

**Course**  
**on**  
**Economics (HS 201)**  
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**Instructor**

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# **Economic System: Basic ideas**

## **Meaning:**

The legal and institutional framework within which various economic activities are undertaken.

Various Activities: Production, Consumption, Exchange, Distribution, etc.

## **Types of economic system:**

1. Capitalism
2. Socialism
3. Mixed Economy

# Capitalism or market economy

- It is a system where every economic decision is undertaken by private initiative and enterprise.
- It means an economic system that emerged as a result of the Industrial Revolution in England (During 1760-1820)
- Capitalism is a system of economic organization featured by the private ownership and the use for private profit of man-made and nature-made capital
- It is a system in which all the main economic decisions are taken by the people keeping in view their own self interest without any state interference or control. Here, price system is the main working mechanism of economic activity.

# Features of Capitalism

- Private property and freedom of ownership
- Freedom of enterprise
- Consumer's Sovereignty
- Profit motive
- Class-conflicts
- Competition
- Price system
- Lack of central planning authority

# **Merits of Capitalism**

- Production according to the needs and wishes of the consumers
- Economic freedom
- Efficient production of goods and services
- Varieties of consumer goods
- Automatic incentives
- Technical progress
- Flexibility

## **Demerits of Capitalism**

- Inequality of distribution of wealth and income
- Class struggle
- Social costs
- Waste of completion
- Business cycles/Instability of the capitalist economy
- Lack of social security
- Unbalanced growth
- Exploitation
- Growth of monopolies

## **Socialism: A command Economy**

It is that system in which economic system is not only regulated but also controlled by the government to ensure welfare, equality of opportunity and social justice to the people.

In socialistic economy all natural resources, factors of production are owned by the state.

For meeting the social needs, economic activities are conducted according to the pre-determined objectives.

## **Features of Socialism**

- Social or collective ownership of resources
- No private enterprise
- Economic equality
- Equality of opportunity
- A planned economy
- Central planning authority
- Social welfare and social security
- Classless society



## **Merits of Socialism**

- Balanced economic development
- Economic stability
- Equitable distribution of wealth
- No wastes of completion
- No exploitation and class struggle
- Social welfare

## **Demerits of Socialism**

- Loss of economic freedom
- Loss of efficiency and productivity
- Loss of consumer's sovereignty
- Misallocation of resources
- Too much concentration of power in the state
- Bureaucracy and Red-tapism

## **Mixed economy**

A system where there is a compromise between capitalism and socialism.

### **Features**

- Co-existence of public and private sector
- State help and controls
- Price system and government directives
- Dual pricing of essential commodities
- Economic planning
- Protection of labour
- Control of monopoly

## **Merits of Mixed economy**

- Benefit of both the public and the private sectors
- Economic freedom and choice
- Incentives
- Suited to democracies
- Equal distribution of income and wealth

## **Demerits of Mixed economy**

- Friction between the two sectors
- Difficulty of maintaining a balance
- Inefficiency
- Tends to degenerate into state capitalism

## **Factors of production (L,L,K,O/E)**

### **Land (Features):**

- Supply is fixed
- A free gift of nature
- Heterogeneous nature of land
- Land is immobile
- A passive factor

## **Labour:**

Labour is any type of mental or manual activity done with a view to earn a reward. It includes economic work of human.

## **Features:**

- A human factor
- An active factor
- Labour can't be separated from labourer
- A perishable factor
- Differences in efficiency
- Both means and end

## **Factors influencing efficiency of labour:**

- Education
- Socioeconomic factors
- Level of wages
- Working condition
- Nature of work
- Labour laws



## **Division of labour:**

### **Advantages:**

- Right man at right job
- Increase productivity
- Innovation
- Reduce cost of production

### **Disadvantages:**

- Monotony of work
- **Loss of joy:** (Hint: If a person does the whole job from start to end, he feels....)
- Increased risk of unemployment
- All round development is not possible

## **Factors effecting division of labour:**

- Extent of market
- Nature of demand: (Hint: If demand is permanent, production will be more)

## **Capital:**

Anything produced by human which can be used for further production.

## **Features:**

- A man made factor
- Depreciation
- A mobile factor
- A passive factor
- Formation of capital involves a cost
- Technology influence it

## **Factors affecting capital formation:**

- Level of saving
- Capacity to mobilize this saving
- Factor affecting investment of available saving

## **Functions of capital:**

- To increase the productivity of land and labour
- Increased employment
- Help in human capital formation
- A means of adopting technical progress

## **Entrepreneur:**

**Who takes the risk, who innovates** (Hint: entrepreneur is someone who organizes, manages, and assumes the risks of a business or enterprise. An entrepreneur is an agent of change. Entrepreneurship is the process of discovering new ways of combining resources).

