods and services produced	

Previous Years Mains Questions

1.	Define potential GDP and explain its determinants. What are the factors that have been inhibiting India from realizing its potential GDP?	2020

Answers

1.	D	2.	D
3.	C	4.	D

3. Growth & Development

Contents

Chapter 3
Growth and Development

Economic growth refers to an increase in the production of goods and services within a country over a specific period. It is typically measured by the growth rate of the Gross Domestic Product (GDP).

Economic development, on the other hand, is a broader concept that encompasses various aspects beyond just economic growth. It focuses on improving the standard of living, reducing poverty, and enhancing the well-being of the population. Economic development takes into account social, cultural, and institutional factors in addition to economic factors.

For example: Imagine a country that has achieved high economic growth but still faces significant income inequality and lacks access to basic education and healthcare for its citizens. In this case, despite the economic growth, the country might still be considered underdeveloped because it has not effectively translated that growth into improving the overall welfare of its people.

It's worth noting that economic growth is an essential component of economic development, as it provides the necessary resources and opportunities for development to occur. However, economic development goes beyond mere growth and focuses on achieving long-term improvements in the quality of life for individuals and communities.

There can be situations where economic growth goes against economic development.

1. Environmental Degradation: Industries may exploit natural resources, pollute air and water, and contribute to climate change. While this economic growth may generate short-term benefits, it can harm the environment, affect public health, and undermine the long-term sustainability and well-being of the population.

2. Rising Income Inequality: Economic growth does not always benefit all segments of society equally. In some cases, it can exacerbate income inequality, where the rich become richer while the poor are left behind. Example: Imagine a scenario where a country achieves substantial economic growth driven by sectors that primarily benefit the wealthy, such as finance or high-end real estate.

3. Neglecting Social Welfare: In the pursuit of economic growth, a country may prioritize profit-driven policies and neglect social welfare programs. This can lead to inadequate investment in education, healthcare, social safety nets, and infrastructure that are crucial for sustainable development. The result is a lack of human capital development and an underprivileged population, which can hinder long-term economic progress.

4. Production and consumption of harmful products: such as alcohol, cigarettes, or other addictive substances.

Measuring Economic Growth

Economic growth is typically measured using indicators such as Gross Domestic Product (GDP), Gross National Product (GNP), National Income etc. We have already studied these in previous chapter.

Important factors that contribute to economic growth:

1. Investment: Investment involves spending money on things like factories, equipment, technology, and infrastructure. When businesses invest, it leads to increased production and job creation. Investment also boosts innovation and productivity, which are essential for long-term economic growth.

2. Savings: Savings refer to the portion of income that individuals, businesses, and the government set aside for future use instead of immediate consumption. Savings contribute to investment and capital formation, providing resources for businesses to expand their operations, create jobs, and foster economic growth.

3. Human Capital: Human capital refers to the knowledge, skills, and abilities of people in the workforce. When people are well-educated and healthy, they can work more efficiently, come up with new ideas, and contribute to economic growth.

4. Technological Progress: Technological progress can lead to increased efficiency, productivity, and the creation of new industries and jobs. For example, the development of smartphones and internet connectivity has transformed the way we communicate and do business, contributing to economic growth.

5. Infrastructure: Well-developed infrastructure enables businesses to operate smoothly, reduces transportation costs, and attracts investments. It also improves the quality of life for citizens.

6. Natural Resources: Natural resources, such as minerals, oil, and fertile land, can contribute to economic growth. However, it's important to manage and utilize natural resources sustainably to ensure long-term economic growth and environmental preservation.

7. Stable Institutions: Stable institutions, including the rule of law, property rights protection, and an efficient legal system, are crucial for economic growth. When institutions are strong and transparent, it creates an environment where businesses can thrive, investments are protected, and contracts are enforced. This fosters trust, attracts investments, and promotes economic growth.

8. Macroeconomic Stability: Macroeconomic stability refers to keeping key economic indicators, such as inflation, unemployment, and government debt, in check. When inflation is low and stable, businesses and individuals can plan for the future with confidence. Managing government finances responsibly and maintaining a stable currency also contribute to economic growth.

9. Trade and Global Integration: Access to larger markets, exposure to foreign competition, and the transfer of knowledge and technology can lead to increased productivity and innovation. Trade agreements and policies that facilitate exports and imports play a significant role in leveraging growth potential.

Jobless Growth

Jobless growth refers to a situation where an economy experiences economic growth, such as an increase in GDP (Gross Domestic Product) or overall production, but fails to create enough new jobs for the growing population. In other words, even though the economy is expanding, unemployment remains high or continues to rise.