Meaning of entrepreneur is 'to undertake'. This refers to those who "undertake" the risk of new enterprises. An enterprise is created by an entrepreneur. The process of creation is called "entrepreneurship".

## **Functions:**

(a) Risk bearing (b) Control and management (c) Innovations (d) Coordination

# Reading assignment:

1. Role and importance of entrepreneur in economic development

# National Income:

## Concepts:

- GDP
- GNP
- NNP
- GVA
- Per capita income
- Disposable income
- Nominal GDP, real GDP, GDP deflator

## **Measurement of National Income:**

1. Income method
2. Expenditure method
3. Product method

## **Reading assignments:**

- a. Problems of each method of measurement of national income
- b. Problems encounter in the measurement of NI income in India



## **Barter system:**

### **Advantages:**

1. Simple system
2. No question of over production and under production
3. Problems of international trade (like BOP, foreign exchange, etc.) do not arise
4. No concentration of economic power

## Problems:

- a. Double coincidence of wants
- b. Absence of common measure of value
- c. Lack of divisibility
- d. The problem of storing wealth
- e. Difficulty of deferred payments
- f. Problem of transportation

## **Evaluation of money:**

1. Animal money
2. Commodity money
3. Metallic money
4. Paper money
5. Credit money/bank money
6. Electronic banking stage

## Classification of money:

- a. **Legal tender money:** It is enforced by law. No one can refuse to accept it as a means of payment.
- b. **Token money:** Its face value is more than its intrinsic value
- c. **Standard money:** Face value = Intrinsic value
- d. **Paper money:**
  - i. **Representative money:** It is fully backed by gold and silver reserves
  - ii. **Convertible and inconvertible:** Which is convertible into standard coin is called convertible paper money.
  - iii. **Fiat money**
- e. **Credit money**

## **Quality of good money:**

1. General acceptability
2. Portability
3. Durability
4. Divisibility
5. Homogeneity
6. Cognisability
7. Stability

## **Definition of money:**

(Crowther) Anything that is generally acceptable as a means of exchange & at the same time acts as measure and store of value.

## **Functions of Money:**

1. Medium of exchange
2. Measure of value
3. Standard of deferred payments
4. Store of value
5. Transfer of value
6. Basis of credit system

## **Banking system:**

Bank is an institution which deals with money and credit.

As a public enterprise, banking made its first appearance in Italy in 1157 (Bank of Venice)

## **Types:**

1. Public bank
2. Private
3. Commercial
4. Central bank (RBI)
5. Industrial bank (IDBI)
6. Agricultural bank (NABARD)

## **Commercial bank:**

### **Functions:**

1. Accept deposit
2. Advancing loan
3. Credit creation
4. Promoting cheques system
5. Locker facility
6. Gift cheques



## **Importance of banking system:**

1. Capital formation
2. Encouragement to entrepreneurial innovation
3. Monetization of economy
4. Influencing economic activity (interest rate and credit)
5. Implementation of monetary policy

## **Central bank:**

Central bank of a country is the supreme monetary institution.

## **Difference between Central and commercial bank:**

1. Central bank is the apex institution.
2. Motive of operation
3. General public cannot directly deal with central bank
4. Competition
5. Note issue
6. Bankers' bank

## **Functions of central bank:**

1. Note issue
2. Banker, agent, and adviser to the government
3. Bankers' bank
4. Lender of last resort
5. Clearing agent
6. Custodian of foreign exchange reserves
7. Controller of credit

## **Methods of credit control:**

(a) Quantitative and (b) Qualitative or selective credit control

### **Quantitative methods:**

1. Bank rate
2. Cash reserve ratio
3. Open Market operations

## **Public finance:**

It is that branch of economics which deals with the income and expenditure of public authorities.

It also deals with the problems of adjustments of income and expenditure of the public authorities/government.