Reasons for jobless growth:

1. Technological Advancements: Technological advancements can lead to increased automation and the use of machines instead of human labor. While this can boost productivity and economic growth, it may also result in job losses as fewer workers are needed.

2. Skill Mismatch: Jobless growth can occur when there is a mismatch between the skills demanded by employers and the skills possessed by the job seekers. For instance, if the country experiences a surge in demand for computer programming jobs, but the majority of its workforce lacks the necessary skills and qualifications. In this case, despite economic growth, there may be a shortage of qualified individuals to fill the available job positions.

3. Structural Changes: Sometimes, an economy undergoes structural changes, such as a shift from an agricultural-based economy to a service-oriented economy. During this transition, certain industries may decline or become less labor-intensive, leading to job losses. For example, if the country's economy evolves from primarily relying on farming to focusing more on services. Farmers who lose their jobs may face difficulties finding new employment opportunities in the emerging sectors.

Steps that can be taken to address jobless growth:

1. Enhancing Education and Skills Training: Investing in education and skills training programs can help individuals acquire the skills needed for the available job opportunities. By aligning educational curricula with the demands of the job market, it becomes easier for people to develop the required competencies and increase their chances of finding employment.

2. Promoting Entrepreneurship: Encouraging entrepreneurship can foster the creation of new businesses, which, in turn, can generate job opportunities. Governments can support aspiring entrepreneurs through startup incubators, access to capital, and business-friendly policies, thereby stimulating job creation.

3. Revitalizing Traditional Industries: While transitioning to new industries is essential, revitalizing traditional sectors can also contribute to job creation. Governments can provide incentives and support to revive declining industries or encourage innovation within them, ensuring that job losses are minimized.

4. Labor Market Reforms: Reforms in labor market regulations can help create a more flexible and conducive environment for job creation. Simplifying labor laws, reducing bureaucratic hurdles, and promoting labor mobility can make it easier for businesses to hire and expand their workforce.

5. Infrastructure Development: Investments in infrastructure projects, such as building roads, bridges, and transportation systems, can stimulate economic growth and create job opportunities in construction and related sectors.

Economic Recession

An economic recession refers to a significant and prolonged decline in a country's overall economic activity. While the two consecutive quarters of declining GDP is a commonly used rule of thumb, it's not the only factor considered in defining a recession. Economists also examine other economic indicators such as employment rates, consumer spending, business investment, and industrial production to assess the overall health of the economy.

The government can take several steps to help overcome economic recession:

1. Fiscal Stimulus: The government can implement fiscal stimulus measures by increasing government spending on infrastructure projects, such as building roads, bridges, or schools. This injection of funds stimulates economic activity, creates jobs, and encourages consumer spending.

2. Monetary Policy: Central bank can lower interest rates to make borrowing cheaper for businesses and individuals, encouraging investment and consumption. Central banks can also engage in quantitative easing, which involves purchasing government bonds to increase the money supply and provide liquidity to financial institutions.

3. Tax Cuts: The government can reduce taxes on individuals and businesses to increase disposable income and incentivize spending. Additionally, targeted tax cuts for specific sectors or industries can provide relief to struggling areas of the economy.

4. Support for Small Businesses: Small businesses are particularly vulnerable during a recession. The government can provide financial support, such as low-interest loans, grants, or tax breaks, to help them stay afloat and retain employees.

5. Job Creation Programs: This may include creating public works projects that provide employment opportunities, or offering subsidies to businesses that hire and train new employees.

6. Regulatory Reforms: Governments can review and streamline regulations to reduce bureaucratic burdens on businesses, making it easier for them to operate and expand. This can encourage entrepreneurship, innovation, and investment, leading to increased economic activity.

7. International Cooperation: Countries can collaborate on policies to stimulate global trade and restore confidence in the international financial system.

Measuring Economic Development

Human Development Index (HDI)

HDI is a measure used to assess the overall well-being and development of a country's population. The Human Development Index looks at three key dimensions of human development:

1. Health: The HDI considers life expectancy at birth, which reflects the overall health and healthcare access within a country.

2. Education: Education is another crucial aspect of human development. The HDI looks at two indicators:

- Mean years of schooling: It reflects the average number of years of education received by adults in a country.
- Expected years of schooling: It measures the number of years of education that a child is expected to receive throughout their life.

3. Standard of living: This dimension focuses on the economic well-being of the population. It considers the Gross National Income (GNI) per capita, which reflects the average income of individuals in a country.

Using these three dimensions, the HDI combines the indicators to calculate a composite index ranging from 0 to 1, where 1 represents the highest level of human development. By considering health, education, and standard of living, the HDI provides a more holistic view of a country's development beyond just economic factors.