### **Objectives:**

1. To secure adjustments in allocation of resources
2. To secure adjustment in the distribution of income and wealth
3. To secure economic stabilization
4. To accelerate economic development

## **Branches of public finance:**

- 1. Public expenditure:** It studies the various principles, effects and problems of expenditure made by the public authorities
- 2. Public Revenues:** the various ways of raising revenues by the public bodies. We also study the principles and effects of taxation and how the burden of taxation is distributed among the various classes in the society
- 3. Public debt:** the various principles and methods of raising debts and their economic effects. It also deals with the methods of repayment and management of public debt.
- 4. Financial Administration:** deals with the methods of budget preparation, various types of budgets, war finance, development finance, etc.

# **Comparison of public finance and private finance:**

## **Similarities:**

1. Both the individual and state have broadly the same objective, i.e., the satisfaction of human wants
2. Both the individual and state have receipts and expenditure and each tries to balance each other and do their best to get maximum satisfaction.

## **Dis-similarities:**

### **1. Determination of expenditure:**

A public authority first determines the volume of expenditure that it has to incur on different heads to perform certain obligations and then tries to find out resources to meet this expenditure. On the other hand, an individual first consider his income and then determines the volume of expenditure

### **2. Motive of expenditure:**

### **3. Resource base:**

## **Tax:**

- 1. Direct tax and 2. Indirect tax**

### **Direct tax?**

#### **Merits of direct tax:**

1. Equity (rich pays more than poor)
2. Reduce inequality
3. Civic consciousness

#### **Demerits of direct tax:**

1. Unpopular
2. Tax evasion



# **Indirect tax?**

## **Merits of indirect tax:**

1. Convenient
2. No or less tax evasion
3. Wide coverage

## **Demerits of indirect tax:**

1. Regressive in nature
2. No civic consciousness
3. Uncertainty

**A. Proportional tax**

**B. Progressive tax**

**C. Regressive tax**

**Tax Revenue and Non-Tax Revenue of Centre Government**

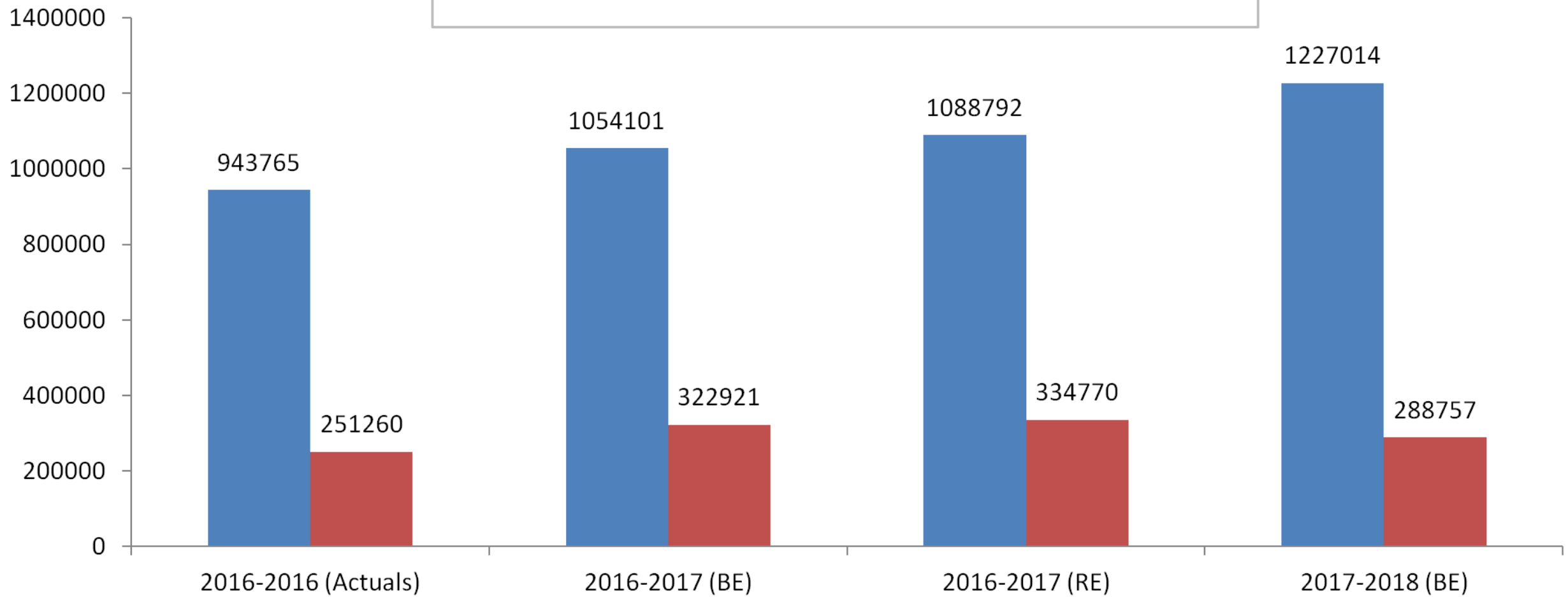
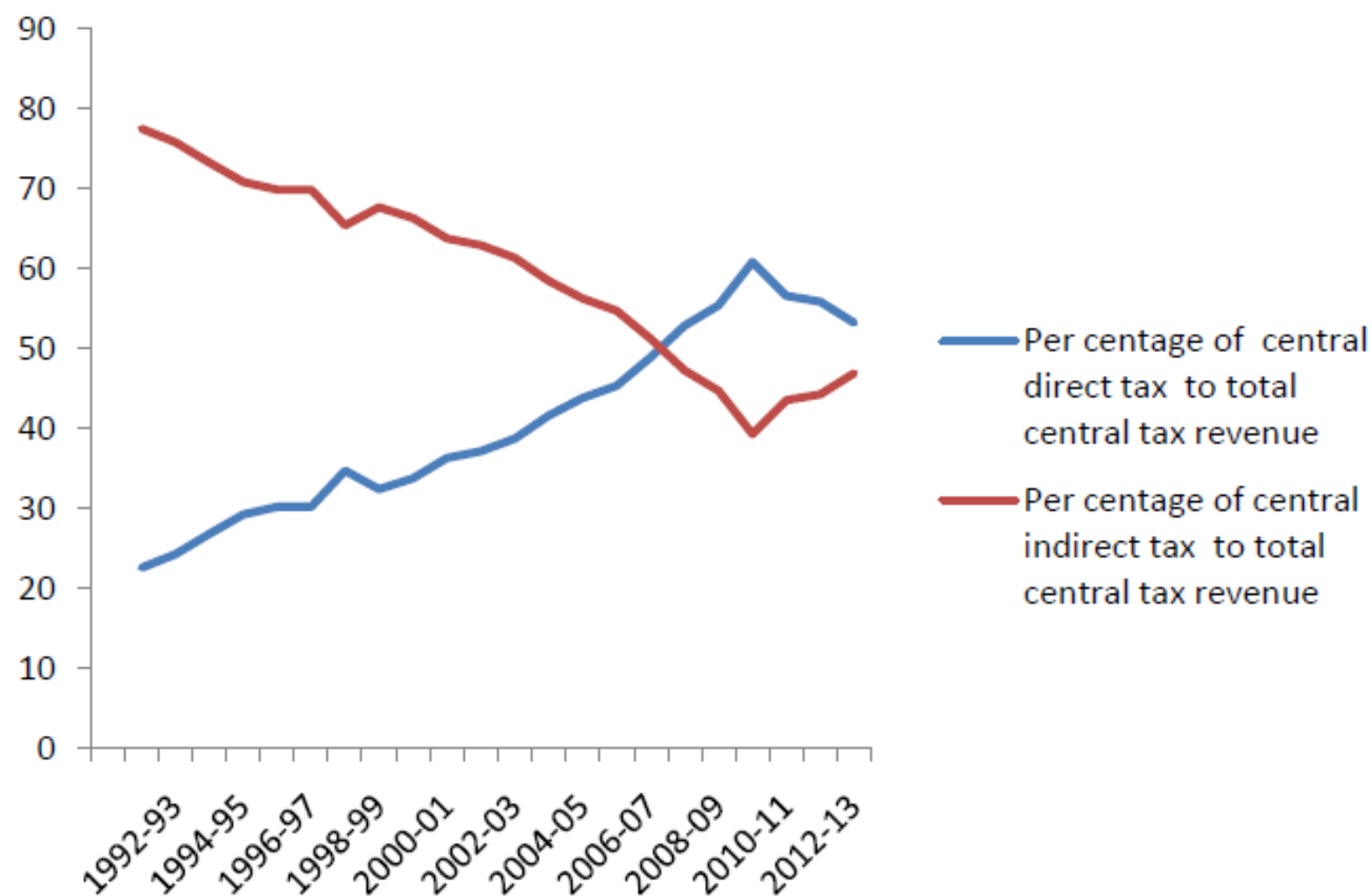


Chart 2.1: contribution of central direct and central indirect tax to total revenue of India



# **Intellectual Property Rights**

## **Property:**

Property can be defined as an article, item or thing owned with the rights of possession, use, and enjoyment and which the owner can lend, collateralize, mortgage, sell, or transfer, and can exclude everyone else from it.