Inequality-Adjusted Human Development Index (IHDI)

The Human Development Index (HDI) takes into account factors such as life expectancy, education, and income. However, the HDI does not consider inequality within a country, meaning it doesn't capture disparities in these factors among different groups or regions within a country.

This is where the Inequality-Adjusted Human Development Index (IHDI) comes in. The IHDI adjusts the HDI by incorporating the level of inequality within a country. It provides a more comprehensive picture of a country's development by considering not only the average achievements but also the distribution of those achievements among its population.

The IHDI helps policymakers and researchers identify areas where inequality is high and take measures to address them. By considering inequality, it allows for a more nuanced understanding of development outcomes and helps guide efforts towards creating more inclusive societies.

Gender Inequality Index (GII)

The Gender Inequality Index (GII) is a measure used to assess and compare gender inequality across countries. It takes into account various indicators related to women's empowerment, reproductive health, and economic participation. The index ranges from 0 to 1, with higher values indicating higher levels of gender inequality.

Let's break down the components of the GII:

1. Reproductive Health: This component looks at maternal mortality rates and adolescent birth rates. It reflects the access women have to reproductive health services and the risks they face during childbirth.

2. Empowerment: This component focuses on the political and economic empowerment of women. It considers factors such as the percentage of women in parliament and the labor force participation rate.

3. Economic Participation: This component looks at gender gaps in employment and income. It examines the disparity between men and women in terms of access to employment opportunities and earnings.

By considering these indicators and their respective weights, the GII provides a comprehensive measure of gender inequality in a country. It helps policymakers identify areas of improvement and track progress over time.

Challenges to Economic Development

1. Poverty and Inequality: In many developing countries, a large percentage of the population lives in poverty, while a small portion enjoys significant wealth. This creates social unrest and hampers economic development.

2. Unemployment and Underemployment: High levels of unemployment and underemployment can lead to wasted human potential and reduced productivity. This puts a strain on the economy and slows down overall development.

3. Lack of Infrastructure: Insufficient infrastructure can impede economic growth by limiting transportation, communication, and energy access.

4. Corruption and Governance: When corruption is widespread, it undermines trust in institutions, discourages foreign investment, and diverts resources away from productive sectors. Weak governance can hinder economic development by creating an unstable business environment.

5. Lack of Access to Capital and Credit: Access to capital and credit is crucial for entrepreneurs and businesses to invest, expand, and create jobs.

6. Environmental Sustainability: Overexploitation of forests, pollution of water bodies, and excessive carbon emissions can damage ecosystems, harm public health, and reduce the availability of resources needed for future economic activities.

Government Initiatives to bring Economic Development

Sectors	Government Initiatives	Brief Description
Agriculture	Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)	Direct income support to small and marginal farmers
	Soil Health Card Scheme	Information on soil nutrients and recommended fertilizers
	Pradhan Mantri Fasal Bima Yojana (PMFBY)	Crop insurance against losses due to natural calamities
Education	Sarva Shiksha Abhiyan (SSA)	Free and compulsory education for all children
	Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	Focus on improving secondary education infrastructure
	Skill India Mission	Skill development training for better job prospects
Health	Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (PM-JAY)	Health insurance for economically vulnerable sections
	National Health Mission (NHM)	Improving healthcare infrastructure and accessibility
	Swachh Bharat Mission	Promoting cleanliness and sanitation for better public health
Infrastructure	Bharatmala Pariyojana	Road development for improved connectivity and trade
	Smart Cities Mission	Development of efficient infrastructure in selected cities
	Sagarmala Project	Modernizing ports and promoting port-led industrialization
Financial Systems	Pradhan Mantri Jan Dhan Yojana (PMJDY)	Financial inclusion through banking services
MSME	Atmanirbhar Bharat Abhiyan	Promoting self-reliance and support for the MSME sector

Sectors	Government Initiatives	Brief Description
	Make in India	Encouraging domestic manufacturing and entrepreneurship

Previous Years Prelims Questions

1.	**Increase in absolute and per capita real GNP do not connote a higher level of economic development, if** (a) industrial output fails to keep pace with agricultural output. (b) agricultural output fails to keep pace with industrial output. (c) poverty and unemployment increase. (d) imports grow faster than exports.	2018

Previous Years Mains Questions

1.	"Economic growth in the recent past has been led by increase in labour productivity." Explain this statement. Suggest the growth pattern that will lead to creation of more jobs without compromising labour productivity.	2022
2.	Among several factors for India's potential growth, the savings rate is the most effective one. Do you agree? What are the other factors available for growth potential?	2017
3.	The nature of economic growth in India is described as jobless growth. Do you agree with this view? Give arguments in favour of your answer.	2015

Answers

1.	C		