The most important feature of any property is that the owner (proprietor) may use the property as s/he wishes and that nobody else can lawfully use her/his property without her/his authorization.

# **Kinds of property:**

- |                           |                           |
|---------------------------|---------------------------|
| 1. Movable property:      | Camera, car, laptop, etc. |
| 2. Immovable property:    | Land, building, etc.      |
| 3. Intellectual property: |                           |

# **Intellectual Property:**

It is the creation of the human mind, the human intellect and hence called 'Intellectual property'.

The intellectual property (IP) can be described as novel or previously undescribed tangible output of any intangible intellectual activity.

IP typically has an owner, can be bought, sold or licensed and must be adequately protected for exploitation.

IP can include (patentable) inventions, industrial processes, software, data, written work, designs, images etc.

## **Why is the word 'Property' used in case of Intellectual Property?**

Intellectual Property is like any tangible property like land, house, vehicle etc. that has commercial value. Only that IP is created through human intellect. Therefore, IP can be bought and sold just like conventional property.

Since, IPRs can be bought and sold just like property, we use the terms “Intellectual Property”.

For example, if a chemical entity has been invented by a scientist and institute/company wants to make drug for a specific treatment, the institute/company pays money to the scientist to get the rights of IP provided that IP (chemical entity) is adequately protected as IPR.

Similarly, if a biotechnologist has developed a new process for making an enzyme, which has commercial value for a company, it would buy the rights to use the IP from the inventor.



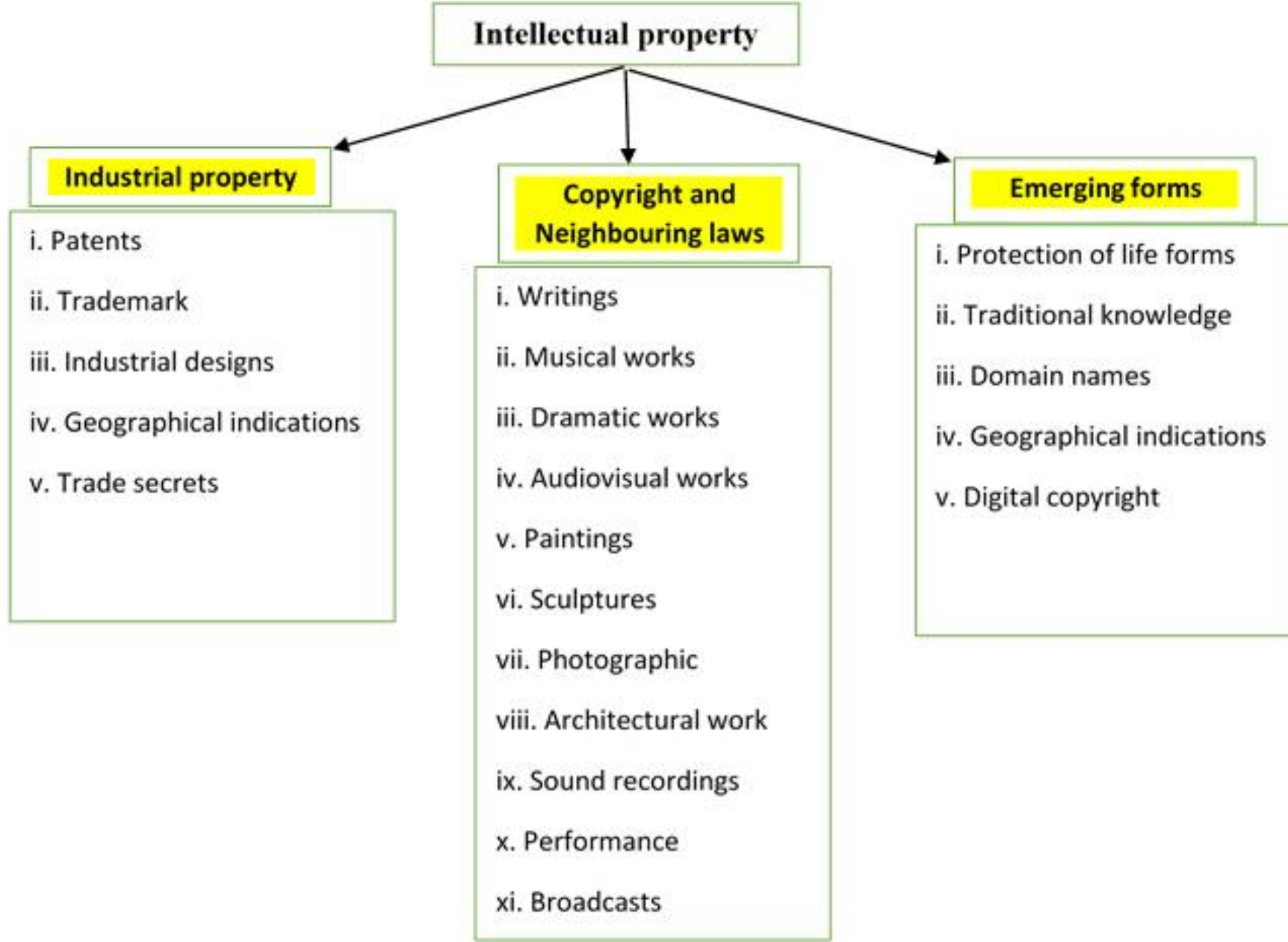
# **What are intellectual property rights?**

Intellectual Property Rights are the legally-protected rights which enable owners of IP to exert monopoly control over the exploitation of these rights, usually for commercial gain.

IPRs give the right to the inventor to stop others exploiting this property for a specified period of time that depends on the type of intellectual property.

In other words, by acquiring a legal right over the property, the creator of the intellectual property seeks to ensure that he has exclusive right over it and that the property can be put to use by others only with his consent.

# Different aspects (facets) of IP:



## **Patent:**

Patent is a monopoly right to the exclusive use of an invention, granted to the inventor or his assignee.

This right is granted only for a limited period of time called the term of the patent.

The inventor or his assignee has to apply for a patent for the invention to the patent office along with his application disclosing the complete invention in the form of complete specification

The right may cease, if not alive by payment of renewal fees.

# **Trademarks (Goods and Services)**

A trademarks is a visual symbol in the form of a word, a device or a label applied to articles of commerce with a view to indicate to the purchasing person or a particular organization as distinguished from similar goods manufactured or dealt in by others.

For example: APPLE for computers, WILLS for cigarettes, etc.

## **Industrial designs:**

It is another categories of IPR where the design system focuses on the aesthetic/artistic feature of an article derived from its visual appearance.

Relevant aspects are the shape, configuration, surface pattern, the colour or line or a combination thereof as applied to an article, which produces an aesthetic impression on the sense of sight.

Design is solely judged by eyes.

Registration of design is nothing but he protection of the new or original design for a limited period.

## **Geographical indications**

Qualities and characteristics of certain goods attributable to some geographical locations and reputable to 'as produce of certain region' come under it.

## **Copyright**

Copyright refers Literary and artistic works, films, videos, records, broadcasts and typographical arrangements, including computer software.

It generally gives the owner of copyright the exclusive right to do and to authorize others to reproduce the work in copies.

## **Need for protection (importance) of intellectual properties:**

1. In today's dynamic and knowledge based industrial environment, IPRs are key elements needed to maintain the competitive edge of any industry. IPRs inform success to the business enterprise by creating and preserving exclusive markets.
2. The cost of R & D in developing new products and new processes is rising sharply and hence, there is a need to increase and accelerate the extent of protection of IPRS to get reasonable return on investment and reduce the element of risk and uncertainty.
3. IPR protection provides an incentive to inventors for further research and investment in R & D, which leads to creation of new and better products and in turn, brings about economic growth and social benefits.

## **How is an inventor rewarded?**

Typically, after protecting the IP, inventors in the public or private sector, transfer their rights to their employers on certain terms and conditions through a licensing agreement.

For e.g. if an ICMR scientist assigns his rights to the Council which transfers the technology to the industry on societal /commercial terms. The revenue so generated from the selling/renting the IP is shared with the team of inventors. The bigger the invention more is the revenue generated which in turn benefits the inventor(s)



# **Can a copyright protected work be legally used without permission of the owner?**

For purposes pertaining to research, study, criticism, review and news reporting, as well as use of works in library and schools and in the legislatures, the use of a copyright protected work is permitted under specific conditions without specific permission of the copyright owners

## **What is plagiarism?**

Plagiarism is the act of copying someone else's writing viz. academic, creative, blogs etc. and claiming it as one's own work. This also includes improper citation of the sources in compiled works.

**World Intellectual Property Organization (WIPO)**

**Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)**